

**FORTEGRA EUROPE INSURANCE  
COMPANY LIMITED**

**Report  
and  
Financial Statements**

**31 December 2019**

**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the year ended 31 December 2019**

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**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the year ended 31 December 2019**

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**GENERAL INFORMATION**

**Registration**

Fortegra Europe Insurance Company Limited (the “Company”) is registered in Malta as a limited liability company under the Companies Act, Cap. 386 of the Laws of Malta. The Company’s registration number is C 84703. The Company is licensed by the Malta Financial Services Authority as an insurance company in terms of the Insurance Business Act, Cap. 403 of the Laws of Malta. The Company was incorporated on 1 February 2018.

**Directors**

Mr. Richard Kahlbaugh - Chairman  
Mr. Michael F. Grasher  
Mr. Michael Vrban  
Mr. Sanjay Vara  
Mr. James Portelli  
Mr. Kevin Vella  
Mr. Francis Colalucci

**Company Secretary**

Ganado Services Limited  
171, Old Bakery Street,  
Valletta, VLT 1455,  
Malta

**Registered Office**

The Reed Centre, Blue Harbour,  
Ta’ Xbiex Marina,  
Ta’ Xbiex, XBX 1027,  
Malta

**Insurance Manager**

USA Risk Group (Malta) Limited  
The Reed Centre, Blue Harbour,  
Ta’ Xbiex Marina,  
Ta’ Xbiex, XBX 1027,  
Malta

**Bankers**

Barclays PLC  
P.O. Box 9, Barclays House,  
Victoria Street,  
Douglas, Isle of Man,  
United Kingdom, IM99 1AJ

Fifth Third Bank,  
38, Fountain Square Plaza,  
Cincinnati, OH 45263  
United States

**Auditors**

Deloitte Audit Limited,  
Deloitte Place,  
Triq l -Intornjatur,  
Central Business District  
CBD 3050  
Malta

# **FORTEGRA EUROPE INSURANCE COMPANY LIMITED**

## **Financial Statements for the year ended 31 December 2019**

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### **DIRECTORS' REPORT**

The Directors present their report and the financial statements of the Company for the year ended 31 December 2019. Comparative figures cover the period from incorporation on 1 February 2018 to 31 December 2018

#### **Principal activity**

The principal activity of the Company is the transaction of general insurance business of insurance in terms of the Insurance Business Act, 1998 (Chapter 403, Laws of Malta). The Company is licensed to transact general business falling within Class 3 - Land vehicles, Class 8 - Fire and natural forces, Class 9 - Other damage to property and Class 16 - Miscellaneous financial loss.

#### **Results for the period**

The statement of comprehensive income (technical account) is shown on page 5 and the statement of comprehensive income (non-technical account) is shown on page 6.

During the financial year under review, the Company registered a profit before tax of USD337,195 (2018: loss before tax for the period of USD438,911). Premiums written by the Company amounted to USD34.3 million (2018: USD1.6 million) and Claims incurred totalled USD2.4 million (2018: Nil).

#### **Dividends**

No dividends will be distributed for the year ended 31 December 2019

#### **Risk management**

The principle risks facing the Company and its policies for managing those risks are set out in Note 16 of the notes to these financial statements.

#### **Events after the reporting date**

During and subsequent to the first quarter ended March 31, 2020, the world has been impacted by the spread of the novel coronavirus (COVID-19). In March 2020, the World Health Organization deemed the outbreak of COVID-19 to be a pandemic, creating significant volatility, unpredictability and economic disruption.

The markets the Company serves in the United Kingdom and Europe have been impacted by weakened economic conditions, temporary business closures, reduced consumer spending and job losses to name a few. In response, the Company has taken various measures to ensure the availability of our products and services to our customers, the functioning of our critical support systems and steps to ensure the safety and security of our employees.

The effects of the COVID-19 are not believed to be significant to the Company's operating results for three months ended March 31, 2020. Due to the variability at which the COVID-19 situation is developing on a daily basis, estimating future period results with precision remains extremely difficult and cannot currently be quantified by the Company given the unknowns at this time and beyond.

#### **Directors**

The Directors who held office during the year ended 31 December 2019 and to the date of this report are listed on page 2.

In accordance with the Company's memorandum and articles of association, all the Directors are to remain in office.

**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the year ended 31 December 2019**

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**DIRECTORS' REPORT - continued**

**Statement of Directors' responsibilities**

The Maltese Companies Act, 1995 (Chapter 386, Laws of Malta) and the Insurance Business Act, 1998 (Chapter 403, Laws of Malta) requires the Directors of the Company to prepare financial statements for each financial period which give a true and fair view of the financial position of the Company as at the end of the financial period and of the profit or loss of the Company for that period in accordance with the requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

In preparing financial statements, the Directors are responsible for:

- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances; and
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business as a going concern.

**Statement of Directors' responsibilities - continued**

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Maltese Companies Act, 1995 and the Insurance Business Act, 1998.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors, through oversight of management, are responsible to ensure that the Company establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the Directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Company's business. This responsibility includes establishing and maintaining controls pertaining to the Company's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, the management considers the risks that the financial statements may be materially misstated as a result of fraud.

**Auditors**

Deloitte Audit Limited have indicated their willingness to continue in office and their re-appointment will be discussed at the Annual General Meeting.

