

K2 Reinsurance Ltd.

**Financial Statements and
Independent Auditors' Report**

December 31, 2021

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of K2 Reinsurance Ltd.

Opinion

We have audited the financial statements of K2 Reinsurance Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income and comprehensive income, shareholder's equity and cash flows, for the years then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations, changes in its shareholder's equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a period of one year after the date that the financial statements are available to be issued.

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 absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. 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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the disclosure of short-duration contracts included as an appendix on pages 20 through 23, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte Ltd.

April 29, 2022

K2 REINSURANCE LTD.
BALANCE SHEETS
as at December 31, 2021 and 2020
(expressed in U.S. dollars)

	2021	2020
ASSETS:		
Cash and cash equivalents (Notes 3 and 4)	\$ 3,724,135	\$ 2,777,855
Investments classified as available for sale (Note 5)	659,643	611,489
Funds withheld	195,326	258,325
Premiums receivable	597,896	616,046
Deferred reinsurance premium ceded	36,543	36,528
Investment income due and accrued	798	499
Deferred acquisition costs	400,188	370,182
	<u>\$ 5,614,529</u>	<u>\$ 4,670,924</u>
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 63,298	\$ 56,279
Unearned premium reserve	1,213,155	1,124,516
Insurance balances payable	300,375	409,708
Income taxes payable	254,404	62,189
Net deferred tax liability (Note 10)	58,057	43,825
Provision for losses and loss expenses (Note 8)	661,924	689,646
	<u>2,551,213</u>	<u>2,386,163</u>
SHAREHOLDER'S EQUITY:		
Share capital (Note 11)	120,000	120,000
Retained earnings	2,943,316	2,164,761
	<u>3,063,316</u>	<u>2,284,761</u>
	<u>\$ 5,614,529</u>	<u>\$ 4,670,924</u>

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

APPROVED BY THE BOARD:

.....Director

K2 REINSURANCE LTD.
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
for the years ended December 31, 2021 and 2020
(expressed in U.S. dollars)

	2021	2020
UNDERWRITING INCOME:		
Reinsurance premiums written	\$ 2,732,903	\$ 2,507,209
Reinsurance premiums ceded	(81,200)	(80,000)
	2,651,703	2,427,209
Net written premiums	2,651,703	2,427,209
Net change in unearned premium reserve	(88,639)	(26,185)
Net change in deferred reinsurance premium	15	9,864
	2,563,079	2,410,888
UNDERWRITING EXPENSES:		
Losses and loss expenses incurred (Note 8)	606,062	333,069
Acquisition costs	884,880	835,906
	1,490,942	1,168,975
UNDERWRITING INCOME	1,072,137	1,241,913
NET INVESTMENT INCOME (Note 5)	81,781	65,379
GENERAL AND ADMINISTRATIVE EXPENSES	(179,028)	(229,441)
	974,890	1,077,851
INCOME BEFORE INCOME TAXES	974,890	1,077,851
INCOME TAXES (Note 10)	(196,335)	(268,286)
	778,555	809,565
COMPREHENSIVE INCOME	\$ 778,555	\$ 809,565

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

K2 REINSURANCE LTD.
STATEMENTS OF SHAREHOLDER'S EQUITY
for the years ended December 31, 2021 and 2020
(expressed in U.S. dollars)

	<u>Share Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at December 31, 2019	\$ 120,000	\$ 3,432,901	\$ 3,552,901
Net income	-	809,565	809,565
Dividend	-	(2,077,705)	(2,077,705)
Balance at December 31, 2020	<u>120,000</u>	<u>2,164,761</u>	<u>2,284,761</u>
Net income	-	778,555	778,555
Balance at December 31, 2021	<u>\$ 120,000</u>	<u>\$ 2,943,316</u>	<u>\$ 3,063,316</u>

