



**NAGICO ARUBA N.V.**  
Aruba

Financial statements  
**December 31, 2020**

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## Financial statements

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## Statement of financial position as at December 31, 2020

<b>Assets</b>	<b>Note</b>	<b>2020</b>	<b>2019</b>
<i>(in Aruba florins)</i>			
<b>Property and equipment</b>	2	291,514	471,648
<b>Right-of-use assets</b>	3	251,034	923,119
<b>Intangible assets</b>	5	4,565	4,565
<b>Deferred tax assets</b>	13	113,929	274,999
<b>Investment securities</b>	4	23,315,222	18,724,459
<b>Receivables</b>			
Due from reinsurers	12	6,963,806	9,335,808
Insurance receivables	6	2,001,817	3,221,211
Deferred acquisition costs	7	1,034,984	1,254,534
Prepayments and other current assets	8	514,222	871,692
Current account affiliated companies	9	4,042,179	1,095,132
		<i>14,557,008</i>	<i>15,778,377</i>
<b>Cash and cash equivalents</b>	10	3,408,133	3,053,001
<b>TOTAL ASSETS</b>		<b>41,941,405</b>	<b>39,230,168</b>
<b>Shareholders' equity and liabilities</b>			
<i>(in Aruba florins)</i>			
<b>Shareholders' equity</b>			
Share capital	11	1,800,000	1,800,000
Retained earnings		15,595,384	11,253,453
		<i>17,395,384</i>	<i>13,053,453</i>
<b>Liabilities</b>			
Insurance liabilities	12	17,162,328	17,132,225
Due to reinsurers	12	4,285,613	5,658,415
Deferred tax payable	13	62,759	230,780
Current tax payable	13	1,440,694	1,062,425
Lease liabilities	3	254,994	937,676
Accounts payable and accrued liabilities	14	1,160,617	719,734
Current account affiliated companies	9	179,016	435,460
		<i>24,546,021</i>	<i>26,176,715</i>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>41,941,405</b>	<b>39,230,168</b>

These financial statements were approved by the Board of Directors and signed on its behalf by:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

## Statement of comprehensive income for the year ended December 31, 2020

	Note	2020	2019
<i>(in Aruba florins)</i>			
<b>Underwriting income</b>			
Insurance premium revenue	15	25,851,451	24,593,372
Reinsurance cost		(9,090,237)	(9,037,380)
<i>Net premiums earned</i>		16,761,214	15,555,992
Commission expense	7	(3,201,667)	(2,757,117)
<i>Net insurance premium revenue</i>		13,559,547	12,798,875
Other underwriting income	16	795,388	797,355
<i>Net insurance premium revenue</i>		14,354,935	13,596,230
<b>Underwriting expenses</b>			
Insurance claims and loss adjustment expenses, net of recoveries from reinsurers	17	4,251,882	4,929,029
<b>Net underwriting income</b>		<b>10,103,053</b>	<b>8,667,201</b>
<b>Other expenses</b>			
Personnel expenses	18	2,242,124	2,292,705
Administrative expenses	19	589,944	600,925
Other operating expenses	20	1,974,747	2,413,721
Amortization	5	-	-
Depreciation	2,3	267,278	300,375
<i>Total other expenses</i>		5,074,093	5,607,726
<b>Other income</b>			
Investment income	21	543,825	778,525
Other income	22	208,589	438,621
<i>Total other income</i>		752,414	1,217,146
<b>Net result before taxation</b>		<b>5,781,374</b>	<b>4,276,621</b>
Taxation	13	(1,439,443)	(1,075,979)
<b>Net result after taxation</b>		<b>4,341,931</b>	<b>3,200,642</b>
Other comprehensive income	2	-	-
<b>Comprehensive income for the year</b>		<b>4,341,931</b>	<b>3,200,642</b>

## Statement of changes in shareholders' equity for the year ended December 31, 2020

	<b>Share capital</b>	<b>Revaluation reserve</b>	<b>Retained earnings</b>	<b>Total</b>
<i>(in Aruba florins)</i>				
<b>Balance as at January 1, 2019</b>	1,800,000	-	8,052,811	<b>9,852,811</b>
Net result after taxation	-	-	3,200,642	<b>3,200,642</b>
	-	-	<b>3,200,642</b>	<b>3,200,642</b>
<b>Balance as at December 31, 2019</b>	<b>1,800,000</b>	-	<b>11,253,453</b>	<b>13,053,453</b>
Net result after taxation	-	-	4,341,931	<b>4,341,931</b>
	-	-	<b>4,341,931</b>	<b>4,341,931</b>
<b>Balance as at December 31, 2020</b>	<b>1,800,000</b>	-	<b>15,595,384</b>	<b>17,395,384</b>

Refer to note 11 for additional disclosures regarding these equity components.

## Statement of cash flows for the year ended December 31, 2020

	2020	2019
<i>(in Aruba florins)</i>		
<b>Cash flows from operating activities:</b>		
Net result before taxation	5,781,374	4,276,621
<i>Adjustments to reconcile profit before tax to net cash flows:</i>		
Depreciation of property and equipment	252,970	250,842
Depreciation from right-of-use assets	14,308	49,533
Amortization of intangible assets	-	-
Gain on disposal of property and equipment	-	(336,212)
Interest and other expense from lease liability	104,988	80,359
Change in unrealized gains and losses on investments	325,057	(190,483)
Write-off of bad debts	536	7,029
<i>Working capital movements:</i>		
Due from reinsurers	2,372,002	1,169,212
Insurance receivables	1,218,858	(238,552)
Deferred acquisition costs	219,550	11,941
Other receivables and prepayments	(415,775)	(733,230)
Due to reinsurers	(1,372,802)	(1,251,995)
Insurance liabilities	30,103	(757,278)
Accounts payable and accrued liabilities	440,883	227,493
Current account affiliated companies	(3,203,491)	(4,397,132)
	(12,813)	(6,108,473)
Interest received	773,245	343,075
Profit tax paid	(1,068,125)	(782,200)
	(294,880)	(439,125)
<i>Net cash flows provided by /(used in) operating activities</i>	5,473,681	(2,270,977)
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(72,836)	(235,153)
Proceeds from sale/disposal of property and equipment	-	879,894
Purchase of investment securities	(12,681,933)	(6,325,418)
Proceeds from sale and maturity of investment securities	7,766,113	4,301,442
<i>Net cash flows used in investing activities</i>	(4,988,656)	(1,379,235)
<b>Cash flows from financing activities:</b>		
Repayment of lease liability	(129,893)	(115,335)
<i>Net cash flows used in financing activities</i>	(129,893)	(115,335)
<b>Net increase /(decrease) in cash and cash equivalents</b>	<b>355,132</b>	<b>(3,765,547)</b>
<i>Cash and cash equivalents at January 1</i>	3,053,001	6,818,548
<b>Cash and cash equivalents at December 31</b>	<b>3,408,133</b>	<b>3,053,001</b>

## Notes to the financial statements

### (1) Other general information and summary of significant accounting policies

#### ***CORPORATE INFORMATION***

Nagico Aruba N.V., (the "Company") was incorporated on April 2, 2008 under the laws of Aruba. The Company's registered office address is Seroe Blanco 4, Oranjestad, Aruba.

The Company is a wholly-owned subsidiary of National General Insurance Corporation ("Nagico N.V.") which is incorporated in St. Maarten ("the parent"). The ultimate parent is NAGICO Holdings Limited, which is incorporated in Anguilla. All transactions and balances described as group relate to NAGICO Holdings Limited, its subsidiaries and affiliates.

Peak Reinsurance Company Limited ("Peak Re"), a Hong Kong based global reinsurer, acquired a 50% share in NAGICO Holdings Limited from First Star Inc., the other 50% shareholder. The transaction has been officially completed in August 2016 after the receipt of all required regulatory approvals and other customary closing conditions. Peak Re is a global reinsurer with extensive experience in the Asia Pacific market. Peak Re is authorized by the Office of the Commissioner of Insurance of Hong Kong and is backed by Fosun International Limited and Prudential Financial, Inc. (new shareholder effective April 6, 2018).

The Company's principal activity is the offering of property and casualty insurance including fire, motor, public liability, marine and health insurance. A significant portion of the Company's casualty insurance business is reinsured.

#### ***Approval of the financial statements***

The financial statements were approved by the Board of Directors on June 22, 2021.

#### ***BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES***

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

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### ***Statement of compliance***

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), under the historical cost convention unless otherwise stated.

##### ***Significant accounting judgments, estimates and assumptions***

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Company's accounting policies, management has made various judgments. Those which management has assessed to have the most significant effect on the amounts recognized in the financial statements have been disclosed in the individual notes of the related financial statement line items.

***Basis of preparation (continued)******Significant accounting judgments, estimates and assumptions (continued)***

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The reserves consist of a provision for the estimated outstanding casualty and property insurance claims to be paid and include a provision for incurred but not yet reported (IBNR) claims. These provisions are not discounted. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

The related portions recoverable from reinsurers in respect of incidents occurring up to the statement of financial position date are recorded as claims receivable.

***Revaluation of property and equipment***

The Company measures land and buildings at revalued amounts with changes in fair value being recognized in Other Comprehensive Income (OCI).

***Determining the lease term of contracts with renewal and termination options – as lessee***

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The Company included the renewal period as part of the lease term for leases of buildings. The Company typically exercises its option to renew for these leases because there will be a significant negative effect on its operations. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

The value of the right-of-use asset and a lease liability are particularly sensitive to changes in the term of the lease. Since the lease held by the Company is on a perpetual method, Management has decided to take the median of the maximum useful life for a building (10-25 years), which is 18 years, as the term of the lease. The analysis below shows the impact to the right-of-use asset, lease liability, depreciation expense and interest expense when using the the higher end and lower end of the useful life for a building.



**Basis of preparation (continued)**
Revaluation of property and equipment (continued)

	Right-of- use asset	Lease liability	Deprecia- tion expense	Interest Expense
<i>(in Aruba florins)</i>				
25 year lease term	51,719	52,365	(2,285)	2,931
10 year lease term	(94,207)	(96,110)	3,477	(5,379)

Determination of fair value

When measuring the fair value of an asset or liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs in the valuation techniques as follows:

- Level 1 – fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Financial assets at fair value through profit or loss are valued using quoted prices in active markets when available. Market values were determined on the basis of available information at the end of the financial year, and therefore did not take into account subsequent movements.