Approved by the Board of Directors on 21 April 2020 and signed on its behalf by:



**RICHARD KAHLBAUGH**  
Chairman



**MICHAEL F. GRASHER**  
Director

**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the period ended 31 December 2019**

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**STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2019**

**Technical account**

	<b>Notes</b>	<b>1 January to 31 December 2019 USD</b>	<b>1 February to 31 December 2018 USD</b>
Gross premiums written	3	<b>34,319,456</b>	1,593,169
<b>Net premiums written</b>		<b>34,319,456</b>	1,593,169
Change in the gross provision for unearned premiums		<b>(27,780,047)</b>	(1,548,139)
<b>Earned premiums</b>	3	<b>6,539,409</b>	45,030
Claims paid		<b>(2,399,516)</b>	-
Change in gross outstanding claims provision		<b>38,856</b>	(6,853)
<b>Claims incurred</b>	3	<b>(2,360,660)</b>	(6,853)
Gross operating expenses	4	<b>(2,459,408)</b>	(32,596)
<b>Total technical charges</b>		<b>(4,820,068)</b>	(39,449)
<b>Balance on the technical account for general business (page 6)</b>		<b>1,719,341</b>	5,581

*The accounting policies and explanatory notes on pages 10 to 30 form an integral part of the financial statements.*

**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the period ended 31 December 2019**

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**STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2019**

**Non-technical account**

	Notes	1 January to 31 December 2019 USD	1 February to 31 December 2018 USD
<b>Balance on the technical account for general business (page 5)</b>		<b>1,719,341</b>	5,581
Administration expenses	4	<b>(891,173)</b>	(539,629)
<b>Operating profit / (loss)</b>		<b>828,168</b>	(534,048)
Investment income	5	<b>540,951</b>	96,885
Realised gain on investments		<b>4,418</b>	-
Unrealised loss on investments		<b>(149,760)</b>	-
Unrealised foreign exchange gains and losses	4	<b>(903,846)</b>	(1,748)
Other income		<b>17,264</b>	-
<b>Profit / (loss) before tax</b>		<b>337,195</b>	(438,911)
Income tax (charge) / credit	6	<b>(121,549)</b>	154,065
<b>Profit / (loss) for the year / period</b>		<b>215,646</b>	(284,846)
<b>Total comprehensive profit / (loss) for the year / period net of tax</b>		<b>215,646</b>	(284,846)

*The accounting policies and explanatory notes on pages 10 to 30 form an integral part of the financial statements.*

**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the period ended 31 December 2019**

**STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2019**

	Notes	2019 USD	2018 USD
<b>Assets</b>			
Deferred tax asset	12	373,141	154,065
Deferred commissions		1,623,124	902,005
Deferred administration fees		5,233,143	292,362
Insurance receivables	7	6,416,908	333,572
Other receivables	10	31,024	5,691
Financial assets at fair value through profit or loss (FVTPL)	8	25,011,246	-
Cash and cash equivalents	9	34,245,855	7,935,407
<b>Total assets</b>		<b>72,934,441</b>	<b>9,623,102</b>
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Issued share capital	15	7,490,000	7,490,000
Capital contribution	15	25,499,975	-
Accumulated losses		(69,200)	(284,846)
Translation reserve		888,502	-
<b>Total equity</b>		<b>33,809,277</b>	<b>7,205,154</b>
<b>Liabilities</b>			
Technical provisions	11	30,179,012	1,554,992
Insurance payables	13	8,241,280	314,614
Other payables	14	704,872	548,342
		<b>39,125,164</b>	<b>2,417,948</b>
		<b>72,934,441</b>	<b>9,623,102</b>

*The official rate of exchange between the United States Dollar and the Euro issued by the European Central Bank as at 31 December 2019 was 1.1234 (31 December 2018: 1.1450)*

*The accounting policies and explanatory notes on pages 10 to 30 form an integral part of the financial statements.*

*The financial statements on pages 5 to 30 have been authorised for issue by the Board of Directors on 21 April 2020 and signed on its behalf by:*



**RICHARD KAHLBAUGH**  
Chairman



**MICHAEL F. GRASHER**  
Director



**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the period ended 31 December 2019**

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**STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2019**

	Share capital USD	Capital contribution USD	Profit and loss account USD	Translation reserve USD	Total USD
Balance at 1 February 2018	-	-	-	-	-
Increase in share capital	7,490,000	-	-	-	7,490,000
Loss and total comprehensive income for the period, net of tax	-	-	(284,846)	-	(284,846)
<b>Balance at 31 December 2018</b>	<b>7,490,000</b>	<b>-</b>	<b>(284,846)</b>	<b>-</b>	<b>7,205,154</b>
Balance at 1 January 2019	7,490,000	-	(284,846)	-	7,205,154
Capital contribution	-	25,499,975	-	-	25,499,975
Translation of foreign currency net assets	-	-	-	888,502	888,502
Profit and total comprehensive loss for the year net of tax	-	-	215,646	-	215,646
<b>Balance at 31 December 2019</b>	<b>7,490,000</b>	<b>25,499,975</b>	<b>(69,200)</b>	<b>888,502</b>	<b>33,809,277</b>

*The accounting policies and explanatory notes on pages 10 to 30 form an integral part of the financial statements.*