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

K2 REINSURANCE LTD.
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2021 and 2020
(expressed in U.S. dollars)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 778,555	\$ 809,565
Adjustment to reconcile net income to net cash (used in) provided by operating activities:		
Realized (gain) losses on investments	-	(74,711)
Unrealized losses (gain) on investments	(38,042)	203,321
Deferred tax expense	4,120	(1,565)
Changes in assets and liabilities:		
Funds withheld	62,999	(49,224)
Premiums receivable	18,150	(30,626)
Due from Parent	-	632,884
Deferred reinsurance premium ceded	(15)	(9,864)
Investment income due and accrued	(299)	315,574
Deferred acquisition costs	(30,006)	(9,879)
Accounts payable and accrued liabilities	7,019	7,875
Unearned premium reserve	88,639	26,185
Insurance balances payable	(109,333)	29,438
Income taxes payable	192,215	(559,869)
Provision for losses and loss expenses	(27,722)	161,538
	946,280	1,450,642
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	-	190,211
Purchase of investments	-	(191,120)
	-	(909)
NET INCREASE IN CASH AND CASH EQUIVALENTS	946,280	1,449,733
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,777,855	1,328,122
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,724,135	\$ 2,777,855

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

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020
(expressed in U.S. dollars)

1. DESCRIPTION OF BUSINESS

K2 Reinsurance Ltd. (the “Company”) was incorporated under the laws of Bermuda on December 4, 2000 and is licensed as a Class 3A insurer under the Insurance Act, 1978 of Bermuda and related regulations (the “Act”) to write all classes of property and casualty business.

The Company began writing business on January 1, 2001. The Company is a wholly owned subsidiary of Brokers Risk Placement Service, Inc. (“BRPS” or “Parent”), based in Chicago. Effective as of November 30, 2020, One80 Intermediaries Inc., an Ohio corporation, purchased all of the issued and outstanding common stock of the Company’s sole parent, Brokers’ Risk Placement Service, Inc., an Illinois corporation.

The Company reinsures Dale Underwriting Partners., a Lloyd's of London Syndicate, who is the primary carrier for BRPS' Trustee Errors & Omissions program, on a 57.5% quota share (2020 – 55% quota share) basis of the first \$2,000,000 layer per occurrence, after application of local deductibles. For the years ended December 31, 2021, the Company obtained aggregate reinsurance protection in the amount of \$1,000,000 excess of \$1,150,000 for losses incurred (2020 -\$1,000,000 excess of \$1,100,000). The Company had also purchased aggregate reinsurance protection in prior years which was not utilized.

The Company reinsures the Illinois Workers' Compensation Self-Insurance Trust (WCSIT) and covers Worker’s Compensation and Employer’s Liability on an aggregate excess of loss basis. The Company is liable to ultimate net loss over and above an initial ultimate net loss of \$9,000,000 in the aggregate or 1.54896% of audited payroll, whichever the greater, subject to a limit of liability to the Company of \$2,000,000 or the difference between 1.54896% and 1.89316% of the audited payroll. The estimated payroll is \$581,038,543. This policy holder has an option to elect a no claims bonus to be paid two or three years after the policy period.

The Company reinsures S.A. Meacock, a Lloyd's of London Syndicate and Illinois School District Agency on a 35.08% of 95% quota share basis of up to \$25,000 of losses incurred for accidental, medical and dental benefits and accidental death and dismemberment benefits of up to \$12,000 per enrolled student.

The Company reinsures the Illinois School District Agency (ISDA) and covers Property on an aggregate excess of loss basis. The Company has a Nil (5% - 2020) share (Nil-2021, \$50,000-2020) of the liable to ultimate net loss over and above an initial Ultimate Net Loss of \$1,750,000 in the aggregate or 25% of “Direct Earned Contributions, whichever the greater; subject to a limit of liability to the Reinsurer of \$1,000,000 or 27.5% of “Direct Earned Contributions, whichever the lesser. The estimated “Direct Earned Contributions” is \$6,293,650. Notwithstanding the foregoing, the agreement shall only apply in respect of losses within ISDA’s retention of \$250,000 any one occurrence.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020
(expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

a) Reinsurance premiums written, reinsurance premiums ceded and acquisitions costs

