

K2 Reinsurance Ltd.

Financial Statements and Independent Auditors' Report

December 31, 2022

Report of Independent Auditors

The Board of Directors and Shareholder
K2 Reinsurance Ltd.

Opinion

We have audited the financial statements of K2 Reinsurance Ltd. (the Company), which comprise the balance sheet as of December 31, 2022, and the related statement of income and comprehensive income, shareholder's equity and cash flows for the year then ended, and the related notes (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 at December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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.

Report of Other Auditors on the December 31, 2021 Financial Statements

The financial statements of the Company for the year ended December 31, 2021, were audited by another auditor who expressed an unmodified opinion on those financial statements on April 29, 2022.

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 of 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 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 of 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 require that the incurred losses and loss adjustment expenses, net of reinsurance and the cumulative paid losses and loss adjustment expenses, net of reinsurance for the years ending 2021 and prior and the average annual percentage payout of incurred claims by age in Note 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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, 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 financial statements, and other knowledge we obtained during our audit of the 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.

Ernst & Young Ltd.

Hamilton, Bermuda
April 28, 2023

K2 REINSURANCE LTD.
BALANCE SHEETS
as at December 31, 2022 and 2021
(expressed in U.S. dollars)

	2022	2021
ASSETS:		
Cash and cash equivalents (Notes 3 and 4)	\$ 3,712,219	\$ 3,724,135
Investments (Note 5)	516,553	659,643
Funds withheld	422,142	195,326
Premiums receivable	900,320	597,896
Deferred reinsurance premium ceded	38,962	36,543
Investment income due and accrued	798	798
Deferred acquisition costs	398,445	400,188
	<u>\$ 5,989,439</u>	<u>\$ 5,614,529</u>
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 82,370	\$ 63,298
Unearned premium reserve	1,155,542	1,213,155
Insurance balances payable	421,084	300,375
Due to Parent (Note 9)	389,030	254,404
Net deferred tax liability (Note 10)	27,372	58,057
Provision for losses and loss expenses (Note 8)	1,012,668	661,924
	<u>3,088,066</u>	<u>2,551,213</u>
SHAREHOLDER'S EQUITY:		
Share capital (Note 11)	120,000	120,000
Retained earnings	2,781,373	2,943,316
	<u>2,901,373</u>	<u>3,063,316</u>
	<u>\$ 5,989,439</u>	<u>\$ 5,614,529</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, 2022 and 2021
(expressed in U.S. dollars)

	2022	2021
UNDERWRITING INCOME:		
Reinsurance premiums written	\$ 2,686,334	\$ 2,732,903
Reinsurance premiums ceded	(88,050)	(81,200)
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Net written premiums	2,598,284	2,651,703
Net change in unearned premium reserve	57,613	(88,639)
Net change in deferred reinsurance premium	2,418	15
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Net premium earned	2,658,315	2,563,079
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UNDERWRITING EXPENSES:		
Losses and loss expenses incurred (Note 8)	813,651	606,062
Acquisition costs	952,465	884,880
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	1,766,116	1,490,942
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UNDERWRITING INCOME	892,199	1,072,137
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NET INVESTMENT (LOSS) INCOME (Note 5)	(60,716)	81,781
GENERAL AND ADMINISTRATIVE EXPENSES	(193,437)	(179,028)
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INCOME BEFORE INCOME TAXES	638,046	974,890
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INCOME TAXES (Note 10)	(133,989)	(196,335)
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COMPREHENSIVE INCOME	\$ 504,057	\$ 778,555
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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, 2022 and 2021
(expressed in U.S. dollars)

	<u>Share Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at December 31, 2020	\$ 120,000	\$ 2,164,761	\$ 2,284,761
Net income	-	778,555	778,555
	<hr/>	<hr/>	<hr/>
Balance at December 31, 2021	120,000	2,943,316	3,063,316
Net income	-	504,057	504,057
Dividend	-	(666,000)	(666,000)
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Balance at December 31, 2022	\$ 120,000	\$ 2,781,373	\$ 2,901,373
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The accompanying notes are an integral part to these financial statements.