**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the period ended 31 December 2019**

**STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2019**

	Note	1 January to 31 December 2019 USD	1 February to 31 December 2018 USD
<b>Operating activities</b>			
Profit / (loss) before tax		337,195	(438,911)
Adjustments for:			
Interest and investment income		(540,951)	(96,885)
Unrealised loss on investments		149,760	-
		<hr/>	<hr/>
<b>Operating profit / (loss) before working capital changes</b>		<b>(53,996)</b>	<b>(535,796)</b>
Movement in net technical provisions		28,624,020	1,554,992
Movement in insurance and other receivables		(5,954,604)	(339,263)
Movement in deferred acquisition costs		(5,661,900)	(1,194,367)
Movement in insurance and other payables		7,591,046	862,956
		<hr/>	<hr/>
		24,544,566	348,522
Cash generated from operations:			
Interest and investment income received		540,951	96,885
		<hr/>	<hr/>
<b>Net cash flows used in operating activities</b>		<b>25,085,517</b>	<b>445,407</b>
<b>Investing activities</b>			
Payments for financial assets at FVTPL		(34,561,362)	-
Proceeds from sale of financial assets at FVTPL		9,400,356	-
		<hr/>	<hr/>
<b>Net cash flows from investing activities</b>		<b>(25,161,006)</b>	<b>-</b>
<b>Financing activities</b>			
Issued share capital		-	7,490,000
Proceeds from capital contribution	15	25,499,975	-
		<hr/>	<hr/>
<b>Net cash flows from financing activities</b>		<b>25,499,975</b>	<b>7,490,000</b>
Effect of exchange rates on cash and cash equivalents		885,962	-
<b>Net increase in cash and cash equivalents</b>		<b>26,310,448</b>	<b>7,935,407</b>
Cash and cash equivalents at the beginning of the year/period		7,935,407	-
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year/period</b>	9	<b>34,245,855</b>	<b>7,935,407</b>
		<hr/> <hr/>	<hr/> <hr/>

*The accounting policies and explanatory notes on pages 10 to 30 form an integral part of the financial statements.*

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These accounting policies have been applied consistently to all periods presented in these financial statements.

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

These financial statements are prepared and presented in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU). They have also been drawn up in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) and the Insurance Business Act, 1998 (Chapter 403, Laws of Malta). The financial statements are prepared on a going concern basis, under the historical cost conversion as modified by the fair valuation of financial assets at fair value through profit or loss.

The statement of financial position is organised in order of liquidity, with additional disclosures on the current and non-current nature of the Company's assets and liabilities provided within the notes to the financial statements.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires Directors to exercise their judgement in the process of applying the Company's accounting policies (see Note 2 - Critical accounting estimates and judgements in applying accounting policies).

The accounting years covered by these financial statements consists of 12 months, from 1 January 2019 to 31 December 2019 (2018: 11 month period from 1 February 2018 (date of incorporation) to 31 December 2018).

#### *Standards, interpretations and amendments to published standards that are not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are not yet effective for financial period ended 31 December 2019. These have not been early adopted by the Company.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. The standard is effective for accounting periods beginning on or after 1 January 2018. The Company has applied the temporary exemption as allowed under the amendment to IFRS 4 entitled 'Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'' and has therefore deferred the application of IFRS 9 to be concurrent with the effective date of IFRS 17.

IFRS 17, 'Insurance Contracts' is effective for annual reporting periods beginning on or after 1 January 2023 but is not yet endorsed by the EU, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Once effective, IFRS 17 will replace IFRS 4, 'Insurance Contracts'. The Standard measures insurance contracts either under the general model or a simplified version of this called the Premium Allocation Approach. Management is considering the implications of this standard as well as IFRS 9 and their impact on the Company's financial results and position.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**1.2 Foreign currency translation**

*a) Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"), being the Pound Sterling ("GBP"). The financial statements are presented in United States Dollar ("USD"), which is the Company's presentation currency.

*b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the rates of exchange ruling on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the other comprehensive income.

For the purpose of presenting these financial statements, income and expenses are translated from the functional currency to USD at the average exchange rate for the period. Assets and liabilities are translated from the functional currency to USD at the exchange rate ruling at the date of the statement of financial position. Exchange differences are recognised in other comprehensive income.

**1.3 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

*a) Financial assets*

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss (FVPL), loans and receivables, held to maturity (HTM) investments, available-for-sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial assets are recognised initially at fair value plus, in the case of investments not at FVPL, directly attributable transaction costs that are attributable to the acquisition of the financial asset.

The classification depends on the purpose for which the investments were acquired or originated. Financial assets are classified as at FVPL 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 AFS and HTM categories are used when the relevant liability (including shareholders' funds) is passively managed and/ or carried at amortised cost.

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 recognised 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 and trade and other receivables.

*Subsequent measurement*

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

- Financial assets at FVPL
- AFS financial assets
- Loans and receivables
- HTM investments

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**1.3 Financial instruments - continued**

*a) Financial assets - continued*

*Subsequent measurement - continued*

*i) Financial assets at FVPL*

Financial assets at FVPL include financial assets held for trading and those designated upon initial recognition as at FVPL. For investments to be designated as at FVPL, 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 is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Subsequent to initial recognition, they are remeasured at fair value. Changes in fair value are recorded in 'Fair value gains and losses'. Interest is accrued and presented in 'Investment income', using the effective interest rate (EIR). Dividend income is recorded in 'Investment income' when the right to the payment has been established.

*ii) Available-for-sale financial assets*

AFS financial assets include equity and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value, with unrealised gains or losses recognised in OCI in the AFS reserve (equity). Where the insurer holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding AFS investments is reported as interest income using the EIR. Dividends earned whilst holding AFS investments are recognised in the statement of profit or loss as 'Investment income' when the right of the payment has been established. When the asset is derecognised or determined to be impaired, the cumulative gain or loss is reclassified from AFS reserve to the statement of profit or loss.