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. If the above criteria are not met, the market is regarded as being inactive.

In cases where the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less any impairments. Investment in government bonds are carried at amortized cost less any impairments due to lack of an active market.

The amortized costs less impairment provision of insurance receivables are assumed to approximate their fair value.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments. The carrying amounts of trade payables and other current liabilities approximate fair values due to the short-term maturities of these liabilities.

## ***Basis of preparation (continued)***

### ***Taxes***

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on taxes are disclosed in Note 13.

### ***Foreign currency translation***

The Company maintains its accounting records in Aruban Florins (AWG). Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to AWG at the foreign exchange rate ruling at the date. Foreign exchange differences arising on translation are recognized in the statement of profit or loss and other comprehensive income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

### ***New and amended standards***

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2020. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

### ***Amendments to References to the Conceptual Framework in IFRS Standards***

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Company.

### ***Amendments to IFRS 3 Definition of a business***

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2020, with early application permitted. These amendments have no impact on the financial statements of the Company.

### ***New and amended standards (continued)***

#### ***Amendments to IAS 1 and IAS 8 Definition of material***

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence".

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted. These amendments have no impact on the financial statements of the Company.

#### ***Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform***

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the financial statements of the Company as it does not have any interest rate hedge relationships.

#### ***Amendments to IFRS 16 Covid-19 Related Rent Concessions***

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the Company.

### ***Standards issued but not yet effective***

The standards that are issued, but not yet effective, up to the date of issuance of the Company's consolidated financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

#### ***IFRS 17 Insurance Contracts***

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

## ***Standards issued but not yet effective (continued)***

### ***IFRS 17 Insurance Contracts (continued)***

The Standard is effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft Amendments to IFRS 17 addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after January 1, 2023.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

As at December 31, 2020, Management has yet to reasonably estimate the impact at initial application of IFRS 17 and IFRS 9.

### ***Amendments to IAS 1: Classification of Liabilities as Current or Non-current***

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

### ***Reference to the Conceptual Framework – Amendments to IFRS 3***

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

### ***Standards issued but not yet effective (continued)***

#### ***Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16***

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

#### ***Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37***

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

#### ***IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter***

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

#### ***IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities***

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

### ***Standards issued but not yet effective (continued)***

#### ***IAS 41 Agriculture – Taxation in fair value measurements***

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the Company.

### ***Presentation of the financial statements***

IAS 1, Presentation of Financial Statements, provides an option to distinguish between current and non-current items for all assets and liabilities in the statement of financial position of the company. Such a distinction is not appropriate for the company, where close control over liquidity, asset and liability matching, and highly regulated capital and solvency positions are considered more relevant.

These financial statements are presented in AWG, which is the Company's functional currency. All financial information presented in AWG has been rounded to the nearest dollar, except when otherwise indicated.

Certain comparative amounts in these financial statements have been reclassified to conform with the current year's presentation. For year ended December 31, 2019, there were no reclassifications made to the amounts.

### ***Summary of significant accounting policies***

#### ***Property and equipment***

Property and equipment are stated at cost net of accumulated depreciation and impairment losses. Depreciation is determined on the straight-line basis based on the estimated useful life of the assets and an eventual residual value has been taken into consideration.

Depreciation is determined on the straight-line basis based on the estimated useful life of the property and equipment and an eventual residual value has been taken into consideration. Depreciation is charged to the statement of profit or loss and other comprehensive income. The estimated useful lives are as follows:

· buildings	10-25 years
· furniture and fixtures	5 years
· equipment	3 years
· vehicles	3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Land, buildings and improvements are measured on initial recognition at cost. Following initial recognition at cost, land, buildings and improvements are carried at revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and improvements and subsequent accumulated impairment losses. Impairment reviews are performed when there are indications that the carrying value may not be recoverable. Impairment losses are recognized in the statement of other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. Additional decreases as a result of revaluation shall be recognized in the statement of comprehensive income.

## **Summary of significant accounting policies (continued)**

### ***Intangible assets***

#### *Present value of acquired in-force business*

The Company capitalizes an intangible asset arising from the acquisition of insurance portfolios. The fair value of these type of assets was calculated based on cost savings on commissions and management fees and other opportunity costs. The capitalized cost will be amortized over the lifetime of the policies and expected client relationships, which have an estimated useful life not longer than five years. These are reviewed at the end of each reporting date and are written-off where they are no longer considered as recoverable.

#### *Other tangible assets*

Other intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The Company's Insurance Operating Software "INSPRO III" is amortized in three years.

### ***Impairment of non-financial assets***

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

### **Financial instruments**

#### **Classification**

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial assets have been determined to include cash at bank and in hand, investment securities, insurance receivables, other current assets and related party balances. Financial liabilities include accounts payable and accrued liabilities, related party balances and due to reinsurers.

#### ***Financial assets***

##### **Initial recognition and measurement**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated. Financial assets are classified at fair value through profit or loss where the Company's documented investment strategy is to manage financial investments on a fair value basis, because the related liabilities are also managed on this basis. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and/or carried at amortized cost.

## **Summary of significant accounting policies (continued)**

### **Financial assets (continued)**

#### **Initial recognition and measurement (continued)**

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular-way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and cash equivalents, receivables and investment securities.

#### **Subsequent measurement**

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss;
- Available-for-sale financial investments;
- Loans and receivables; and
- Held-to-maturity investments.

#### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. For investments designated at fair value through profit or loss, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realised gains and losses are recognized in the statement of profit or loss.

The Company evaluated its financial assets at fair value through profit and loss (held for trading) to determine whether the intent to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held-to-maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortized cost, using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in investment income in the statement of profit or loss. Gains and losses are recognized in the statement of profit or loss when the investments are derecognized or impaired, as well as through the amortisation process.



## **Summary of significant accounting policies (continued)**

### ***Financial assets (continued)***

#### **Subsequent measurement (continued)**

##### ***Held-to-maturity investments***

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold until maturity. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, held-to-maturity financial assets are measured at amortized cost, using the effective interest rate method, less impairment. Gains and losses are recognized in the statement of profit or loss when the investments are derecognized or impaired, as well as through the amortisation process.

##### ***Derecognition***

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

#### **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. An impairment exists if one or more events that have occurred since the initial recognition of the asset (an incurred 'loss event'), have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Company considers a decline of 20% to be significant and a period of nine months to be prolonged.

## **Summary of significant accounting policies (continued)**

### ***Financial assets (continued)***

#### ***Impairment of financial assets (continued)***

##### ***Financial assets carried at amortized cost***

For financial assets carried at amortized cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of investment income in the statement of profit or loss. Loans together with the associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'finance cost' in the statement of profit or loss.

#### **Initial recognition and measurement**

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss and other financial liabilities. The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities include insurance payables, trade and other payables.

### ***Financial liabilities***

#### **Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss. All of the Company's financial liabilities are classified as other financial liabilities.

### **Summary of significant accounting policies (continued)**

#### **Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when the Company currently has legally enforceable right to offset the amounts and intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand and cash invested in short-term financial instruments purchased that are readily convertible to known amounts of cash, maturing within 90 days of the date of purchase and which are deemed to present insignificant risk of changes in value due to changing interest rates.

#### **Statement of cash flows**

The Company has elected to present cash flows from operating activities using the indirect method and has used "Result before taxation" as the starting point for presenting operating cash flows, followed by the investing and financial activities on cash flows.

#### **Other assets and liabilities**

Other assets and liabilities are stated at cost unless otherwise stated.

#### **Related party transactions**

Related parties are those enterprises that are either in control of the Company or are controlled by the Company, or can exercise significant influence over the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. All transactions with the related parties are conducted at arm's-length basis., unless otherwise stated. No expense has been recognized in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

#### **Transactions with shareholder**

Since June 2015, the Company entered into a Quota Share reinsurance agreement with its 50% (ultimate) shareholder Peak Re whereby Peak Re agreed to cover a portion of the risks that may be incurred by the Company. Starting June 1, 2020, two more reinsurers have joined the Quota Share reinsurance agreement of the Company. Under this new combined agreement, Peak Re's share has reduced to 40% and the third party reinsurers together are sharing 10%. During 2020, the net transactions between the Company and its reinsurers (combined) in relation to this agreement amounted to AWG 2.2 million (2019: AWG 2.2 million). As at December 31, 2020, the net outstanding balance amounts to AWG 286 thousand (receivable) and is included in both "due from reinsurers" and "due to reinsurers" (2019: AWG 2.9 million, receivable).

The Company's Quota Share transactions can be summarized as follows:

	<b>2020</b>	<b>2019</b>
<i>(in Aruba florins)</i>		
Premiums ceded	(6,681,533)	(11,566,187)
Commission income	2,208,787	4,909,730
Reinsurance premium ceded	-	-
Claims recoverable	2,257,037	4,437,838
Net transactions	<b>(2,215,709)</b>	<b>(2,218,619)</b>

**Summary of significant accounting policies (continued)**

**Related party transactions (continued)**

Transactions with shareholder (continued)

The Company's Quota Share outstanding balances as at December 31, 2020 and December 31, 2019 are as follows:

	<b>2020</b>	<b>2019</b>
<i>(in Aruba florins)</i>		
<u><i>Due from reinsurers</i></u>		
Unearned reinsurance premiums	980,604	6,194,322
Claims receivable	590,027	1,208,930
Commission revenue receivable	(652,290)	(447,993)
	<i>918,341</i>	<i>6,955,259</i>
<u><i>Due to reinsurers</i></u>		
Reinsurance premiums payable	(279,333)	(2,017,838)
Unearned commission revenue	(353,055)	(2,048,518)
	<i>(632,388)</i>	<i>(4,066,356)</i>
Net outstanding balance	<b>285,953</b>	<b>2,888,903</b>

**Deferred acquisition cost**

Those direct and indirect costs incurred during the financial year arising from the writing or renewal of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, costs for acquisition are amortized over the year in which the related revenues are earned.

Deferred acquisition costs are reviewed at end of each reporting period. These are impaired if these are no longer considered recoverable.

**Insurance contracts**

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expires. Contracts can be reclassified to insurance contracts after inception of insurance risk becomes significant.