Reinsurance premiums written are recorded on an accrual basis and are included in income on a pro-rated basis over the lives of the policies with the unearned portion being recorded as unearned premiums in the balance sheet. Reinsurance premiums ceded are similarly pro-rated over the terms of the treaties with the unearned portion being recorded as deferred reinsurance premiums ceded in the balance sheet. Acquisition costs are expensed on a pro-rated basis over the lives of the policies to which they relate with the unearned portion being recorded as deferred acquisition costs in the balance sheet. The Company is also liable for the payment of a no claims bonus under the WCSIT policy. This no claims bonus, amounting to \$Nil as at December 31, 2021 (2020 - \$28,833) is recorded as revenue reduction as the Company considers this a premium refund.

b) Cash and cash equivalents

For purposes of the financial statements, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

c) Provision for losses and loss expenses

The provision for losses and loss expenses is comprised of estimates of the amount of reported losses and loss expenses received from the ceding insurance companies plus a provision for losses incurred but not reported based on the recommendation of an independent actuary using industry data and the past loss experience of the Company. Although management believes the provision is reasonable, no assurance can be given that the ultimate cost of settlement of losses will not vary materially from the amount recorded. Future adjustments to the amounts recorded as of December 31, 2021, resulting from the continual review process, as well as differences between estimate and ultimate settlement, will be reflected in the Company’s statement of income and comprehensive income in future periods when such adjustments become known.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020
(expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

d) Investments

Investments have been classified as available for sale and are carried at fair value. Realized gains and losses are recognized on a first in, first out basis. Investments in quoted equity funds and quoted equities are valued at the last quoted price on the last trading day of the year. Unrealized gains and losses are included in net investment income in the statement of income and comprehensive (loss) income. Investment income is recorded on an accrual basis.

e) Federal income taxes

The Company accounts for income taxes under the provisions of Accounting Standards Codification (ASC) 740, "Income taxes". Under the asset and liability method of ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date and deferred tax assets are recognized if it is more likely than not that a benefit will be realized.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
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(expressed in U.S. dollars)

3. LETTERS OF CREDIT

The Company's custodians have issued a letter of credit in favor of Trustees of Amlin Underwriting Limited in the amount of \$Nil (2020 - \$500,000), and Dale Underwriting Partners Syndicate 1729 in the amount of \$500,000 (2020 - \$500,000). The letter of credit is secured by the Company's investment and cash and deposits.

4. CASH AND CASH EQUIVALENTS

Cash and deposits are comprised of cash and time deposits with an original maturity of ninety days or less. Cash and deposits potentially expose the Company to credit risk. In management's opinion, the risk of loss due to credit risk is not significant as cash and deposits are placed with high credit quality financial institutions.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020
(expressed in U.S. dollars)

5. INVESTMENTS

	<u>Cost</u>	<u>Gross Unrealized Holding Gains</u>	<u>Gross Unrealized Holding Losses</u>	<u>Estimated Fair Value</u>
As of December 31, 2021				
Equity Investment Funds	\$ 455,159	\$ 204,484	\$ -	\$ 659,643
Total	<u>\$ 455,159</u>	<u>\$ 204,484</u>	<u>\$ -</u>	<u>\$ 659,643</u>
	<u>Cost</u>	<u>Gross Unrealized Holding Gains</u>	<u>Gross Unrealized Holding Losses</u>	<u>Estimated Fair Value</u>
As of December 31, 2020				
Equity Investment Funds	\$ 455,159	\$ 156,330	\$ -	\$ 611,489
Total	<u>\$ 455,159</u>	<u>\$ 156,330</u>	<u>\$ -</u>	<u>\$ 611,489</u>

There were no investments classified as available-for-sale in an unrealized loss position.

At December 31, 2021, no equity investment funds (2020: no) were in an unrealized loss position and none (2020: none) have been in a continuous unrealized loss position for 12 months or greater.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020
(expressed in U.S. dollars)

5. INVESTMENTS (Cont'd)

Proceeds from sales of available for sale investments during 2021 and 2020 were \$Nil and \$190,211, respectively. Gross realized gains of \$Nil and \$74,711 in 2021 and 2020, respectively, and gross realized losses of \$Nil and \$Nil in 2021 and 2020, respectively, were realized on those sales.