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to HTM is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

For a financial asset reclassified out of the available-for-sale category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**1.3 Financial instruments - continued**

*a) Financial assets - continued*

*Subsequent measurement - continued*

*iii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are measured at amortised cost, using the EIR method, less allowance for impairment. Amortised 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 recognised in the statement of profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

*iv) Held to maturity financial assets*

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. After initial measurement, held to maturity financial assets are measured at amortised cost, using the EIR, less impairment. The EIR amortisation is included in 'Investment income' in the statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

*Derecognition of financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised 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 rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. 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.

*b) Financial liabilities*

*Initial recognition and measurement*

Financial liabilities are classified at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**1.3 Financial instruments - continued**

*Subsequent measurement*

Subsequent measurement of financial liabilities depends on their classification, as follows:

*i) Financial liabilities at FVPL*

Financial liabilities at FVPL includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities are designated as at FVPL at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. Gains or losses on designated or held for trading liabilities are recognised in fair value gains and losses in the statement of profit or loss.

*ii) Interest bearing loans and borrowings, and issued notes*

After initial recognition, interest bearing loans and borrowings, and issued notes are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

*Derecognition*

A financial liability is derecognised 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, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**1.4 Impairment of assets**

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset ("a loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- (i) significant financial difficulty of the issuer or debtors;
- (ii) a breach of contract, such as a default or delinquency in payments;
- (iii) the probability that the issuer or debtor will enter bankruptcy or other financial reorganisation; and
- (iv) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are 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 recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised in the statement of comprehensive income if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, if no impairment loss had been recognised.

**1.5 Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.



## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

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

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks. Cash and cash equivalents also include short-term highly liquid investments with original maturities of three months or less, which are stated at their fair values.

#### **1.7 Trade and other receivables**

Trade receivables comprise amounts due from third party administrators performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in the income statement.

#### **1.8 Share capital**

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets.

#### **1.9 Insurance and other payables**

Payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### **1.10 Insurance contracts**

##### *Classification*

The Company issues contracts that transfer insurance risk and that are classified as insurance contracts. As a general guideline, the Company defines significant insurance risk as the possibility of having to compensate the policyholder if a specified uncertain event (the insured event) adversely affects the policyholder.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**1.11 Insurance contracts**

*Recognition and measurement*

*(a) Premiums*

Premiums written comprise all amounts due during the financial period in respect of contracts of insurance entered into regardless of the fact that such amounts may relate in whole or in part to a later financial period and includes any differences between the booked premiums for prior years and those previously accrued, less cancellations.

Unearned premiums represent the proportion of premiums written in the period that relate to unexpired terms of policies in force at the statements of financial position date, calculated on a time apportionment basis.

Commissions and other acquisition costs that vary with, and are related to, securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned. These are capitalised and shown as deferred acquisition costs ("DAC") in the statements of financial position. DAC is amortised over the term of the policies as the premium is earned. All other costs are recognised as expenses when incurred.

*(b) Claims*

Claims and loss adjustment expenses are charged to the statement of comprehensive income as incurred based on the estimated liability for compensation owed to policyholders or third parties damaged by policyholders. Claims incurred comprise claims and related expenses paid in the period and changes in the provisions for outstanding claims, and related expenses. The Company does not discount its liabilities for unpaid claims. Provision is made for all claims notified by the insured (claims outstanding). Claims reserves comprise provisions for the estimated costs of settling all claims incurred at the reporting date.

The level of the provisioning is based on the information which is currently available, including potential loss claims which have been intimated to the Company, experience of the development of similar claims, and case law. Whilst the Directors consider that the provision for these claims is fairly stated on the basis of the information currently available to them, the ultimate liability may vary as a result of subsequent information and events, and may result in significant adjustments to the amount provided. Adjustments to the amount provided are reflected in the financial statements in the accounting period in which the adjustments arise.

*(c) Liability adequacy tests*

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the statement of comprehensive income.

*(d) Receivables and payables related to insurance contracts*

Receivables and payables are recognised upon issuance of invoice or invoice presentation. These include amounts due to and from insurance policyholders. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**1.11 Insurance contracts - continued**

*Recognition and measurement - continued*

The Company gathers objective evidence that an insurance receivable is impaired using the same process for financial assets (see Note 1.4).

**1.12 Income tax**

Tax expense comprises current and deferred tax and is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity or in other comprehensive income. The current tax expense for the period also includes any adjustment to tax charge in relation to prior financial periods.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provision where appropriate.

**1.13 Deferred taxation**

Deferred tax is provided using the liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**1.13 Deferred taxation**

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

**1.14 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Company's activities. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met as described below:

*(a) Gross premiums written*

Premiums written are accounted for in the period in which risks are assumed, net of premium taxes. Premium recognition is described in Note 1.11 dealing with insurance contracts.

*(b) Interest income*

Interest income is recognised as it accrues in the statement of comprehensive income, using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income.

**1.15 Related party transactions**

In the normal course of the business, the Company enters into various transactions with related parties. Related parties are defined as those that have an ability to control or exercise significant influence over the other party in making financial and operational decisions.

**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the period ended 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In the opinion of the Directors, the accounting estimates and judgements made in the course of preparing these financial statements which are difficult to reach, subjective or complex to a degree that would warrant their description as critical in terms of IAS 1: Presentation of Financial Statements are the estimates of the ultimate liability arising from claims made under insurance contracts. Details of key assumptions and sensitivity for these estimates are provided in Note 16 to these financial statements.