**Recognition and measurement**

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

## **Summary of significant accounting policies (continued)**

### **Insurance contracts (continued)**

#### **Recognition and measurement (continued)**

Motor insurance contracts cover the driver's liability to third parties in respect of personal injury or property damage. If comprehensive cover is purchased, the policy also covers damage to the policyholder's vehicle.

Marine insurance contracts include the insurance of goods in transit over land or sea and also the insurance of hulls. Hull insurances typically cover both physical damage to the vessel and also the boat owner's liability to third parties in respect of personal injury or property damage.

The healthcare products provide medical cover to policyholders.

For all these contracts, premiums are recognized as revenue (earned premiums) proportionally over the year of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the statement of financial position date is reported as the unearned premium liability. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

### **Significant assumptions and other sources of estimation uncertainty**

IFRS 4 requires an insurer to describe the process used to determine the assumptions that have the greatest effect on the measurement of assets, liabilities, income and expense arising from insurance contracts. At each financial reporting date, the valuation assumption for each component of policy cash flow consists of an assumption for the expected experience and, separately, a margin for adverse deviation that reflects the degree of uncertainty in the expected experience assumption. The expected experience and the margin reflect the latest current experiences.

#### **Estimates and Judgements**

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

#### **Claims and loss adjustment expenses and related liabilities**

These reserves consist of a provision for the estimated outstanding casualty and property insurance claims to be paid and include a provision for incurred but not yet reported (IBNR) claims. These provisions are not discounted. The related portions recoverable from reinsurers in respect of incidents occurring up to the statement of financial position date are recorded as claims receivable.

Besides casualty and property insurance, the Company also underwrites sickness insurance. These policies are reinsured over a minimum threshold per incident. Subsequent claim settlements above the threshold amount are provided for.

The provision for IBNR claims is computed by the Company with the assistance of independent professional actuaries using standard actuarial techniques and assumptions, in our case the Bornhuetter-Ferguson (BF) methodology.

Unallocated loss adjustment expenses (ULAE) are expenses incurred during the processing of claims that cannot be attributed to a specific claim. The ULAE are computed by the Company with the assistance of independent professional actuaries. The sources of ULAE are salaries of in-house examiners, information technology and/or communication expenses.

## **Summary of significant accounting policies (continued)**

### **Significant assumptions and other sources of estimation uncertainty (continued)**

#### **Claims and loss adjustment expenses and related liabilities (continued)**

To ensure appropriate reserving, the Company has established and implemented a policy to ensure consistency in its reserve positioning year to year and thus preserve the integrity of its financial reporting. The Company's loss reserves shall not exceed the actuary's calculated centralized point nor shall it fall below 5% of that value.

#### **Claim expenses**

Claim expenses are charged to income as incurred and accounted for net of the reinsured portion and proceeds from salvage and subrogations.

#### **Reinsurance**

The Company cedes insurance risk in the normal course of business for most of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

The Company obtains certain elements of its reinsurance coverage on a group basis. The associated cost of this reinsurance coverage is allocated to all subsidiaries and branches which benefit from such coverage. The method used to allocate this coverage involves judgement and considers available information from both third-party and internal sources. Management believes that the allocation basis used is appropriate.

Interpretation of the terms of the reinsurance contracts entered into by the Company involves judgement. The Company records reinsurance amounts in line with management's understanding of the underlying contracts as well as based on historical experience and their knowledge of typical industry practices. One of the Company's reinsurers disagrees with management on the interpretation of the terms of a quota share treaty in place; refer to note 23 for further details.

Reinsurance assets (note 12) are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the statement of comprehensive income.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business for insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognized as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

#### **Revenue recognition**

##### **Gross premiums**

Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

## **Summary of significant accounting policies (continued)**

### **Revenue recognition (continued)**

#### **Gross premiums (continued)**

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

#### **Reinsurance premiums**

Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the year and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting year in respect of reinsurance contracts incepting in prior accounting years.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to years of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contracts.

#### **Commission income and expense**

Commissions paid to agents and received from insurers and reinsurers are calculated based on gross premiums written and reinsured. Commissions paid and received are adjusted so that they are recognized over the period covered by the related policies taking into consideration the exposure period to which they relate.

#### **Policy fees**

Insurance contract policyholders are charged for policy administration services and other contract fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods then they are deferred and recognized over those future periods.

#### **Realised gains and losses**

Realised gains and losses recorded in the income statement on investments include gains and losses on financial assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

#### **Unrealised gains and losses**

Unrealised gains and losses are recorded in the statement of profit or loss from the change in the market value of the fair value through profit or loss financial assets.

#### **Investment income**

Investment income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, fair value gains on financial assets at fair value through profit or loss, and gains on the remeasurement to fair value of any pre-existing interest in an acquiree in a business combination and reclassifications of net gains previously recognized in the consolidated statement of other comprehensive income. Interest income is recognized as it accrues in the statement of profit or loss, using the effective interest method. Dividend income is recognized in the statement of profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

### **Benefits, claims and expenses recognition**

#### **Gross benefits and claims**

General insurance and health claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

#### **Reinsurance claims**

Reinsurance claims are recognized when the related gross insurance claim is recognized according to the terms of the relevant contract.

### **Summary of significant accounting policies (continued)**

#### **Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - a. the Company has the right to operate the asset; or
  - b. the Company designed the asset in a way that predetermines how and for what purpose it will be used.

#### ***As a lessee***

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.



## **Summary of significant accounting policies (continued)**

### **Leases (continued)**

#### ***As a lessee (continued)***

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

#### ***Short-term leases and leases of low-value assets***

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of office spaces that have a lease term of 12 months or less and leases of low-value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### ***As a lessor***

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the Company applies IFRS 15 to allocate the consideration in the contract.

The Company recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of "investment income" and "other income".

### ***Employee benefits***

As of the report date, all of the Company's employees are included in a pension plan as required by a newly-enacted law in Aruba. Only former employees of Nagico N.V. that were transferred to the Company when it became a separate company, have existing pension schemes under a defined contribution plan. For these employees, premiums are being paid at the beginning of each year, which represents 10% of the gross salaries; 5% for the account of employee and the remaining 5% is shouldered by the Company.

### ***Current and deferred income taxes***

The tax expense for the period comprises current and deferred taxes. Tax is recognized in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Aruba where the Company operates and generates taxable income. The nominal profit tax rate is 25%. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate.

Deferred income tax assets and liabilities are derived from temporary differences between fiscal and financial valuation of assets and liabilities. Deferred income taxes are determined using the tax rate when it is expected to be reversed and are expressed at nominal value. Valuation of a deferred tax asset takes place to the extent that such valuation is deemed possible.

**Summary of significant accounting policies (continued)**

**Current and deferred income taxes (continued)**

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset only if certain criteria are met.

## (2) Property and equipment

<i>2020 movement schedule</i>	<b>Land and buildings</b>	<b>Furniture and fixtures</b>	<b>Equipment</b>	<b>Vehicles</b>	<b>31-Dec-20</b>
<i>(in Aruba florins)</i>					
<i>Balance as at January 1</i>					
Cost	53,883	597,294	706,844	215,292	<b>1,573,313</b>
Revaluation of assets	-	-	-	-	-
Accumulated depreciation	<u>(10,609)</u>	<u>(520,259)</u>	<u>(483,340)</u>	<u>(87,457)</u>	<b>(1,101,665)</b>
Net book value	43,274	77,035	223,504	127,835	<b>471,648</b>
<i>Changes in book value</i>					
Disposal cost	-	-	-	-	-
Disposal accumulated depreciation	-	-	-	-	-
Additions	-	7,654	65,182	-	<b>72,836</b>
Revaluation of assets	-	-	-	-	-
Depreciation	<u>(4,888)</u>	<u>(54,098)</u>	<u>(143,909)</u>	<u>(50,075)</u>	<b>(252,970)</b>
	<u>(4,888)</u>	<u>(46,444)</u>	<u>(78,727)</u>	<u>(50,075)</u>	<b>(180,134)</b>
<i>Balance as at December 31</i>					
Cost	53,883	604,948	772,026	215,292	<b>1,646,149</b>
Revaluation of assets	-	-	-	-	-
Accumulated depreciation	<u>(15,497)</u>	<u>(574,357)</u>	<u>(627,249)</u>	<u>(137,532)</u>	<b>(1,354,635)</b>
Net book value	<b><u>38,386</u></b>	<b><u>30,591</u></b>	<b><u>144,777</u></b>	<b><u>77,760</u></b>	<b><u>291,514</u></b>

There are no restrictions on the realisability of property and equipment or the remittance of income and proceeds of disposal. The Company has no contractual obligations to purchase, construct or develop property or for repairs, maintenance or enhancements.

	<b><u>31-Dec-20</u></b>	<b><u>31-Dec-19</u></b>
If land and buildings were measured using the cost model, the carrying amounts would be as follows:	<u>38,386</u>	<u>43,274</u>

**(2) Property and equipment (continued)**

<i>2019 movement schedule</i>	<b>Land and buildings</b>	<b>Furniture and fixtures</b>	<b>Equipment</b>	<b>Vehicles</b>	<b>31-Dec-19</b>
<i>(in Aruba florins)</i>					
<i>Balance as at January 1</i>					
Cost	689,648	552,681	595,181	218,604	<b>2,056,114</b>
Revaluation of assets	-	-	-	-	-
Accumulated depreciation	(153,578)	(450,156)	(364,383)	(56,978)	<b>(1,025,095)</b>
Net book value	536,070	102,525	230,798	161,626	<b>1,031,019</b>
<i>Changes in book value</i>					
Disposal cost	(641,190)	28,057	2,374	(107,195)	<b>(717,954)</b>
Disposal accumulated depreciation	159,311	(2,042)	(861)	17,864	<b>174,272</b>
Additions	5,425	16,556	109,289	103,883	<b>235,153</b>
Revaluation of assets	-	-	-	-	-
Depreciation	(16,342)	(68,061)	(118,096)	(48,343)	<b>(250,842)</b>
	(492,796)	(25,490)	(7,294)	(33,791)	<b>(559,371)</b>
<i>Balance as at December 31</i>					
Cost	53,883	597,294	706,844	215,292	<b>1,573,313</b>
Revaluation of assets	-	-	-	-	-
Accumulated depreciation	(10,609)	(520,259)	(483,340)	(87,457)	<b>(1,101,665)</b>
Net book value	<b>43,274</b>	<b>77,035</b>	<b>223,504</b>	<b>127,835</b>	<b>471,648</b>