K2 REINSURANCE LTD.
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2022 and 2021
(expressed in U.S. dollars)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 504,057	\$ 778,555
Adjustment to reconcile net income to net cash (used in) provided by operating activities:		
Realized (gain) losses on investments	(6,000)	-
Unrealized losses (gain) on investments	113,042	(38,042)
Deferred tax expense	(637)	4,120
Changes in assets and liabilities:		
Funds withheld	(226,816)	62,999
Premiums receivable	(302,424)	18,150
Deferred reinsurance premium ceded	(2,419)	(15)
Investment income due and accrued	-	(299)
Deferred acquisition costs	1,743	(30,006)
Accounts payable and accrued liabilities	19,072	7,019
Unearned premium reserve	(57,613)	88,639
Insurance balances payable	120,709	(109,333)
Due to Parent	134,626	192,215
Provision for losses and loss expenses	350,744	(27,722)
Net cash provided by operating activities	648,084	946,280
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	6,000	-
Purchase of investments	-	-
Net cash provided by investing activities	6,000	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(666,000)	-
Net cash used in financing activities	(666,000)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	(11,916)	946,280
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,724,135	2,777,855
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,712,219	\$ 3,724,135

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

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021
(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 for January 2022 and 60% quota share for February through December (2021 – 57.5% quota share) basis of the first \$2,000,000 layer per occurrence, after application of local deductibles. For the years ended December 31, 2022, the Company obtained aggregate reinsurance protection in the amount of \$1,000,000 excess of \$1,150,000 for losses incurred (2021 -\$1,000,000 excess of \$1,150,000). The Company had also purchased aggregate reinsurance protection in prior years which was not utilized.

In 2021 the Company reinsured 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 was \$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. This policy was not renewed in 2022.

The Company reinsures S.A. Meacock, a Lloyd's of London Syndicate and Illinois School District Agency on a 33.33% of 100% 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.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021
(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.

Certain reclassifications have been made to comparative information to conform to the current year presentation. These changes in presentation had no effect on the net income for the period.

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 \$54,000 as at December 31, 2022 (2021 - \$Nil) 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, 2022, 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, 2022 and 2021
(expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

d) Investments

Investments in quoted equity funds and quoted equities are valued at the last quoted price on the last trading day of the year. Realized gains and losses are recognized on a first in, first out basis. 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
December 31, 2022 and 2021
(expressed in U.S. dollars)

3. LETTERS OF CREDIT

The Company's custodians had issued a letter of credit in favor of Dale Underwriting Partners Syndicate 1729 in the amount of \$500,000 during 2021. This letter of credit was terminated during 2022.

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, 2022 and 2021
(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, 2022				
Equity Investment Funds	\$ 455,159	\$ 61,394	\$ -	\$ 516,553
Total	<u>\$ 455,159</u>	<u>\$ 61,394</u>	<u>\$ -</u>	<u>\$ 516,553</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, 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>

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

At December 31, 2022, no equity investment funds (2021: none) were in an unrealized loss position and none (2021: none) have been in a continuous unrealized loss position for 12 months or greater.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021
(expressed in U.S. dollars)

5. INVESTMENTS (Cont'd)

Proceeds from sales of available for sale investments during 2022 and 2021 were \$6,000 and \$Nil, respectively. Gross realized gains of \$6,000 and \$Nil in 2022 and 2021, respectively, and gross realized losses of \$Nil in 2022 and 2021, respectively, were realized on those sales.

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

	2022	2021
Interest and dividend income	\$ 46,326	\$ 43,739
Interest expense	-	-
Realized (loss) gain on investments	6,000	-
Unrealized (loss) gain on investments	(113,042)	38,042
	<hr/>	<hr/>
Net investment income	\$ (60,716)	\$ 81,781
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Fair Value Measurement

Under ASC 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, 2022 and 2021
(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, 2022 and 2021 are as follows:

	2022	2021
Level 1 – Quoted prices		
<i>Equity investment funds</i>	\$ 516,553	\$ 659,643
	<u>\$ 516,553</u>	<u>\$ 659,643</u>

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, 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.

Investments comprise 9% (2021 - 12%) 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 9% (2021 - 12%) 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, 2022 and 2021
(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:

	2022	2021
Balance, beginning of year	\$ 661,924	\$ 689,646
Incurring related to:		
Current year	201,522	185,710
Prior years	612,128	420,352
Total incurred	813,650	606,062
Paid and payable related to:		
Current year	3,701	4,157
Prior years	459,205	629,627
Total paid	462,906	633,784
Balance, end of year	\$ 1,012,668	\$ 661,924
	2022	2021
Consisting of:		
Outstanding case reserves	\$ 470,966	\$ 271,072
Incurred but not reported	541,702	390,852
	\$ 1,012,668	\$ 661,924