**3. PARTICULARS OF BUSINESS**

Gross premiums written emanate from contracts which risk is situated outside Malta but within Europe. The Company transacted the first insurance business in November 2018 and the business written to date is predominantly in the United Kingdom (UK).

**General business**

*A breakdown of the technical account is as follows:*

	<b>Guaranteed Asset Protection</b>	<b>Other Motor</b>	<b>Other Property Damage</b>	<b>Total</b>
<b>Class</b>	<b>16</b>	<b>9</b>	<b>9</b>	
<b>2019</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
Gross premiums written	8,527,961	21,415,753	4,375,742	<b>34,319,456</b>
Gross premiums earned	2,627,289	3,745,315	166,805	<b>6,539,409</b>
Gross claims incurred	(258,536)	(2,048,972)	(53,152)	<b>(2,360,660)</b>
Gross operating expenses	(1,126,666)	(1,276,686)	(56,056)	<b>(2,459,408)</b>
Balance on technical account	<b>1,242,087</b>	<b>419,657</b>	<b>57,597</b>	<b>1,719,341</b>
<b>Net technical provisions</b>	<b>9,156,604</b>	<b>19,140,029</b>	<b>1,882,379</b>	<b>30,179,012</b>
<b>2018</b>				
Gross premiums written	1,593,169	-	-	<b>1,593,169</b>
Gross premiums earned	45,030	-	-	<b>45,030</b>
Gross claims incurred	(6,853)	-	-	<b>(6,853)</b>
Gross operating expenses	(32,596)	-	-	<b>(32,596)</b>
Balance on technical account	<b>5,581</b>	-	-	<b>5,581</b>
<b>Net technical provisions</b>	<b>1,554,992</b>	-	-	<b>1,554,992</b>

**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the period ended 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**4. GROSS OPERATING EXPENSES**

	<b>1 January to 31 December 2019 USD</b>	1 February to 31 December 2018 USD
Professional fees	272,642	186,859
Actuary's fees	273,997	115,120
Management fees	73,864	59,487
Travel expenses	2,079	56,146
Auditor's remuneration (i)	52,603	42,516
Legal fees	123,885	34,245
Commission fees	755,590	26,218
Directors' fees	23,243	21,694
Administration Fees	1,703,818	6,378
Bank charges	7,919	6,242
Tax fees	5,434	5,503
Licenses fees	40,866	3,086
Other expenses	14,641	8,731
Unrealised foreign exchange gains and losses	903,846	1,748
	<u>4,254,427</u>	<u>573,973</u>
	<b>1 January to 31 December 2019 USD</b>	1 February to 31 December 2018 USD
Allocated as follows:		
Technical account	2,459,408	32,596
Non-technical account	1,795,019	541,377
	<u>4,254,427</u>	<u>573,973</u>

Expenses which are directly related to the acquisition and servicing of insurance contracts are included in the technical account. Administrative expenses which are not directly related to the acquisition and servicing of insurance contracts are included in the non-technical account.

(i) Auditor's remuneration

Fees charged by the auditor for services rendered during the financial period ended 31 December 2019 relate to the following:

	<b>1 January to 31 December 2019 USD</b>	1 February to 31 December 2018 USD
Annual statutory audits	33,965	23,316
Other assurance services	18,638	19,200
	<u>52,603</u>	<u>42,516</u>

**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the period ended 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**5. INVESTMENT INCOME**

	<b>1 January to 31 December 2019 USD</b>	1 February to 31 December 2018 USD
Interest and investment income	<b>540,951</b>	96,885

**6. INCOME TAX EXPENSE**

	<b>1 January to 31 December 2019 USD</b>	1 February to 31 December 2018 USD
<b>Current tax</b>		
Current income tax expense	<b>336,569</b>	-
	<b>336,569</b>	-
<b>Deferred tax</b>		
Origination and reversal of timing differences	<b>(214,212)</b>	(154,065)
Foreign exchange movement	<b>(808)</b>	-
	<b>(215,020)</b>	(154,065)
Total tax charge / (credit)	<b>121,549</b>	(154,065)
	<b>121,549</b>	(154,065)

The income tax on the Company's profit before tax differs from the theoretical income tax expense that would arise using the applicable income tax rate in Malta of 35% as follows:

	<b>1 January to 31 December 2019 USD</b>	1 February to 31 December 2018 USD
Profit / (Loss) before tax	<b>337,195</b>	(438,911)
Theoretical tax (charge) / credit at 35%	<b>(118,018)</b>	153,619
<i>Tax effect of:</i>		
Unrealised (loss) / gain on exchange	<b>(3,531)</b>	446
<b>Income tax (charge) / credit</b>	<b>(121,549)</b>	154,065

**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the period ended 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**7. INSURANCE RECEIVABLES**

	<b>2019</b>	2018
	<b>USD</b>	USD
<i>Receivables arising from insurance operations:</i>		
Due from third party administrators	<b>6,416,908</b>	333,572
	<u>                    </u>	<u>                    </u>

At 31 December, the ageing analysis of insurance receivables is as follows:

	<b>2019</b>	2018
	<b>USD</b>	USD
Neither past due nor impaired	<b>6,416,908</b>	333,572
Total past-due but not impaired > 150 days	-	-
	<u>                    </u>	<u>                    </u>