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### (3) Leases

#### As a Lessee

#### Right-of-use assets

	Building	Machinery	2020	2019
<i>(in Aruba florins)</i>				
<i>Balance at January 1</i>				
Cost	972,652	-	972,652	972,652
Accumulated depreciation	(49,533)	-	(49,533)	-
Net book value	923,119	-	923,119	972,652
<i>Changes in book value</i>				
Decrease in rental payment	(657,777)	-	(657,777)	-
Depreciation charge for the year	(14,308)	-	(14,308)	(49,533)
	(672,085)	-	(672,085)	(49,533)
<i>Balance at December 31</i>				
Cost	314,875	-	314,875	972,652
Accumulated depreciation	(63,841)	-	(63,841)	(49,533)
Net book value	251,034	-	251,034	923,119

#### Lease liabilities

	2020	2019
<i>(in Aruba florins)</i>		
<b>Maturity analysis - contractual undiscounted cash flows</b>		
Less than one year	25,335	90,000
One to five years	101,340	360,000
More than five years	278,685	1,080,000
<b>Total undiscounted lease liabilities at 31 December</b>	<b>405,360</b>	<b>1,530,000</b>
Lease liabilities included in the statement of financial position as at 31 December	254,994	937,676
Current	9,543	31,835
Non-current	245,451	905,841

#### Amounts recognized in the statement of comprehensive income

	2020	2019
<i>(in Aruba florins)</i>		
Interest on lease liabilities	14,988	55,024
Depreciation charge of right-of-use assets	14,308	49,533
Expense relating to short-term leases	90,000	25,335
	119,296	129,892

#### Amount recognized in the statement of cash flows

	2020	2019
<i>(in Aruba florins)</i>		
Total cash outflow for leases	115,335	90,000

#### (4) Investment securities

	2020	2019
<i>(in Aruba florins)</i>		
Long-term investments	14,078,227	14,724,459
Short-term investments	9,236,995	4,000,000
	<b>23,315,222</b>	<b>18,724,459</b>

The Company's investment securities are summarized into the following categories:

	2020	2019
<i>(in Aruba florins)</i>		
<i>Long-term investments</i>		
Held-to-maturity financial assets	12,498,648	10,302,311
Fair value through profit or loss financial assets	1,579,579	4,422,148
	14,078,227	14,724,459
<i>Short-term investments</i>		
Held-to-maturity financial assets	7,818,050	4,000,000
Fair value through profit or loss financial assets	1,418,945	-
	9,236,995	4,000,000
	<b>23,315,222</b>	<b>18,724,459</b>

The following table compares the fair values of investments to their carrying values:

	2020		2019	
<i>(in Aruba florins)</i>	Carrying value	Fair value	Carrying value	Fair value
<i>Long-term investments</i>				
Held-to-maturity financial assets	12,498,648	12,480,000	10,302,311	10,280,000
Fair value through profit or loss financial assets	1,579,579	1,579,579	4,422,148	4,422,148
	14,078,227	14,059,579	14,724,459	14,702,148
<i>Short-term investments</i>				
Held-to-maturity financial assets	7,818,050	7,818,050	4,000,000	4,000,000
Fair value through profit or loss financial assets	1,418,945	1,418,945	-	-
	9,236,995	9,236,995	4,000,000	4,000,000
	<b>23,315,222</b>	<b>23,296,574</b>	<b>18,724,459</b>	<b>18,702,148</b>

#### (4) Investment securities (continued)

The following table shows the movements of the carrying values in 2020:

<i>Movement schedule of the carrying values:</i>	<b>Held-to-maturity</b>	<b>Fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Available-for-sale</b>	<b>Total</b>
<i>(in Aruba florins)</i>					
2020	14,302,311	4,422,148	-	-	<b>18,724,459</b>
- Purchases	10,018,050	2,663,883	-	-	<b>12,681,933</b>
- Maturities	(4,000,000)	-	-	-	<b>(4,000,000)</b>
- Disposals	-	(3,962,876)	-	-	<b>(3,962,876)</b>
- Fair value gain recorded in the statement of profit or loss	-	(321,394)	-	-	<b>(321,394)</b>
- Realized gains	-	196,763	-	-	<b>196,763</b>
- Amortization of premium/discount	(3,663)	-	-	-	<b>(3,663)</b>
	6,014,387	(1,423,624)	-	-	<b>4,590,763</b>
<i>Balance as at December 31, 2020</i>	<b>20,316,698</b>	<b>2,998,524</b>	-	-	<b>23,315,222</b>

The following tables show a further breakdown of the various investments for each category and also separate for the restricted and the unrestricted investments as well as the listed and non-listed investments as per December 31, 2020 and December 31, 2019:

<i>(in Aruba florins)</i>	<b>2020</b>				
	<b>Listed</b>	<b>Non-listed</b>	<b>Total</b>	<b>Restricted</b>	<b>Un-restricted</b>
<i>Held-to-maturity investments</i>					
Time deposits	-	18,318,050	<b>18,318,050</b>	300,000	18,018,050
Government bonds	-	1,998,648	<b>1,998,648</b>	-	1,998,648
	-	20,316,698	<b>20,316,698</b>	300,000	20,016,698
<i>Fair value through profit or loss financial assets</i>					
Government bonds	1,579,579	-	<b>1,579,579</b>	-	1,579,579
Other bonds	1,418,945	-	<b>1,418,945</b>	-	1,418,945
	2,998,524	-	<b>2,998,524</b>	-	2,998,524
	<b>2,998,524</b>	<b>20,316,698</b>	<b>23,315,222</b>	<b>300,000</b>	<b>23,015,222</b>

#### (4) Investment securities (continued)

<i>(in Aruba florins)</i>	2019				
	Listed	Non-listed	Total	Restricted	Un-restricted
<i>Held-to-maturity investments</i>					
Time deposits	-	12,300,000	<b>12,300,000</b>	300,000	12,000,000
Government bonds	-	2,002,311	<b>2,002,311</b>	-	2,002,311
	-	14,302,311	<b>14,302,311</b>	300,000	14,002,311
<i>Fair value through profit or loss financial assets</i>					
Government bonds	4,422,148	-	<b>4,422,148</b>	-	4,422,148
	4,422,148	-	<b>4,422,148</b>	-	4,422,148
	<b>4,422,148</b>	<b>14,302,311</b>	<b>18,724,459</b>	<b>300,000</b>	<b>18,424,459</b>

#### **Restricted investment securities**

The restricted investment securities relates to Regulatory requirements for operating licenses in Aruba. The balance also includes fixed deposits held with a local bank with terms of more than 90 days but less than one

The following table provides an analysis of the investments of the Company into relevant maturity categories as per December 31, 2020 and December 31, 2019:

2020	< 1 year	1-3 years	3-5 years	> 5 years	Total
<i>(in Aruba florins)</i>					
Held-to-maturity	7,818,050	3,999,999	7,400,000	1,098,649	20,316,698
Fair value through profit or	1,418,945	1,579,579	-	-	2,998,524
	<b>9,236,995</b>	<b>5,579,578</b>	<b>7,400,000</b>	<b>1,098,649</b>	<b>23,315,222</b>
2019	< 1 year	1-3 years	3-5 years	> 5 years	Total
<i>(in Aruba florins)</i>					
Held-to-maturity	4,000,000	4,300,000	4,900,000	1,102,311	14,302,311
Fair value through profit or	-	-	4,422,148	-	4,422,148
	<b>4,000,000</b>	<b>4,300,000</b>	<b>9,322,148</b>	<b>1,102,311</b>	<b>18,724,459</b>

#### (5) Intangible assets

	2020	2019
<i>(in Aruba florins)</i>		
Acquisition of in-force business	-	-
Other intangible assets	4,565	4,565
	<b>4,565</b>	<b>4,565</b>

#### **Acquisition of in-force business**

During 2014, the Company purchased an insurance portfolio for the amount of AWG 85,000. This portfolio has been amortized in full as at December 31, 2020.



## (5) Intangible assets (continued)

*Movement in acquisition of in-force business:*

	2020	2019
<i>(in Aruba florins)</i>		
Balance as at January 1	-	-
Amortization	-	-
Balance as at December 31	-	-

### **Other intangible assets**

There are no movements in other intangible assets for the year ended December 31, 2020 (2019: nil).

## (6) Insurance receivables

	2020	2019
<i>(in Aruba florins)</i>		
Direct sales	1,075,478	676,458
Agents and brokers	1,146,384	2,820,259
	2,221,862	3,496,717
<i>Less: provision for doubtful debts</i>	(220,045)	(275,506)
	<b>2,001,817</b>	<b>3,221,211</b>

### **Movements in provision for doubtful debts**

	2020	2019
<i>(in Aruba florins)</i>		
Balance as at January 1	275,506	110,066
Additions	(54,925)	172,469
Write-offs	(536)	(7,029)
Balance as at December 31	<b>220,045</b>	<b>275,506</b>

## (7) Deferred acquisition costs

	2020	2019
<i>(in Aruba florins)</i>		
Commercial and private property	521,041	620,908
Motor	394,630	424,816
Group medical and personal accident	40,233	47,774
Marine hull and cargo	4,478	5,986
Public liability	65,094	146,947
Other	9,508	8,103
	<b>1,034,984</b>	<b>1,254,534</b>
<b><i>Movement in deferred acquisition costs</i></b>		

	2020	2019
<i>(in Aruba florins)</i>		
<i>Balance as at January 1</i>	1,254,534	1,266,475
Gross commissions	2,982,117	2,745,176
	4,236,651	4,011,651
Commission expense reported for the year	(3,201,667)	(2,757,117)
<i>Balance as at December 31</i>	<b>1,034,984</b>	<b>1,254,534</b>

Deferred acquisition cost relates to prepaid commissions to agents and brokers.