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 \$612,128 for the year ended December 31, 2022 and to \$420,352 for the year ended December 31, 2021.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021
(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, 2022, 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
2013	130,025	130,025	3,000	10
2014	60,486	60,486	-	12
2015	44,885	44,885	-	7
2016	277,188	273,666	2,257	12
2017	165,176	165,176	4,832	8
2018	658,803	610,302	17,116	10
2019	189,298	170,771	23,485	7
2020	610,188	281,775	69,604	13
2021	62,848	20,010	249,503	8
2022	18,840	840	163,628	1
Totals	2,217,737	1,757,936	533,425	88
Cumulative paid losses and loss adjustment expenses from 2022	(1,757,936)			
Reserves for losses and loss adjustment expenses	459,801			

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021
(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
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	55,527	55,527	-	345
2018	83,060	83,060	-	387
2019	43,308	43,308	-	283
2020	17,833	17,833	-	133
2021	32,858	29,901	347	251
2022	11,909	3,701	7930	112
Totals	694,208	683,043	8,277	3,881
Cumulative paid losses and loss adjustment expenses from 2022	(683,043)			
Reserves for losses and loss adjustment expenses	11,165			

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	2022 Reserves for losses and loss adjustment expenses incurred but not reported	2022 incurred losses
Line of business -			
Trustee Errors & Omissions	459,801	533,425	993,226
Student Accident	11,165	8,277	19,442
Total	470,966	541,702	1,012,668

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, 2022 and 2021
(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 2022 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 \$950,723 (2021 - \$914,886) were paid to BRPS.

The Due to Parent payable in the amount of \$389,030 (2021 - \$254,404) is the tax liability paid for by the parent on behalf of the company.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021
(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 US taxation on its worldwide income as if it were a US corporation. The Company and its Parent file a consolidated federal income tax return. The Company’s financial statements recognize the current and deferred income tax consequences that result from the Company’s activities under the separate return method as if the Company were a separate taxpayer rather than a member of the Parent’s consolidated income tax return group.

The Company follows FASB ASC 740-10, Accounting for Uncertainty in Income Taxes, which provides guidance on accounting for uncertainty in income taxes recognized in the Company’s financial statements. The guidance prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition.

As of December 31, 2022, the Company had no uncertain tax positions that require either recognition or disclosure in the Company’s financial statements.

In the event the Company concludes that it is subject to interest and/or penalties arising from uncertain tax positions, the Company will present interest and penalties as a component of income tax expense.

The Company’s income tax filing for the years prior to 2019 are no longer subject to examination by the tax authorities.

Income taxes attributable to continuing operations comprise:

	2022	2021
Current expense	\$ 134,626	\$ 192,215
Deferred expense	(637)	4,120
	<u>\$ 133,990</u>	<u>\$ 196,335</u>

At December 31, 2022 and 2021, the tax effects of temporary differences that give rise to significant portions of the deferred tax asset and deferred tax liability as follows:

	2022	2021
Discount on outstanding losses and loss expenses	\$ 16,987	\$ 11,350
Unearned premiums	48,533	50,953
	<hr/>	<hr/>
Deferred tax asset	65,520	62,303
	<hr/>	<hr/>
Unrealized gain on investments	(12,893)	(42,942)
Deferred acquisition costs	(79,999)	(77,418)
	<hr/>	<hr/>
Deferred tax liability	(92,892)	(120,360)
	<hr/>	<hr/>
Net deferred tax liability	\$ (27,372)	\$ (58,057)
	<hr/>	<hr/>

11. SHARE CAPITAL

	2022	2021
Authorized, issued and fully paid:		
120,000 common shares of US \$1 each par value	\$ 120,000	\$ 120,000
	<hr/>	<hr/>

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, 2022, these requirements have been met. The minimum required statutory capital and surplus was \$1,000 (2021: \$1,000) and actual statutory capital and surplus was \$2,503 (2021: \$2,664) at December 31, 2022. The minimum required level of liquid assets was \$2,267 (2021: \$1,842) and actual liquid assets were \$5,552 (2021: \$5,178) at December 31, 2022.

As a result of these requirements, retained earnings in the amount of \$1,335 (2021: \$1,383) at December 31, 2022 were restricted for distribution to the shareholder.