**8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>2019</b>	2018
	<b>USD</b>	USD
<b>Fair Value</b>		
Financial assets classified as at fair value through profit or loss upon initial recognition		
- collective investment schemes	<b>25,011,246</b>	-
	<u>                    </u>	<u>                    </u>
	<b>25,011,246</b>	-
	<u>                    </u>	<u>                    </u>
<b>Collective investment schemes</b>		
Opening net carrying amount	-	-
Purchases	<b>34,255,924</b>	-
Disposals	<b>(9,244,678)</b>	-
	<u>                    </u>	<u>                    </u>
	<b>25,011,246</b>	-
	<u>                    </u>	<u>                    </u>

**9. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of balances with banks and also include short-term highly liquid investments with original maturities of three months or less, which are stated at their fair values. Cash and cash equivalents included in the cash flow statement reconcile to the statement of financial position amounts as follows:

	<b>2019</b>	2018
	<b>USD</b>	USD
Investments in money market fund	<b>13,626</b>	7,586,885
Cash at bank	<b>34,232,229</b>	348,522
	<u>                    </u>	<u>                    </u>
	<b>34,245,855</b>	7,935,407
	<u>                    </u>	<u>                    </u>



**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the period ended 31 December 2019**

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**NOTES TO THE FINANCIAL STATEMENTS - continued**

**10. OTHER RECEIVABLES**

	<b>2019</b>	2018
	<b>USD</b>	USD
Prepayments	<b>17,935</b>	5,691
Due from affiliates (i)	<b>13,089</b>	-
	<u><b>31,024</b></u>	<u>5,691</u>

(i) The amounts owed by group undertakings are unsecured, interest free and repayable on demand.

**11. TECHNICAL PROVISIONS**

	<b>2019</b>	2018
	<b>USD</b>	USD
<b>Net</b>		
Provision for claims incurred but not reported	-	6,853
Provision for unearned premiums (i)	<b>30,179,012</b>	1,548,139
<b>Total technical provisions gross</b>	<u><b>30,179,012</b></u>	<u>1,554,992</u>

(i) *Provision for unearned premiums*

	<b>2019</b>	2018
	<b>USD</b>	USD
<b>Net</b>		
At 1 January	<b>1,548,139</b>	-
Premiums written in the period	<b>34,319,456</b>	1,593,169
Premiums earned during the period	<b>(6,539,409)</b>	(45,030)
Foreign exchange movement	<b>850,826</b>	-
<b>At 31 December</b>	<u><b>30,179,012</b></u>	<u>1,548,139</u>

**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the period ended 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**12. DEFERRED INCOME TAX**

Deferred income taxes are calculated on all temporary differences under the statement of financial position liability method using a principal tax rate of 35%:

Deferred income taxes at 31 December related to the following:

	<b>2019</b>	2018
	<b>USD</b>	USD
<b>Deferred tax asset</b>		
Arising on unused tax losses	-	154,065
Arising from unrealised foreign exchange losses	<b>373,141</b>	-
	<u><u>373,141</u></u>	<u><u>-</u></u>

The movement in the deferred income tax account for the period has been reported as follows:

	<b>2019</b>
	<b>USD</b>
At 1 January	<b>154,065</b>
Credited to profit or loss (Note 6)	<b>214,212</b>
Unrealised (loss) / gain on exchange	<b>4,864</b>
Net deferred income tax asset	<u><u>373,141</u></u>

**13. INSURANCE PAYABLES**

	<b>2019</b>	2018
	<b>USD</b>	USD
<i>Payables arising out of direct insurance operations:</i>		
Insurance taxes	<b>8,241,280</b>	314,614
	<u><u>8,241,280</u></u>	<u><u>314,614</u></u>

**14. OTHER PAYABLES**

	<b>2019</b>	2018
	<b>USD</b>	USD
Due to affiliates (ii)	<b>377,435</b>	443,578
Other payables	<b>251,689</b>	22,717
Accruals	<b>75,748</b>	82,047
	<u><u>704,872</u></u>	<u><u>548,342</u></u>

(ii) The amounts owed to group undertakings are unsecured, interest free and repayable on demand.

**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the period ended 31 December 2019**

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**NOTES TO THE FINANCIAL STATEMENTS - continued**

**15. ISSUED SHARE CAPITAL**

	2019	2018
	USD	USD
<b>Authorised</b>		
10,000,000 Ordinary shares of USD1 each	<u>10,000,000</u>	<u>10,000,000</u>
	2019	2018
	USD	USD
<b>Issued and fully paid up share capital</b>		
7,490,000 Ordinary shares of USD1 each	<u>7,490,000</u>	<u>7,490,000</u>

All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of the Company.

During the year the company received additional capital contributions totalling USD25.5m from a group company of Fortegra Financial Corporation. The capital contribution is an unconditional transfer of funds with no obligation of repayment and is free from encumbrances, servicing costs or charges.

**16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company is a party to contracts that transfer insurance risk and/ or financial risk. This section summarises these risks and the way the Company manages them.

**Insurance risk**

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is fortuitous. The principal risk the Company faces from entering into insurance contracts is that the actual claims and benefit payments, or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a number of geographical areas; so far it is predominantly in the UK, but will be diversified going forward. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. The company has a standing 30% Quota Share Reinsurance Treaty with Lyndon Southern Insurance Company on its GAP business, currently not activated. Lyndon Southern Insurance Company is a member of Fortegra Financial Corporation based in Delaware, United States.

Furthermore, the Company's business is focused on insurance business with low value claims, which reduces the insurance risk.