## (8) Prepayments and other current assets

	2020	2019
<i>(in Aruba florins)</i>		
Other loans and receivables	-	791
Interest receivable on investment securities	453,486	544,612
Prepaid expenses and other receivables	60,736	326,289
	<b>514,222</b>	<b>871,692</b>

## (9) Current account affiliated companies

	2020	2019
<i>(in Aruba florins)</i>		
<i>Due from related parties</i>		
National General Insurance Corporation (Nagico) N.V.	2,460,753	-
Nagico Road and Claims Services N.V.	1,217,250	956,787
Nagico Insurance Company Ltd. (NICL)	3,162	3,162
Nagico Life Insurance (Aruba) N.V.	361,014	135,183
	<b>4,042,179</b>	<b>1,095,132</b>

	2020	2019
<i>(in Aruba florins)</i>		
<i>Due to related parties</i>		
National General Insurance Corporation (Nagico) N.V.	-	267,905
Nagico Insurance (Trinidad and Tobago) Limited	32,868	32,868
Nagico (St. Lucia) Limited	56	56
Nagico Life Insurance N.V.	146,092	134,631
	<b>179,016</b>	<b>435,460</b>

The current account with National General Insurance Corporation (NAGICO) N.V. is debited or credited for payments made and collections received on behalf of the Company such as reinsurance expenses, collection of revenue and for management fees being paid by the Company to Nagico N.V. for the administrative services being performed by Nagico N.V. The current account has no fixed repayment terms and does not carry interest unless otherwise specifically agreed between the companies.

Transactions between the Company and related parties including associated companies can be specified as follows by nature of the transactions:

	2020	2019
<i>(in Aruba florins)</i>		
<b>Due from related parties</b>		
<i>Opening balance, January 1</i>	1,095,132	1,174,324
Quota Share Settlements	387,241	-
Settlements	2,691,000	-
Reinsurance	(2,788,318)	-
Investment	2,634,655	-
Premiums paid/received	(315,861)	7,903
Claims expenses	19,259	-
Cash Paid/Transfers	646,544	(664,989)
Personnel expenses	190,835	71,885
Office expenses	181,155	506,009
Management fees	(699,463)	-
	<b>4,042,179</b>	<b>1,095,132</b>

### (9) Current account affiliated companies (continued)

	2020	2019
<i>(in Aruba florins)</i>		
<b>Due to related parties</b>		
Opening balance, January 1	435,460	4,911,784
Settlements	-	(3,060,000)
Office expenses	(275,037)	92,957
Finance costs	-	29,838
Investment	-	(518,317)
Reinsurance	-	(4,257,809)
Quota Share Settlements	-	3,137,060
Personnel expenses	18,593	96,921
Premiums received	-	(562,680)
Management fees	-	736,943
Claims expenses	-	(171,237)
	<b>179,016</b>	<b>435,460</b>

### (10) Cash and cash equivalents

	2020	2019
<i>(in Aruba florins)</i>		
Current accounts	1,065,224	1,630,981
Savings accounts	2,163,352	1,403,320
Investment cash account	168,407	2,433
Other	11,150	16,267
	<b>3,408,133</b>	<b>3,053,001</b>

There are no restricted accounts and therefore all cash and cash equivalents are currently available for the Company's use.

### (11) Capital and other components of equity

#### **Share capital and additional paid-in capital**

The authorized capital consists of 9,000 shares with a par value of AWG 1,000 each. As of December 31, 2020, the issued and fully paid up share capital amounted to AWG 1,800,000 being 1,800 shares of AWG 1,000 each. There was no movement in the number of shares outstanding during the year.

#### **Revaluation reserve**

All unreleased gains arising from the revaluation of property and equipment are recognized as part of equity.

## (12) Insurance liabilities

The following table presents details of insurance liabilities:

	<b>2020</b>	<b>2019</b>
<i>(in Aruba florins)</i>		
<i>Provision for unearned premiums</i>		
Commercial and private property	3,119,199	4,883,671
Motor	6,144,793	6,386,417
Group medical and personal accident	285,417	326,475
Marine hull and cargo	79,316	153,989
Public liability	499,102	1,049,471
Other	72,063	73,237
	<u>10,199,890</u>	<u>12,873,260</u>
<i>Outstanding claims provisions</i>		
Commercial and private property	3,421,891	54,219
Motor	1,549,261	2,049,024
Marine hull and cargo	9,820	294,493
Public liability	307,466	86,429
	<u>5,288,438</u>	<u>2,484,165</u>
<i>Incurred but not reported claims (IBNR)</i>		
Commercial and private property	153,074	269,909
Motor	1,201,041	1,073,812
Group medical and personal accident	15,700	21,360
Marine hull and cargo	7,850	1,942
Public liability	296,335	407,777
	<u>1,674,000</u>	<u>1,774,800</u>
<b>Gross insurance liabilities</b>	<b><u>17,162,328</u></b>	<b><u>17,132,225</u></b>
Due to reinsurers	4,285,613	5,658,415
<b>Gross (re)insurance liabilities</b>	<b><u>21,447,941</u></b>	<b><u>22,790,640</u></b>
<i>Due from reinsurers</i>		
Unearned reinsurance premiums	3,358,349	7,190,271
Claims receivable from reinsurers	4,257,747	2,593,531
Commission revenue receivable from reinsurers	(652,290)	(447,994)
<b>Total reinsurance assets</b>	<b><u>6,963,806</u></b>	<b><u>9,335,808</u></b>
<b>Net insurance liabilities</b>	<b><u>14,484,135</u></b>	<b><u>13,454,832</u></b>

## (12) Insurance liabilities (continued)

The following table shows the reconciliation of the movement in gross insurance liabilities:

	<b>2020</b>	<b>2019</b>
<i>(in Aruba florins)</i>		
Balance as at January 1	17,132,225	17,889,503
Net change in unearned premiums	(2,673,370)	1,555,968
Change in claims provision	2,804,273	(2,691,246)
Change in IBNR	(100,800)	378,000
<b>Balance as at December 31</b>	<b>17,162,328</b>	<b>17,132,225</b>

Unearned premiums represent the portion of premiums received in 2020 and 2019, but refer to a period of coverage expiring in 2021 and 2020, respectively. Consequently, this balance represents funds received in advance for which repayment is not considered likely.

The majority of the claims will be paid within one to three years. Individual claims in excess of AWG 90,000 included in the claims provision amount to AWG 3.7 million (2019: AWG 423 thousand).

## (13) Taxation

### *Deferred tax asset & payable*

As at 31 December 2020, a deferred tax position of AWG 44,219 (2019: AWG 52,114), which relates to fixed assets and investment securities, has been recognized.

	<b>2020</b>	<b>2019</b>
<i>(in Aruba florins)</i>		
Deferred tax asset	113,929	274,999
Deferred tax payable on Right-of-use assets	(62,759)	(230,780)
<b>Deferred tax position as at December 31</b>	<b>51,170</b>	<b>44,219</b>

<b>2020</b>	<b>Fixed assets</b>	<b>Lease liability</b>	<b>Total</b>
<i>(in Aruba florins)</i>			
Fiscal book value fixed assets	489,499	254,994	744,493
Commercial book value fixed assets	289,895	-	289,895
Difference in book value	199,604	254,994	454,598
<b>Deferred tax asset recognized (25%)</b>	<b>49,901</b>	<b>64,028</b>	<b>113,929</b>

<b>2019</b>	<b>Fixed assets</b>	<b>Lease liability</b>	<b>Total</b>
<i>(in Aruba florins)</i>			
Fiscal book value fixed assets	634,499	937,145	1,571,644
Commercial book value fixed assets	471,648	-	471,648
Difference in book value	162,851	937,145	1,099,996
<b>Deferred tax liability recognized (25%)</b>	<b>40,712</b>	<b>234,286</b>	<b>274,998</b>

### (13) Taxation (continued)

#### Current tax payable

Movement of the current tax payable arises from the calculation of the profit tax expenses reported in the statement of profit or loss and other comprehensive income:

	2020	2019
<i>(in Aruba florins)</i>		
Balance as at January 1	1,062,425	776,541
Current year charge	1,446,394	1,068,084
Profit tax paid	(1,068,125)	(782,200)
Balance as at December 31	<b>1,440,694</b>	<b>1,062,425</b>

#### Profit tax expense

The profit tax expense for the year can be specified as follows:

	2020	2019
<i>(in Aruba florins)</i>		
Movement of deferred tax asset	161,070	(222,885)
Movement of deferred tax payable	(168,021)	230,780
Current year profit tax	1,446,394	1,068,084
	<b>1,439,443</b>	<b>1,075,979</b>

The charge for the year can be reconciled to the profit /(loss) before tax as follows:

	2020	2019
<i>(in Aruba florins)</i>		
Profit before tax from continuing operations	5,781,374	4,276,621
Income tax calculated at average rate	1,445,344	1,069,155
Tax effect of expenses that are not deductible in determining taxable profit	10,457	32,229
Tax effect of income not taxable in determining taxable profit	(5,721)	(33,248)
Change in recognized deferred tax asset	161,070	(222,885)
Change in recognized deferred tax liability	(168,021)	230,780
Unreconciled difference (Effect of subsequent adjustments to profit before tax)	(3,686)	(52)
	<b>1,439,443</b>	<b>1,075,979</b>

### (14) Accounts payable and accrued liabilities

	2020	2019
<i>(in Aruba florins)</i>		
Accounts payable	11,744	66,184
Wage tax, pension and social premiums	122,368	47,749
Other taxes payable	74,360	95,330
Accrued expenses	952,145	510,471
	<b>1,160,617</b>	<b>719,734</b>

### (15) Underwriting income

The following table presents details of premium income:

	2020	2019
<i>(in Aruba florins)</i>		
<i>Gross premiums written</i>		
Commercial and private property	8,879,323	9,950,199
Motor	12,013,282	12,677,158
Group medical and personal accident	580,147	774,132
Marine hull and cargo	121,973	369,317
Public liability	1,363,669	2,172,054
Other	145,862	206,480
	23,104,256	26,149,340
<i>Movement in unearned premiums</i>		
Commercial and private property	1,762,731	(1,005,980)
Motor	395,689	(374,915)
Group medical and personal accident	41,058	(30,114)
Marine hull and cargo	89,769	22,027
Public liability	447,650	(183,494)
Other	10,298	16,508
	2,747,195	(1,555,968)
<b>Insurance premium revenue</b>	<b>25,851,451</b>	<b>24,593,372</b>

### (16) Other underwriting income

	2020	2019
<i>(in Aruba florins)</i>		
Policy fees	795,388	797,355
	<b>795,388</b>	<b>797,355</b>



## (17) Underwriting expenses

The underwriting expenses are built up as follows:

	<b>2020</b>	<b>2019</b>
<i>(in Aruba florins)</i>		
<i>Claims Paid</i>		
Commercial and private property	(2,672,507)	3,021,185
Motor	3,703,471	3,870,691
Group medical and personal accident	869	29,811
Marine hull and cargo	285,274	(112,109)
Public liability	164,354	339,524
Other	66,948	93,173
<i>Subtotal to the next page</i>	<u>1,548,409</u>	<u>7,242,275</u>
<i>Changes in claims provisions</i>		
Commercial and private property	3,367,672	(2,654,751)
Motor	(499,763)	(386,748)
Marine hull and cargo	(284,673)	287,140
Public liability	221,037	63,113
	<u>2,804,273</u>	<u>(2,691,246)</u>
Changes in IBNR	(100,800)	378,000
<b>Insurance claims and loss adjustment expenses, net of recoveries from reinsurers</b>	<b><u>4,251,882</u></b>	<b><u>4,929,029</u></b>

## (18) Personnel expenses

	<b>2020</b>	<b>2019</b>
<i>(in Aruba florins)</i>		
Salaries and bonuses	1,445,568	1,413,638
Social premiums	311,579	297,164
Car expenses	44,446	53,402
Entertainment	33,064	29,068
Directors' fees	115,866	143,901
Pension, defined contribution plan	51,391	51,159
Other personnel expenses	240,210	304,373
	<u>2,242,124</u>	<u>2,292,705</u>
Number of employees as at December 31	<u>36</u>	<u>35</u>

The total gross salaries and bonuses that are paid out by the company to key management personnel in 2020 amounted to AWG 380,081 (2019: AWG 254,342). The pension premiums paid for key management in 2020 amounted to AWG 18,099 (2019: AWG 12,112).