Net investment income for the years ended are derived from the following sources:

	2021	2020
Interest and dividend income	\$ 43,739	\$ 194,502
Interest expense	-	(513)
Realized (loss) gain on investments	-	74,711
Unrealized (loss) gain on investments	38,042	(203,321)
	\$ 81,781	\$ 65,379
Net investment income	\$ 81,781	\$ 65,379

Fair Value Measurement

Under ACS 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect the Company’s assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020
(expressed in U.S. dollars)

5. INVESTMENTS (Cont'd)

Fair Value Measurement (cont'd)

The categorization of the Company's financial assets recorded at fair value based upon the fair value hierarchy as at December 31, 2021 and 2020 are as follows:

	2021	2020
Level 1 – Quoted prices <i>Equity investment funds</i>	\$ 659,643	\$ 611,489
	\$ 659,643	\$ 611,489
	\$ 659,643	\$ 611,489

There were no transfers of securities between Levels during the year.

6. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

The Company's financial instruments include cash and cash equivalents, investments, investment income due and accrued, due from the Parent and accounts payable and accrued liabilities. In management's opinion, the Company is not exposed to significant interest or credit risks arising from these financial instruments.

The fair value of cash and cash equivalents, investment income due and accrued, accounts payable and accrued liabilities approximates their carrying value due to their short term nature.

Investments are recorded at fair value in accordance with prices provided by the independent investment custodians.

The amount due from Parent is held at fair value and the terms are described in note 9.

Investments comprise 12% (2020 - 13%) of the Company's assets. The Company is exposed to market risk in connection with these investments. Investments in equity investment funds do not contain significant concentrations of risk as the Company holds one equity investment fund comprising 12% (2020 - 13%) of assets. The Company's market risk exposure principally relates to its equity portfolio whose value will fluctuate as a result of changes in market prices.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020
(expressed in U.S. dollars)

7. REINSURANCE

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. Consequently, allowances are established for amounts deemed uncollectible.

8. PROVISION FOR LOSSES AND LOSS EXPENSES

Activity in the provision for losses and loss expenses is summarized as follows:

	2021	2020
Balance, beginning of year	\$ 689,646	\$ 528,108
Incurred related to:		
Current year	185,710	186,712
Prior years	420,352	146,357
Total incurred	<u>606,062</u>	<u>333,069</u>
Paid and payable related to:		
Current year	4,157	41,170
Prior years	629,627	130,361
Total paid	<u>633,784</u>	<u>171,531</u>
Balance, end of year	<u>\$ 661,924</u>	<u>\$ 689,646</u>
	2021	2020
Consisting of:		
Outstanding case reserves	\$ 271,072	\$ 424,387
Incurred but not reported	390,852	265,259
	<u>\$ 661,924</u>	<u>\$ 689,646</u>

As a result of changes in estimates of insured events in prior years, loss and loss adjustment expenses relating to prior years have increased to \$420,352 for the year ended December 31, 2021 and to \$146,357 for the year ended December 31, 2020.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020
(expressed in U.S. dollars)

8. PROVISION FOR LOSSES AND LOSS EXPENSES (Cont'd)

The following table illustrates the information about incurred and paid claims development as of December 31, 2021, net of reinsurance, as well as the cumulative claim frequency and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claims amounts. The following factors are relevant to the additional information included in the tables below:

- Table Organization: The tables are organized by accident year, by line of business and include policies written on an occurrence basis.
- Data excluded from tables: Information with respect to accident years older than the most recent accident year has been excluded from the development tables, as are lines of business considered by management to be immaterial to the financial statements and additional information taken as a whole.
- Claim counts: We consider a reported claim to be one claim for each claimant for each loss occurrence.
- There are limitations that should be considered on the reported claim count data in the tables below, including: Claim counts are presented only on a reported (not an ultimate) basis.