*Insurance contracts*

The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification of products in Automotive (Guaranteed Asset Protection, Tyre and Wheel insurance, SMART insurance (dents and scratches) and Extended Warranty) and Furniture lines. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a Policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued**

*Claims reserving policies*

A robust system of claims reporting is in place for the current class of business to ensure that all known claims are properly recorded and reported to the Company in a timely manner. The company does not reserve for claims not reported as all losses are priced into premium rates and future losses are materially contained within unearned premiums – any outstanding losses at the reporting date are not material. Professional claims handlers are appointed where appropriate to manage and settle claims in accordance with the contract terms.

The claims reserving methodology mitigates the risk of under-reserving for claims by taking into account all factors that may have a bearing on future claims development.

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 possible that the final outcome may prove to be different from the original liability established.

**Financial risk**

The Company's principal financial liabilities comprise insurance contract liabilities and other payables. The Company has insurance and other receivables, investments and cash and cash equivalents. The Company does not enter into derivative transactions.

The Company is exposed to market risk (including interest rate risk and currency risk), credit risk and liquidity risk. The Company's Directors oversee the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

**Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations leading to a financial loss. The Company is exposed to credit risk from its operating activities, primarily for receivables arising out of direct insurance operations, and from its financing activities, including deposits with banks and financial institutions.

*Credit risks related to receivables*

Third Party Administrator (TPA) credit risk is subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all partners based on internal rating criteria. Outstanding receivables are regularly monitored. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in Note 7. The Company does not hold collateral as security.

*Credit risk related to financial instruments and cash deposits*

Credit risk from balances with banks and financial institutions is managed in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties. The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2019 is the carrying amount as illustrated in Note 9.

*Ageing analysis and impairment*

Ageing analysis of receivables arising out of direct insurance operations is illustrated in Note 7. At period end there are no impaired receivables and an impairment allowance was not required.

**FORTEGRA EUROPE INSURANCE COMPANY LIMITED**  
**Financial Statements for the period ended 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued**

The table below summarises the expected recovery or settlement of assets:

	Up to 1 year* USD	1-3 years USD	4-5 years USD	2019 Total USD
Deferred income tax	373,141	-	-	373,141
Deferred commissions	804,618	818,506	-	1,623,124
Deferred administration fees	2,107,826	2,873,685	251,632	5,233,143
Insurance receivables	6,416,908	-	-	6,416,908
Other receivables	31,024	-	-	31,024
Investments	25,011,246	-	-	25,011,246
Cash and cash equivalents	34,245,855	-	-	34,245,855
<b>Total</b>	<b>68,990,618</b>	<b>3,692,191</b>	<b>251,632</b>	<b>72,934,441</b>

\* Expected recovery or settlement within 12 months from the reporting date.

**Liquidity risk**

The Company is exposed to regular calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company manages its funds in such a manner as to ensure adequate funds are available to meet such calls. The Company's assets principally consist of cash equivalents that can be readily utilised.

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations.

	Up to 1 year* USD	1-3 years USD	4-5 years USD	2019 Total USD
Technical provisions	12,194,984	17,255,138	728,890	30,179,012
Insurance payables	8,241,280	-	-	8,241,280
Other payables	704,872	-	-	704,872
<b>Total</b>	<b>21,141,136</b>	<b>17,255,138</b>	<b>728,890</b>	<b>39,125,164</b>

The Company has no significant concentration of liquidity risk.

\* Expected recovery or settlement within 12 months from the reporting date

**Foreign currency risk**

The Company is exposed to foreign currency risk as the Company's insurance transactions and liabilities are largely denominated in GBP whilst over 46% of the Company's assets are in USD. This risk is mitigated by the Company holding sufficient assets in the relevant currency to match its liabilities in the same currency as they fall due. Furthermore, the risk arising from foreign currency transactions is managed by regular monitoring of the relevant exchange rates and management's reaction to material movements thereto.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued**

**Interest rate risk**

In general, the Company is exposed to risk associated with the effects of fluctuations in the prevailing level of market interest rates. Assets issued at variable rates expose the Company to cash flow interest risk. Assets issued at fixed rates expose the Company to fair value interest rate risk.

A change of 50 basis points in interest rates at the reporting date would have increased/ (decreased) equity and profit or loss by USD171,159. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

**Price risk**

At 31 December 2019, the company's exposure to price risk arises from investments held and classified in the balance sheet as at fair value through profit or loss (FVPL) (note 8).

To manage its price risk arising from investments, the company ensures there is appropriate diversification with its portfolio. If the fair value of the investments increased / (decreased) by 5%, the profit would increase/decrease by USD 1,250,562.

**Fair values**

The fair value of FVTPL investments is based on quoted market prices at the measurement date. The company's FVTPL investments are classified as Level 1 in the fair value hierarchy.

**Capital management**

The Company's objectives when managing capital are:

- To comply with the insurance capital requirements required by the Malta Financial Services Authority (MFSA) and as required per Solvency II;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

In order to maintain or adjust the capital structure, the Company may issue new shares or capitalise contributions received from its shareholders. No changes were made in the objectives, policies or processes during the period ended 31 December 2019.

The Company is required to hold regulatory capital for its general insurance business which means the excess of the value of assets over the amount of liabilities as determined in accordance with the Insurance Business (Assets and Liabilities) Regulations.

These Regulations also set out the required minimum margin. The required minimum margin must be maintained at all times during the period. The Company monitors its capital level on a regular basis. Any transactions that may potentially affect the Company's solvency position will immediately be reported to the Directors and shareholders for resolution, prior to notifying the MFSA. The Company has maintained the required capital levels throughout the financial period ending 31 December 2019.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**17. RELATED PARTY DISCLOSURES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Directors' fees during the period are disclosed in Note 4.