## (19) Administrative expenses

	2020	2019
<i>(in Aruba florins)</i>		
Office expenses	80,495	168,404
Rent	90,000	25,335
Insurance	8,712	8,712
Maintenance	276,412	241,721
Telephone	51,162	44,515
Utilities	32,218	36,964
Travel and lodging	50,945	75,274
	<b>589,944</b>	<b>600,925</b>

## (20) Other operating expenses

	2020	2019
<i>(in Aruba florins)</i>		
Advertising and promotional costs	427,033	649,421
Bad debt expense	(54,925)	172,469
Professional fees	665,554	318,716
Financing costs	14,988	55,024
Management fee	706,953	801,272
Other taxes	-	6,000
Subscriptions	2,275	2,921
Supervision fees and insurance levies	53,089	58,610
Security	2,846	2,883
Postage	29,847	95,686
Bank charges	127,688	188,681
Other operating expenses	(601)	62,038
	<b>1,974,747</b>	<b>2,413,721</b>

### Management fee allocation

Effective January 1, 2014 the Company entered into an agreement with NAGICO N.V. to pay 1.48% of total expenses for providing back office services to the Company. The agreement has a term of 5 years. For the year ended December 31, 2020 management fees totalled AWG 706,953 (2019: AWG 736,943), which is included in due to affiliated companies in the statement of financial position.

## (21) Investment income

	2020	2019
<i>(in Aruba florins)</i>		
Interest on investments	672,119	586,960
Fair value (loss) /gain	(321,394)	192,148
Realized gain on derecognition of financial assets	196,763	-
Amortization of premium	(3,663)	(1,665)
Dividend income	-	1,082
	<b>543,825</b>	<b>778,525</b>

## (22) Other income

	2020	2019
<i>(in Aruba florins)</i>		
Other interest income and equipment	10,000	4,113
Foreign exchange gain	-	336,212
Other income	359	330
	198,230	97,966
	<b>208,589</b>	<b>438,621</b>

## (23) Commitments and contingencies

### *Contingent liability*

During the ordinary course of business, the Company is subject to complaints and threatened or actual legal proceedings brought by or on behalf of current or former employees, customers or other third parties. Although it is not practicable to forecast or determine the final outcome of all pending or threatened legal proceedings, Management periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Company incurring a liability, and whether a provision is required.

The Company recognizes amounts due to reinsurers in relation to the reinsurance treaties in place, in the normal course of business. In May 2020, one of the Company's reinsurers informed us that their interpretation of the terms applicable to the quota share treaty which was in place for the period from June 1, 2017 to May 31, 2020 results in a higher amount being due and payable. If the reinsurer's position is found to be correct, management estimate that this would result in an increase in the Company's liability of approximately AWG 1.0 million. The Company does not agree with the reinsurer's position and, having taken appropriate advice, does not consider that this is a case where additional liability will ultimately fall due on the Company, thus no provision has been recorded.

## (24) Financial Risk Management

### *General*

The Company is exposed to financial risk through its financial assets and financial liabilities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management structure. The Company has established the Governance, Risk and Conduct Committee and the Investment, Mergers and Acquisition Committee to ensure that management has a system which details the risk policies, procedures, measurement, reporting and compliance. The Company's Internal Audit reviews the risk management policies and processes and reports directly to the Audit Committee. The Audit Committee oversees how management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks that face the Company. These committees report regularly to the Board of Directors on their activities.

The overriding objective of the Company's risk management framework is to enhance its capital base through competitive earnings growth and to protect capital against inherent business risks. This means that the Company accepts certain levels of risk in order to generate returns, and the Company manages the levels of risk assumed through enterprise wide risk management policies and procedures. Identified risks are assessed as to their potential financial impact and as to their likelihood of occurrence.

## (24) Financial Risk Management (continued)

### General (continued)

This section provides details of the Company's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Company is exposed are credit risk, market risk, liquidity risk, operational risk and insurance risk.

### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and reinsurers, investment securities, policy loans and cash and cash equivalents. The concentration of credit risk is also monitored to minimize the Company's exposure to significant losses from reinsurer insolvency.

The following assets of the Company are exposed to credit risk:

	2020	2019
<i>(in Aruba florins)</i>		
Long-term investments	14,078,227	14,724,459
Short-term investments	9,236,995	4,000,000
Due from reinsurers	3,605,457	2,145,537
Insurance receivables	2,221,862	3,496,717
Cash and cash equivalents	3,408,133	3,053,001
Other current assets	453,486	545,403
	<b>33,004,160</b>	<b>27,965,117</b>

Financial assets exposed to credit risk that are neither past due nor impaired, past due but not impaired and those that are impaired are analyzed in the table below:

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
<i>(in Aruba florins)</i>				
<b>As at December 31, 2020</b>				
Long-term investments	14,078,227	-	-	14,078,227
Short-term investments	9,236,995	-	-	9,236,995
Due from reinsurers	3,605,457	-	-	3,605,457
Insurance receivables	1,176,191	825,626	220,045	2,221,862
Cash and cash equivalents	3,408,133	-	-	3,408,133
Other current assets	453,486	-	-	453,486
	<b>31,958,489</b>	<b>825,626</b>	<b>220,045</b>	<b>33,004,160</b>

## (24) Financial Risk Management (continued)

### Credit risk (continued)

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
<i>(in Aruba florins)</i>				
<b>As at December 31, 2019</b>				
Long-term investments	14,724,459	-	-	14,724,459
Short-term investments	4,000,000	-	-	4,000,000
Due from reinsurers	2,145,537	-	-	2,145,537
Insurance receivables	1,428,269	1,792,942	275,506	3,496,717
Cash and cash equivalents	3,053,001	-	-	3,053,001
Other current assets	545,403	-	-	545,403
	<b>25,896,669</b>	<b>1,792,942</b>	<b>275,506</b>	<b>27,965,117</b>

The credit risk associated with short-term investments and cash equivalents is mitigated by the fact that investment and cash transactions are limited to high credit financial institutions. The Company has policies that limit the amount of credit exposure to any one financial institution.

#### Investments

The Company has no significant concentration of credit risk on its investments. The Company minimizes its credit risk by limiting its investments primarily to counterparties to Government and financial institutions. All investments are held with well established financial institutions (brokers). All other investments are evaluated individually by the Investment Manager and members of the Executive Board. If the investment involves third parties, consideration is given to its criteria including the relative expertise available, the Company's relative level of exposure and the viability of the investment itself.

The investments can be specified as follows:

	2020	2019
<i>(in Aruba florins)</i>		
Investments held by governments	3,578,227	6,424,459
Investments held by financial institutions	18,318,050	12,300,000
Equity instruments and other investments	2,998,524	4,422,148
	<b>24,894,801</b>	<b>23,146,607</b>

#### Insurance receivables

The Company's exposure to credit risk from insurance receivables is influenced mainly by the individual characteristic of each agent and broker.

Agents are ultimately responsible for credit granted to their clients. The Company establishes certain guidelines within which agents are expected to operate. Agents are held liable when they grant credit outside of the Company's general guidelines or where they are unable to collect from clients. With regards to direct sales, all credits require management approval.

## (24) Financial Risk Management (continued)

### Credit risk (continued)

Breakdown of insurance receivables for 2020:

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
<i>(in Aruba florins)</i>				
Direct	496,267	579,208	-	1,075,475
Agent	679,924	246,418	220,045	1,146,387
	<b>1,176,191</b>	<b>825,626</b>	<b>220,045</b>	<b>2,221,862</b>

Ageing analysis of insurance receivables 2019 neither past due nor impaired and past due but not impaired:

	< 30 days	30-90 days	> 90 days	Total
<i>(in Aruba florins)</i>				
Direct	496,267	407,479	171,729	1,075,475
Agent	679,924	(419,492)	665,910	926,342
	<b>1,176,191</b>	<b>(12,013)</b>	<b>837,639</b>	<b>2,001,817</b>

Breakdown of insurance receivables for 2019:

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
<i>(in Aruba florins)</i>				
Direct	365,370	248,339	-	613,709
Agent	1,062,899	1,544,603	275,506	2,883,008
	<b>1,428,269</b>	<b>1,792,942</b>	<b>275,506</b>	<b>3,496,717</b>

Ageing analysis of insurance receivables 2019 neither past due nor impaired and past due but not impaired:

	< 30 days	30-90 days	> 90 days	Total
<i>(in Aruba florins)</i>				
Direct	365,370	233,664	14,674	613,708
Agent	1,062,901	958,256	586,346	2,607,503
	<b>1,428,271</b>	<b>1,191,920</b>	<b>601,020</b>	<b>3,221,211</b>

## (24) Financial Risk Management (continued)

### ***Accounting classifications and fair values***

The following describes the methodologies and assumptions used to determine fair values for those investments which are not already recorded at fair value in the financial statements (i.e., held-to-maturity).