Schedules of incurred and paid losses and loss adjustment expenses by accident year for the current reporting period:

Trustee Errors & Omissions program

Accident Year	Incurred Claims and Claims Expenses	Paid claims and claims expenses	Incurred but not reported liabilities	Cumulative number of claims reported
2012	2,311,577	2,311,577	-	15
2013	130,025	130,025	-	10
2014	60,486	60,486	-	12
2015	44,885	44,885	-	7
2016	277,044	265,045	4,225	12
2017	176,565	153,800	6,923	8
2018	521,979	449,451	40,311	9
2019	103,141	94,391	42,203	8
2020	237,071	124,313	155,632	13
2021	30,750	-	136,533	6
Totals	3,893,523	3,633,973	385,827	100
Cumulative paid losses and loss adjustment expenses from 2021	(3,633,973)			
Reserves for losses and loss adjustment expenses	259,550			

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020
(expressed in U.S. dollars)

8. PROVISION FOR LOSSES AND LOSS EXPENSES (Cont'd)

Student Accident Program

Accident Year	Incurred Claims and Claims Expenses	Paid claims and claims expenses	Incurred but not reported liabilities	Cumulative number of claims reported
2012	186,846	186,846	-	950
2013	164,598	164,598	-	811
2014	134,918	134,918	-	732
2015	78,779	78,779	-	466
2016	71,418	71,418	-	361
2017	55,542	55,542	-	345
2018	83,060	83,060	-	387
2019	42,998	42,998	-	283
2020	18,601	16,662	339	122
2021	13,740	4,157	4,686	101
Totals	850,500	838,978	5,025	4,558
Cumulative paid losses and loss adjustment expenses from 2021	(838,978)			
Reserves for losses and loss adjustment expenses	11,522			

The reconciliation of the reserves for losses and loss adjustment expenses from the tables of incurred losses and loss adjustment expenses by accident year to the balance above is shown below:

	Reserves for losses and loss adjustment expenses undiscounted	2021 Reserves for losses and loss adjustment expenses incurred but not reported	2021 incurred losses
Line of business -			
Trustee Errors & Omissions	259,550	385,827	645,377
Student Accident	11,522	5,025	16,547
Total	271,072	390,852	661,924

Further information is available related to policies by accident year, program and coverage in the unaudited supplementary appendix.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020
(expressed in U.S. dollars)

8. PROVISION FOR LOSSES AND LOSS EXPENSES (Cont'd)

Reserving Methodology:

The methods used to select the estimated loss reserves include Paid and Incurred Loss Development, and Bornhuetter-Ferguson (Incurred and Paid). Losses and LAE were combined to increase stability and credibility of the data. For each policy year, the respective quota share terms were applied to calculate the net loss and LAE estimate.

Ultimate loss and LAE was selected for each policy period based upon the results of the methods and resultant diagnostics. The approach allows us to limit the impact of material biases underlying any one method.

Confidence levels were calculated for the Company's estimated unpaid liability as of December 2021 assuming a lognormal distribution. We fit our point estimate and CV (standard deviation divided by Mean) to the distribution's mean and variance, respectively, to determine the resultant confidence levels.

There were no changes to the methodologies used during the year.

9. RELATED PARTY TRANSACTIONS

During the year, commissions in the amount of \$914,886 (2020 - \$845,768) were paid to BRPS.

The due from Parent receivable in the amount of \$Nil (2020 - \$Nil) is unsecured, bears interest at the U.S. prime rate plus 2% and is repayable no later than December 31, 2021. During the year, the Company recognized \$Nil (2020 - \$145,663) of interest income.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020
(expressed in U.S. dollars)

10. TAXATION

Bermuda

At the present time, no income, profit, capital or capital gain taxes are levied in Bermuda and, accordingly, no provision for such taxes has been recorded by the Company. In the event that such taxes are levied, the Company has received an undertaking from the Bermuda Government exempting it from all such taxes until March 31, 2035.

United States federal income taxes

Effective January 1, 2001, the Company made an irrevocable election under Section 953(d) of the Internal Revenue Code of 1986, as amended, to treat the Company as a domestic insurance company for United States federal income tax purposes. As a result of the “domestic election”, the Company is subject to U.S. taxation on its worldwide income as if it were a U.S. corporation. The Company and its Parent file a consolidated federal income tax return.