Outstanding balances with related parties at the reporting date are disclosed in Note 14.

**18. IMMEDIATE PARENT AND ULTIMATE PARENT**

The immediate parent of the Company is Fortegra Europe Holdings Limited, a company with its registered address at The Reed Centre, Blue Harbour, Ta' Xbiex Marina, Ta' Xbiex, XBX 1027, Malta.

The ultimate parent of the Company is Tiptree Inc., a company with its registered address at 780, Third Avenue, 21<sup>st</sup> Floor, New York, NY 10017, United States.

Fortegra Financial Corporation, a company with its registered address at Building 100, Suite 330, 101051 Deerwood Park, Boulevard, Jacksonville, FL 32256, United States prepares the consolidated financial statements.

**19. EVENTS AFTER THE REPORTING DATE**

During and subsequent to the first quarter ended March 31, 2020, the world has been impacted by the spread of the novel coronavirus (COVID-19). In March 2020, the World Health Organization deemed the outbreak of COVID-19 to be a pandemic, creating significant volatility, unpredictability and economic disruption.

The markets the Company serves in the United Kingdom and Europe have been impacted by weakened economic conditions, temporary business closures, reduced consumer spending and job losses to name a few. In response, the Company has taken various measures to ensure the availability of our products and services to our customers, the functioning of our critical support systems and steps to ensure the safety and security of our employees.

The effects of the COVID-19 are not believed to be significant to the Company's operating results for three months ended March 31, 2020. Due to the variability at which the COVID-19 situation is developing on a daily basis, estimating future period results with precision remains extremely difficult and cannot currently be quantified by the Company given the unknowns at this time and beyond.

## Independent auditor's report

to the members of  
**Fortegra Europe Insurance Company Limited**

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of Fortegra Europe Insurance Company (the "Company"), set out on pages 5 to 30, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and have been properly prepared in accordance with the requirements of the Companies Act (Cap. 386) and the Insurance Business Act (Cap. 403).

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* (Maltese Code) that are relevant to our audit of the financial statements in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and the Maltese Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. In conducting our audit, we have remained independent of the Company and have not provided any of the non-audit services prohibited by article 18A(1) of the Accountancy Profession Act.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Provision for claims outstanding

Estimating the provision for claims is an inherently judgemental area for the Company, particularly given the Company's limited claims history. The Company is required under IFRS 4 to assess at the end of each reporting period whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. As further disclosed in note 16 under '*Insurance contracts*' and '*Claims reserving policies*', based on the nature and type of the Company's underwritten policies, the Company has not recognised a provision for incurred but not reported claims ("IBNR") as it has determined that such losses at year end are not material in view of the short notification period of claims.

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## Independent auditor's report (continued)

to the members of

**Fortegra Europe Insurance Company**

### Key Audit Matters (continued)

#### Provision for claims outstanding (continued)

Our audit approach included:

- Testing the design and implementation of key controls over the Company's reserving process;
- Testing the reasonableness and adequacy of the Company's reserving methodology by evaluating claim notification patterns and analysing claims notified subsequent to the end of the financial period.

The Company's disclosures about the provision for claims outstanding reserves are disclosed in notes 11 and 16 to the financial statements.

### Information Other than the Financial Statements and the Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the general information on page 2 and the information included in the Directors' report on pages 3 and 4, but does not include the financial statements and our auditor's report thereon.

Except for our opinion on the Directors' report in accordance with the Companies Act (Cap. 386), our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

With respect to the Directors' report, we also considered whether the Directors' report includes the disclosure requirements of Article 177 of the Companies Act (Cap. 386).

In accordance with the requirements of sub-article 179(3) of the Maltese Companies Act (Cap. 386) in relation to the Directors' report on pages 3 and 4, in our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' report.

### Responsibilities of the Directors for the Financial Statements

As explained more fully in the statement of directors' responsibilities on page 4, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the European Union and the requirements of the Maltese Companies Act (Cap. 386), and the Insurance Business Act (Cap. 403), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Independent auditor's report (continued)**

to the members of

**Fortegra Europe Insurance Company**

### **Responsibilities of the Directors for the Financial Statements (continued)**

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

The Directors are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In terms of sub-article 179A(4) of the Companies Act (Cap.386), the scope of our audit does not include assurance on the future viability of the audited entity or on the efficiency or effectiveness with which the Directors have conducted or will conduct the affairs of the entity.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## Independent auditor's report (continued)

to the members of

**Fortegra Europe Insurance Company**

### **Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

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

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

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

### **Report on Other Legal and Regulatory Requirements**

#### **Matters on which we are required to report by exception under the Companies Act**

Under the Companies Act (Cap. 386), we have responsibilities to report to you if in our opinion:

- proper accounting records have not been kept;
- proper returns adequate for our audit have not been received from branches not visited by us;
- the financial statements are not in agreement with the accounting records and returns; or
- we have been unable to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

We have nothing to report to you in respect of these responsibilities.

#### **Auditor tenure**

We were first appointed to act as statutory auditor of the Company by the members of the Company on 17 April 2018 for the Company's first financial period ended 31 December 2018. The period of total uninterrupted engagement as statutory auditor is 2 financial periods.

#### **Consistency of the audit report with the additional report to the Board of Directors**

Our audit opinion is consistent with the additional report to the Board of Directors in accordance with the provisions of Article 11 of EU Regulation No. 537/2014.



Ian Coppini as Director  
in the name and on behalf of

**Deloitte Audit Limited**

Registered address

Central Business District, Birkirkara, Malta.

21 April 2020