#### *Assets for which fair value approximates carrying value*

For financial assets and financial liabilities that have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity. For other variable rate investments, adjustments are also made to reflect the change in required credit spread since the investments were first recognized.

#### *Fixed rate financial instruments*

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar investment securities. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.

#### *Determination of fair value and fair values hierarchy*

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other independent source, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Company considers that market transactions should occur with sufficient frequency that is appropriate for the particular market, when measured over a continuous period preceding the date of the financial statements. If there is no data available to substantiate the frequency of market transactions of a financial instrument, then the instrument is not classified as Level 1.

- Level 2

A financial instrument is classified as Level 2 if:

- The fair value is derived from quoted prices of similar instruments which would be classified as Level 1; or
- The fair value is determined from quoted prices that are observable but there is no data available to substantiate frequent market trading of the instrument.

In estimating the fair value of non-traded financial assets, the Company uses a variety of methods such as obtaining broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Company's models whereby the majority of assumptions are market observable and using discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are discounted at market derived rates for government securities in the same country of issue as the security; for non-government securities, an interest spread is added to the derived rate for a similar government security rate according to the perceived additional risk of the non-government security. Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

## (24) Financial Risk Management (continued)

### *Accounting classifications and fair values (continued)*

In assessing the fair value of non-traded financial liabilities, the Company uses a variety of methods including obtaining broker quotes for specific or similar instruments, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Company's models whereby the majority of assumptions are market observable and the use of internally developed pricing models, such as the use of discounted cash flows. If the non-traded liability is backed by a pool of assets, then its value is equivalent to the value of the underlying assets.

#### • Level 3

A financial instrument is classified as Level 3 if:

- The fair value is derived from quoted prices of similar instruments that are observable and which would be classified as Level 2; or
- The fair value is derived from inputs that are not based on observable market data.

Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Company's own models whereby the majority of assumptions are market observable.

Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments and debt instruments. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Company. Therefore, unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Company's own data.

None of the total financial assets recorded at fair value are based on estimates and recorded as Level 3 investments. Where estimates would have been used, these would have been based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

During 2020, the Company did not have any transfers between levels. The next table presents information about the Company's financial assets measured at fair value on a recurring basis as of December 31, 2020 (2019: nil).

<i>December 31, 2020</i>	Level 1	Level 2	Level 3	<b>Total fair value</b>
<i>(in Aruba florins)</i>				
<b>Financial assets</b>				
<i>Fair value through profit or loss financial assets</i>				
Government bonds	1,579,579	-	-	<b>1,579,579</b>
Other bonds	1,418,945	-	-	<b>1,418,945</b>
<b>Total financial assets</b>	<b>2,998,524</b>	<b>-</b>	<b>-</b>	<b>2,998,524</b>



## (24) Financial Risk Management (continued)

### Accounting classifications and fair values (continued)

December 31, 2019 (in Aruba florins)	Level 1	Level 2	Level 3	Total fair value
<b>Financial assets</b>				
<i>Fair value through profit or loss financial assets</i>				
Government bonds	4,422,148	-	-	<b>4,422,148</b>
<b>Total financial assets</b>	<b>4,422,148</b>	-	-	<b>4,422,148</b>

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Market risks are evaluated on an ongoing basis by the Board of Directors and by Executive Management through discussions and the review of market developments and trends.

Management also proactively anticipates likely developments in their markets via monitoring of regional and international trends via industry publications. Based on the reviews performed, there has been no change to the Company's exposure to market risks or the manner in which it manages the risk.

#### Equity price risk

The Company is exposed to equity price risk arising from changes in the market values of its equity securities. The Company mitigates this risk by establishing overall limits of equity holdings for each investment portfolio based on its investment strategy and by maintaining a diversified holdings within each portfolio of equity

#### Sensitivity analysis-equity risk

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in the market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

The Company's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Furthermore, management monitors movements of financial assets and equity price risk movements on a quarterly basis by assessing the expected changes in the different portfolios due to movements in the various benchmarks with all other variables held constant compared with all the Company's equity instruments.

The sensitivity to fair value changes in equity securities arises from those instruments classified as available-for-sale. There is no significant sensitivity to those instruments classified at fair value through income, since fair value changes are borne by policy contract holders.

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk is solely to the extent that interest-earning assets mature or re-price at different times or in differing amounts or interest is insufficient to meet the interest rate credited to policyholders. The Company addresses this risk by concentrating its investments on risk-free investments such as government bonds and fixed interest rate

## (24) Financial Risk Management (continued)

### Market risk (continued)

#### Sensitivity analysis-interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The analysis below has been determined based on the Company's exposure to interest rates for interest bearing assets and liabilities at the reporting date.

As at December 31, 2020 and December 31, 2019 the interest bearing assets and liabilities consisted of:

	2020	2019
<i>(in Aruba florins)</i>		
Time deposits	18,318,050	12,300,000
Other bonds	1,418,945	-
Other loans and receivables	-	791
	<b>19,736,995</b>	<b>12,300,791</b>

There were no interest bearing liabilities as at December 31, 2020 (2019: nil). The analysis assumes that the stipulated change takes place at the beginning of the financial year and is held constant throughout the reporting period. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated (for example, change in interest rate and change in market values).

If the effective interest rate increased by 100 basis points, this would have increased the equity and the net income for the year by AWG 12,301 (2019: AWG 11,380). A decrease of 100 basis points would have had an equal but opposite effect.

#### Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Due to the fact that most transactions are performed using in Aruba florins, which is pegged to the United States dollars at a rate of USD 1 = AWG 1.80, the Company does not have significant currency risk exposure.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Company's reputation. In respect of catastrophic events, the Company is exposed to liquidity risk associated with the timing differences between cash flows and expected reinsurance recoveries to meet its insurance liability obligation.

#### Liquidity risk management process

The Company's liquidity management process as carried out within the Company is monitored by the Accounts Department includes:

- Cash flow is monitored weekly through cash summary reports. In order to evaluate excess funds availability, the Company considers large recurring commitments, such as reinsurance, and claims/expenditure patterns as well as expected large expenditures. These are then weighed against cash inflows;
- Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Optimizing cash returns on investment; and
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements.

## (24) Financial Risk Management (continued)

### *Liquidity risk (continued)*

In accordance with IFRS 7.39 the following table provides an analysis of the financial assets and liabilities of the Company into relevant maturity groupings based on the remaining periods to repayment.

<i>December 31, 2020</i>	<b>&lt; 1 year</b>	<b>1-3 years</b>	<b>&gt; 3 years</b>	<b>Total</b>
<i>(in Aruba florins)</i>				
<i>Investments</i>				
Held-to-maturity	7,818,050	3,999,999	8,498,649	20,316,698
Fair value through profit or loss	1,418,945	1,579,579	-	2,998,524
	9,236,995	5,579,578	8,498,649	23,315,222
Receivables	6,060,760	-	-	6,060,760
Cash and cash equivalents	3,408,133	-	-	3,408,133
	9,468,893	-	-	9,468,893
<b>Total</b>	<b>18,705,888</b>	<b>5,579,578</b>	<b>8,498,649</b>	<b>32,784,115</b>
Gross insurance liabilities	(3,250,724)	(3,077,393)	(634,321)	(6,962,438)
Due to reinsurers	(3,941,108)	-	-	(3,941,108)
Accounts payable	(1,160,617)	-	-	(1,160,617)
<b>Total</b>	<b>(8,352,449)</b>	<b>(3,077,393)</b>	<b>(634,321)</b>	<b>(12,064,163)</b>
<b>Difference in expected cash flows</b>	<b>10,353,439</b>	<b>2,502,185</b>	<b>7,864,328</b>	<b>20,719,952</b>
<i>December 31, 2019</i>	<b>&lt; 1 year</b>	<b>1-3 years</b>	<b>&gt; 3 years</b>	<b>Total</b>
<i>(in Aruba florins)</i>				
<i>Investments</i>				
Held-to-maturity	4,000,000	4,300,000	6,002,311	14,302,311
Fair value through profit or loss	-	-	4,422,148	4,422,148
	4,000,000	4,300,000	10,424,459	18,724,459
Receivables	5,912,151	-	-	5,912,151
Cash and cash equivalents	3,053,001	-	-	3,053,001
	8,965,152	-	-	8,965,152
<b>Total</b>	<b>12,965,152</b>	<b>4,300,000</b>	<b>10,424,459</b>	<b>27,689,611</b>
Gross insurance liabilities	(1,988,487)	(1,882,460)	(388,018)	(4,258,965)
Due to reinsurers	(3,618,447)	-	-	(3,618,447)
Accounts payable	(719,734)	-	-	(719,734)
<b>Total</b>	<b>(6,326,668)</b>	<b>(1,882,460)</b>	<b>(388,018)</b>	<b>(8,597,146)</b>
<b>Difference in expected cash flows</b>	<b>6,638,484</b>	<b>2,417,540</b>	<b>10,036,441</b>	<b>19,092,465</b>

## (24) Financial Risk Management (continued)

### Liquidity risk (continued)

	2020	2019
<i>(in Aruba florins)</i>		
<b>Financial assets</b>		
Long-term investments - held-to-maturity	12,498,648	10,302,311
Long-term investments - fair value through profit or loss	1,579,579	4,422,148
Short-term investments - held-to-maturity	7,818,050	4,000,000
Short-term investments - fair value through profit or loss	1,418,945	-
Due from reinsurers	3,605,457	2,145,537
Insurance receivables	2,001,817	3,221,211
Other current assets	453,486	545,403
Cash and cash equivalents	3,408,133	3,053,001
	<b>32,784,115</b>	<b>27,689,611</b>
<b>Financial liabilities</b>		
Outstanding claims provisions	5,288,438	2,484,165
Incurred but not reported claims	1,674,000	1,774,800
Due to reinsurers	3,941,108	3,618,447
Accounts payable	1,160,617	719,734
	<b>12,064,163</b>	<b>8,597,146</b>

The table below sets out the concentration of non-life insurance contract liabilities by type of contract:

	Gross Liabilities	Reinsurance of Liabilities	Net liabilities
<i>(in Aruba florins)</i>			
<b>As at December 31, 2020</b>			
Commercial and private property	6,694,164	(3,241,841)	3,452,323
Motor	8,895,095	(779,258)	8,115,837
Group medical and personal accident	301,117	-	301,117
Marine hull and cargo	96,986	(7,249)	89,737
Public liability	1,102,903	(229,399)	873,504
Other	72,063	-	72,063
	<b>17,162,328</b>	<b>(4,257,747)</b>	<b>12,904,581</b>

## (24) Financial Risk Management (continued)

### Liquidity risk (continued)

	Gross Liabilities	Reinsurance of Liabilities	Net liabilities
<i>(in Aruba florins)</i>			
<b>As at December 31, 2019</b>			
Commercial and private property	5,207,799	(590,546)	4,617,253
Motor	9,509,253	(1,558,126)	7,951,127
Group medical and personal accident	347,835	-	347,835
Marine hull and cargo	450,424	(124,873)	325,551
Public liability	1,543,677	(319,986)	1,223,691
Other	73,237	-	73,237
	<b>17,132,225</b>	<b>(2,593,531)</b>	<b>14,538,694</b>

The geographical concentration of the Company's non-life insurance contract liabilities is based on the countries where the business is written which in this case is St. Lucia only.

### Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate governance. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risks so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the periodic assessments of the operational risks faced, and the adequacy of controls and procedures to assess and manage the risks identified.
- Development of contingency plans.
- Training and professional development of staff.
- Ethical and business standards.

## (24) Financial Risk Management (continued)

### ***Insurance risk***

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty that the Company will have sufficient assets to satisfy the benefits payable under the contract. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated, and subsequent development of long-term claims. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

### ***Frequency***

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of awards for the damage suffered as a result of exposure to various causes of loss events. The Company's underwriting strategy is intended to ensure that risks underwritten are well diversified in terms of the type of risk and the level of insured benefits. The Company manages this risk through the review of its underwriting and reinsurance program on an annual basis in order to ensure that there is adequate mitigation against this risk.

### ***Loss reserves***

To ensure appropriate reserving, the Company has established and implemented a policy to ensure consistency in its reserve positioning year to year and thus preserve the integrity of its financial reporting. The Company's loss reserves shall not exceed the actuary's calculated centralized point nor shall it fall below 95% of that value.

### ***Reinsurance risk***

To mitigate the financial loss exposure, reinsurance is purchased by the Company. The Company selects reinsurers which have established capability to meet their contractual obligations whose A.M. Best credit ratings are A- or better. There is an ongoing due diligence review to ensure that all reinsurers meet the minimum financial strength criteria.

The Company utilises the Excess of Loss reinsurance and Quota Share reinsurance structure for the majority of its treaties. Operations are spread across territories which are exposed to catastrophe and as a consequence, catastrophe reinsurance is purchased to protect our policyholders against a one in one hundred year event.

The Board of Directors and Management prudently set and approve the Company's risk retention levels under its reinsurance treaties.

### ***Sources of uncertainty in the estimation of future claim payments***

Claims on casualty contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a larger element of the claims provision relates to IBNR. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employer's liability coverage) or members of the public (for public liability coverage). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident. The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries.

## (24) Financial Risk Management (continued)

### Insurance risk (continued)

#### Reinsurance risk (continued)

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprise a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at year-end. The amount of casualty claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Casualty contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at year-end.

#### Sensitivity analysis

The Company predominantly funds its net insurance liabilities through its cash generated in the normal course of its operations. In the event of a catastrophe, the net insurance liabilities may be required to be funded through the Company's portfolio of investments. Insurance liabilities are calculated using historical claims data to determine an estimate of the amount needed to provide for the ultimate expected cost of settling claims related to insured losses (both reported and unreported) that have occurred at the date of the statement of financial position. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims development on which the projections are based. As such, the sensitivity of the insurance liabilities is based on the financial impact of changes to the reported loss ratio. The provision for long tail claims is determined by using the incurred loss method and loss ratio method. The loss development factors used are based on the Company's experience. The sensitivity analysis below is based on a change in one assumption while holding all other assumptions constant. The analyses assume that there is no correlation

Sensitivity factor	Description of sensitivity factor applied			
Claims expense	The impact of a change in claims expense by 1%, 2%, 5% or 10%			
<b>Claims expense</b>	December 31, 2020		December 31, 2019	
<i>(in Aruba florins)</i>	<b>+1%</b>	<b>-1%</b>	<b>+1%</b>	<b>-1%</b>
Impact on net income before tax	(42,519)	42,519	(49,290)	49,290
	<b>+2%</b>	<b>-2%</b>	<b>+2%</b>	<b>-2%</b>
Impact on net income before tax	(85,038)	85,038	(98,581)	98,581
	<b>+5%</b>	<b>-5%</b>	<b>+5%</b>	<b>-5%</b>
Impact on net income before tax	(212,594)	212,594	(246,451)	246,451
	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
Impact on net income before tax	(425,188)	425,188	(492,903)	492,903

## (24) Financial Risk Management (continued)

### ***Insurance risk (continued)***

#### *Managing insurance risks*

Each contract is reviewed annually by the underwriting department under the supervision of the Underwriting Manager. The “four-eyes principle” is applied to ensure that the rate charged is appropriate for the risk.

Four (4) types of reinsurance that are used to mitigate insurance risk are:

- Risk Excess of Loss contracts provide an automatic binding authority up to the limit of the reinsurance treaty and protects against individual loss(es) which exceed(s) the Company deductible.
- Individual Facultative Reinsurance is used on an individual basis to buy reinsurance when the sum to be insured on a particular risk exceeds our automatic binding limit referred to the first type above. Individual Facultative Reinsurance is also used for risks that are excluded from the Company automatic binding treaty.
- Catastrophe Reinsurance protects against the total loss from a single event that affects several risks at the same time. For example, a hurricane or earthquake.
- Quota Share Treaty, a type of coverage is in effect for a specified period of time, rather than on a per risk, or contract basis. For the duration of the contract, the reinsurer agrees to cover a portion of the risks that may be incurred by the insurance company being covered.

## (25) Risk Management framework

The Company has established a risk management function with clear terms of reference from the Board of Directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Board of Directors to executive management committees and senior managers. Lastly, a Company policy framework which sets out the risk profiles for the Company, risk management, control and business conduct standards for the Company’s operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Company.

The Board of Directors approves the Company’s risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the Company’s identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements. For example, following the regulatory changes brought about by the various Financial Services Commissions (FSC) throughout the Caribbean Region, the Company has placed a greater emphasis on assessment and documentation of risks and controls.

### ***Capital management objectives, policies and approach***

The Board’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders’ return is also monitored through maintaining a balance between aiming for higher profits and having a sound capital position. The Company is under supervision from the Central Bank of Aruba (CBA).

#### *Solvency requirement margin for insurance company*

CBA requires an insurer engaged in the non-life insurance business to maintain a solvency margin equal to the highest outcome of any of the following calculations: 1) 15% of the gross premium of previous year, or; 2) 15% of the average gross claims incurred in the last three financial years, or; 3) a minimum solvency requirement of AWG 300,000. As of December 31, 2020, the Company is in compliance with the solvency margin requirement margin of CBA.



## (25) Risk Management framework (continued)

### *Capital management objectives, policies and approach (continued)*

The Company deploys its capital resources through its operating activities. The capital is deployed in such a manner as to ensure that the Company has adequate and sufficient capital resources to carry out their activities and to ensure compliance with regulatory requirements.

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- To maintain the required level of stability of the Company thereby providing a degree of security to
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholder;
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- To safeguard the Company's ability to continue as a going concern in order to provide the requisite returns for shareholders and benefits for other stakeholders;
- To align the profile of assets and liabilities taking account of risks inherent in the business;
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders;
- To provide an adequate return to shareholders by pricing insurance and investment contracts consumerately with the level of risk; and
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximize shareholder's value.

The operations of the Company are also subject to regulatory requirements within Aruba. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

In order to comply with these capital requirements by the regulators, management considers the quantitative threshold sufficient to maximize shareholder's returns and to support the capital required to write each of its business in countries where the company operates.

The Company has complied with the regulatory imposed capital requirements throughout the year. In reporting financial strength, capital and solvency are measured using the rules prescribed by the CBA and A.M. Best Rating Agency. These regulatory capital tests are based upon required levels of solvency, capital and a series of prudent assumptions in respect of the type of business written.

### Approach to capital management

The Company seeks to optimize the structure and sources of capital to ensure that it consistently maximizes returns to the shareholders and policyholders.

The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels (by each regulated entity) on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics. An important aspect of the Company's overall capital management process is the setting of target risk adjusted rates of return, which are aligned to performance objectives and ensure that the Company is focused on the creation of value for shareholders.

## (25) Risk Management framework (continued)

### ***Capital management objectives, policies and approach (continued)***

#### *Approach to capital management (continued)*

The primary source of capital used by the Company is shareholders' equity funds. The capital requirements are routinely forecast on a periodic basis and assessed against both the forecast available capital and the expected internal rate of return, including risk and sensitivity analysis. The process is ultimately subject to approval by the Board.

The Company has had no significant changes in its policies and processes to its capital structure during the past year from previous years.

#### ***Regulatory framework***

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

In reporting financial strength, capital and solvency are measured using the rules prescribed by the regulator. These regulatory capital tests are based upon required levels of solvency and capital in respect of the type of business written.

The Company's capital management policy for its insurance and non-insurance business is to hold sufficient capital to cover the statutory requirements based on the regulators directives, including any additional amounts required by the regulator.

The Company has met all of these requirements throughout the financial year.

#### ***Asset-liability management (ALM) framework***

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces, due to the nature of its investments and liabilities, is interest rate risk. The Company manages these positions within an ALM framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

#### The Company's ALM is:

- Integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities;
- An integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance and investment contracts.

## (26) Subsequent events

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. The COVID-19 outbreak in the Caribbean has resulted in reduced customer traffic as well as temporary office closures where government mandated. The extent of the impact on the financial position and performance of the Company depends on future developments, including but not limited to (i) the duration and spread of the outbreak, (ii) the restrictions and advisories, and (iii) the effects on the overall economy, all of which are highly uncertain and cannot be predicted. If these factors persist for an extended period, they may have a material adverse effect on the Company's future financial results.

## **(26) Subsequent events (continued)**

Management has evaluated the need for disclosures and adjustments resulting from subsequent events from January 1, 2021 to June 22, 2021 the date the financial statements were available to be issued. There were no subsequent events requiring disclosures and/or adjustments.