13. SUBSEQUENT EVENTS

In preparing the financial statements, management has evaluated subsequent events through _____, 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, 2022 and 2021
(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, 2022

AY	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total of Incurred but not reported liabilities plus expected development on Reported Claims	Cumulative Number of Reported Claims
2013	157,241	231,101	204,085	155,246	155,246	134,256	134,981	130,025	130,025	130,025	3,000	10
2014	-	159,087	203,251	156,408	123,067	60,314	60,410	60,486	60,486	60,486	-	12
2015	-	-	80,930	140,150	126,246	44,791	44,791	44,849	44,885	44,885	-	7
2016	-	-	-	151,813	205,549	304,843	304,775	241,457	277,044	277,188	2,257	12
2017	-	-	-	-	70,261	214,870	196,894	146,169	176,565	165,176	4,832	8
2018	-	-	-	-	-	119,519	268,498	414,468	521,979	658,803	17,116	10
2019	-	-	-	-	-	-	96,174	63,428	103,141	189,298	23,485	7
2020	-	-	-	-	-	-	-	59,626	237,071	610,188	69,604	13
2021	-	-	-	-	-	-	-	-	30,750	62,848	249,503	8
2022	-	-	-	-	-	-	-	-	-	18,840	163,628	1
Total										2,217,737	533,425	88

K2 REINSURANCE LTD.
UNAUDITED SUPPLEMENTARY SCHEDULES
December 31, 2022 and 2021
(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, 2022

AY	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	-	9,940	84,470	112,466	122,423	126,013	129,806	130,025	130,025	130,025
2014	-	8,646	28,196	48,569	57,706	60,314	60,410	60,486	60,486	60,486
2015	-	-	-	9,439	22,264	44,791	44,791	44,849	44,885	44,885
2016	-	-	-	-	39,604	182,873	212,351	236,584	265,045	273,666
2017	-	-	-	-	4,950	37,832	110,743	134,034	153,800	165,176
2018	-	-	-	-	-	1,650	38,685	79,870	449,451	610,302
2019	-	-	-	-	-	-	5,670	14,796	94,391	170,771
2020	-	-	-	-	-	-	-	37,993	124,313	281,775
2021	-	-	-	-	-	-	-	-	-	20,010
2022	-	-	-	-	-	-	-	-	-	840

Total	1,757,936
All Outstanding Liabilities before 2013, Net of Reinsurance	-
Provision for Loss and Loss adjustment expenses, Net of reinsurance	459,801

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	3%	17%	36%	30%	9%	4%	1%	0%	0%	0%

K2 REINSURANCE LTD.
UNAUDITED SUPPLEMENTARY SCHEDULES
December 31, 2022 and 2021
(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, 2022

AY	2013	2014	2015	216	217	2018	2019	2020	2021	2022	Total of Incurred but not reported liabilities plus expected development on Reported Claims	Cumulative Number of Reported Claims
2013	90,603	163,398	164,553	164,653	164,652	164,520	164,520	164,520	164,598	164,598	-	811
2014	-	73,539	134,697	134,705	134,918	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	78,779	-	466
2016	-	-	-	27,972	72,043	71,464	71,485	71,418	71,418	71,418	-	361
2017	-	-	-	-	28,186	57,709	55,568	55,542	55,542	55,527	-	345
2018	-	-	-	-	-	43,432	83,389	83,060	83,060	83,060	-	387
2019	-	-	-	-	-	-	32,172	41,198	42,998	43,308	-	283
2020	-	-	-	-	-	-	-	6,078	18,601	17,833	-	133
2021	-	-	-	-	-	-	-	-	13,740	32,858	347	251
2022	-	-	-	-	-	-	-	-	-	11,909	7,930	112
Total										694,208	8,277	3,881

K2 REINSURANCE LTD.
UNAUDITED SUPPLEMENTARY SCHEDULES
December 31, 2022 and 2021
(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, 2022

AY	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	32,939	159,394	164,458	164,378	164,652	164,520	164,520	164,520	164,520	164,598
2014	-	22,318	132,726	134,705	134,918	134,918	134,918	134,918	134,918	134,918
2015	-	-	-	76,348	78,578	78,691	78,779	78,779	78,779	78,779
2016	-	-	-	4,626	70,468	41,484	71,485	71,418	71,418	71,418
2017	-	-	-	-	3,413	56,383	55,568	55,542	55,542	55,527
2018	-	-	-	-	-	22,276	83,341	83,060	83,060	83,060
2019	-	-	-	-	-	-	9,179	40,730	42,998	43,308
2020	-	-	-	-	-	-	-	3,178	16,662	17,833
2021	-	-	-	-	-	-	-	-	4,157	29,901
2022	-	-	-	-	-	-	-	-	-	3,701
Total										683,043
All Outstanding Liabilities before 2013, Net of Reinsurance										-
Provision for Loss and Loss adjustment expenses, Net of reinsurance										11,515

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	16%	82%	2%	0%	0%	0%	0%	0%	0%	0%