Income taxes attributable to continuing operations comprise:

	2021	2020
Current expense	\$ 192,215	\$ 269,851
Deferred expense	4,120	(1,565)
	<u>\$ 196,335</u>	<u>\$ 268,286</u>

At December 31, 2021 and 2020, the tax effects of temporary differences that give rise to significant portions of the deferred tax asset and deferred tax liability as follows:

	2021	2020
Discount on outstanding losses and loss expenses	\$ 11,350	\$ 12,052
Unearned premiums	50,953	47,230
Deferred tax asset	<u>62,303</u>	<u>59,282</u>
Unrealized gain on investments	(42,942)	(32,829)
Deferred acquisition costs	(77,418)	(70,277)
Deferred tax liability	<u>(120,360)</u>	<u>(103,107)</u>
Net deferred tax liability	<u>\$ 58,057</u>	<u>\$ 43,825</u>

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020
(expressed in U.S. dollars)

11. SHARE CAPITAL

	2021	2020
Authorized, issued and fully paid:		
120,000 common shares of US \$1 each par value	\$ 120,000	\$ 120,000
	<u> </u>	<u> </u>

12. STATUTORY REQUIREMENTS expressed in ‘000s

The Company is registered under the Bermuda Insurance Act 1978, amendments thereto and related Regulations which require that the Company maintain minimum levels of solvency and liquidity. For the year ended December 31, 2021, these requirements have been met. The minimum required statutory capital and surplus was \$1,000 (2020: \$1,000) and actual statutory capital and surplus was \$2,664 (2020: \$1,915) at December 31, 2021. The minimum required level of liquid assets was \$1,842 (2020: \$1,729) and actual liquid assets were \$5,178 (2020: \$4,264) at December 31, 2021.

As a result of these requirements, retained earnings in the amount of \$1,383 (2020: \$672) at December 31, 2021 were restricted for distribution to the shareholder.

13. SUBSEQUENT EVENTS

In preparing the financial statements, management has evaluated subsequent events through April 29, 2022, which is the date these financial statements were available to be issued and there were no events noted.

K2 REINSURANCE LTD.
UNAUDITED SUPPLEMENTARY SCHEDULES
December 31, 2021 and 2020
(expressed in U.S. dollars)

Appendix

Supplementary unaudited information to Note 8 of the Financial Statement Trustee Errors & Omissions program

Trustee Errors and Omissions program:
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance
Years Ended December 31, 2021

AY	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total of Incurred but not reported liabilities plus expected development on Reported Claims	Cumulative Number of Reported Claims
2012	104,579	163,219	327,545	1,095,779	2,312,959	2,311,421	2,311,421	2,311,577	2,311,577	2,311,577	-	15
2013	-	157,241	231,101	204,085	155,246	155,246	134,256	134,981	130,025	130,025	-	10
2014	-	-	159,087	203,251	156,408	123,067	60,314	60,410	60,486	60,486	-	12
2015	-	-	-	80,930	140,150	123,246	44,791	44,791	44,849	44,885	-	7
2016	-	-	-	-	151,813	205,549	304,843	304,775	41,457	277,044	4,225	12
2017	-	-	-	-	-	70,261	214,870	196,894	146,169	176,565	6,923	8
2018	-	-	-	-	-	-	119,519	268,498	414,468	521,979	40,311	9
2019	-	-	-	-	-	-	-	96,174	63,428	103,141	42,203	8
2020	-	-	-	-	-	-	-	-	59,626	237,071	155,632	13
2021										30,750	136,533	6
Total										3,893,523	385,827	100

K2 REINSURANCE LTD.
UNAUDITED SUPPLEMENTARY SCHEDULES
December 31, 2021 and 2020
(expressed in U.S. dollars)

Appendix (Cont'd)

Supplementary unaudited information to Note 8 of the Financial Statement Trustee Errors & Omissions program

Trustee Errors and Omissions program:

Cumulative Paid Claims and Allocated Expenses, Net of Reinsurance

Years Ended December 31, 2021

AY	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012		21,943	91,218	657,994	2,071,826	2,095,184	2,311,423	2,311,577	2,311,577	2,311,577
2013	-	-	9,940	84,470	112,466	122,423	126,013	129,806	130,025	130,025
2014	-	-	8,646	26,196	48,569	57,706	60,314	60,410	60,486	60,486
2015	-	-	-	-	9,439	22,264	44,791	44,791	44,849	44,885
2016	-	-	-	-	-	39,604	182,873	212,351	236,584	265,045
2017	-	-	-	-	-	4,950	37,832	110,743	134,034	153,800
2018	-	-	-	-	-	-	1,650	38,685	79,870	449,451
2019	-	-	-	-	-	-	-	5,670	14,796	94,391
2020	-	-	-	-	-	-	-	-	37,993	124,313
2021	-	-	-	-	-	-	-	-	-	-

Total										3,633,973
All Outstanding Liabilities before 2008, Net of Reinsurance										-
Provision for Loss and Loss adjustment expenses, Net of reinsurance										259,550

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Errors and Omissions	4%	16%	38%	29%	16%	3%	3%	0%	0%	0%

K2 REINSURANCE LTD.
UNAUDITED SUPPLEMENTARY SCHEDULES
December 31, 2021 and 2020
(expressed in U.S. dollars)

Appendix (Cont'd)

Supplementary unaudited information to Note 8 of the Financial Statement Trustee Errors & Omissions program

Student Accident Program:
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance
Years Ended December 31, 2021

AY	2012	2013	2014	2015	20156	2017	2018	2019	2020	2021	Total of Incurred but not reported liabilities plus expected development on Reported Claims	Cumulative Number of Reported Claims
2012	57,588	188,100	186,824	186,824	186,824	186,823	186,823	186,823	186,823	186,846	-	950
2013	-	90,603	163,398	164,553	164,653	164,652	164,520	164,520	164,520	164,598	-	811
2014	-	-	73,539	134,697	134,705	134,918	134,918	134,918	134,918	134,918	-	732
2015	-	-	-	15,391	80,710	78,847	78,961	78,779	78,779	78,779	-	466
2016	-	-	-	-	27,972	72,043	71,464	71,485	71,418	71,418	-	361
2017	-	-	-	-	-	28,186	57,709	55,568	55,542	55,542	-	345
2018	-	-	-	-	-	-	43,432	83,389	83,060	83,060	-	387
2019	-	-	-	-	-	-	-	32,172	41,198	42,998	-	283
2020	-	-	-	-	-	-	-	-	6,078	18,601	339	122
2021	-	-	-	-	-	-	-	-	-	13,740	4,686	101
Total										850,500	5,025	4,558

K2 REINSURANCE LTD.
UNAUDITED SUPPLEMENTARY SCHEDULES
December 31, 2021 and 2020
(expressed in U.S. dollars)

Appendix (Cont'd)

Supplementary unaudited information to Note 8 of the Financial Statement Trustee Errors & Omissions program

Student Accident Program:
Cumulative Paid Claims and Allocated Expenses, Net of Reinsurance
Years Ended December 31, 2021

AY	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2011	54,611	185,932	186,824	186,824	186,824	186,824	186,823	186,823	186,823	186,846
2012	-	32,939	159,394	164,458	164,378	164,652	164,520	164,520	164,520	164,598
2013	-	-	22,318	132,726	134,705	134,918	134,918	134,918	134,918	134,918
2014	-	-	-	-	76,348	78,578	78,691	78,779	78,779	78,779
2015	-	-	-	-	4,626	70,463	71,464	71,485	71,418	71,418
2016	-	-	-	-	-	3,413	56,383	55,568	55,542	55,542
2017	-	-	-	-	-	-	22,276	82,341	83,060	83,060
2018	-	-	-	-	-	-	-	9,179	40,730	42,998
2020	-	-	-	-	-	-	-	-	3,178	16,662
2021	-	-	-	-	-	-	-	-	-	4,157
Total										838,978
All Outstanding Liabilities before 2008, Net of Reinsurance										-
Provision for Loss and Loss adjustment expenses, Net of reinsurance										11,522

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Student										
Accident	17%	81%	2%	0%	0%	0%	0%	0%	0%	0%