

K2 Reinsurance Ltd.

**Financial Statements and
Independent Auditors' Report**

December 31, 2020

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of K2 Reinsurance Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2020 and 2019, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of K2 Reinsurance Ltd. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the disclosure of short-duration contracts included as an appendix on pages 19 through 22, be presented to supplement the basic financial statements. Such information, 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 30, 2021

K2 REINSURANCE LTD.
BALANCE SHEETS
as at December 31, 2020 and 2019
(expressed in U.S. dollars)

	2020	2019
ASSETS:		
Cash and cash equivalents (Notes 3 and 4)	\$ 2,777,855	\$ 1,328,122
Investments classified as available for sale (Note 5)	611,489	793,227
Funds withheld	258,325	209,101
Premiums receivable	616,046	585,420
Due from Parent (Note 9)	-	2,710,589
Deferred reinsurance premium ceded	36,528	26,664
Investment income due and accrued	499	316,073
Deferred acquisition costs	370,182	360,303
	<u>\$ 4,670,924</u>	<u>\$ 6,329,499</u>
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 56,279	\$ 48,404
Unearned premium reserve	1,124,516	1,098,331
Insurance balances payable	409,708	380,270
Income taxes payable	62,189	622,058
Net deferred tax liability (Note 10)	43,825	99,427
Provision for losses and loss expenses (Note 8)	689,646	528,108
	<u>2,386,163</u>	<u>2,776,598</u>
SHAREHOLDER'S EQUITY:		
Share capital (Note 11)	120,000	120,000
Retained earnings	2,164,761	3,432,901
	<u>2,284,761</u>	<u>3,552,901</u>
	<u>\$ 4,670,924</u>	<u>\$ 6,329,499</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, 2020 and 2019
(expressed in U.S. dollars)

	2020	2019
UNDERWRITING INCOME:		
Reinsurance premiums written	\$ 2,507,209	\$ 2,482,563
Reinsurance premiums ceded	(80,000)	(60,000)
	2,427,209	2,422,563
Net written premiums	2,427,209	2,422,563
Net change in unearned premium reserve	(26,185)	(43,518)
Net change in deferred reinsurance premium ceded	9,864	164
	2,410,888	2,379,209
Net premium earned	2,410,888	2,379,209
No claims bonus (Note 7)	-	-
	2,410,888	2,379,209
UNDERWRITING EXPENSES:		
Losses and loss expenses incurred (Note 8)	333,069	293,077
Acquisition costs	835,906	832,929
	1,168,975	1,126,006
UNDERWRITING INCOME	1,241,913	1,253,203
NET INVESTMENT INCOME (Note 5)	65,379	450,494
GENERAL AND ADMINISTRATIVE EXPENSES	(229,441)	(239,578)
	1,077,851	1,464,119
INCOME BEFORE INCOME TAXES	1,077,851	1,464,119
INCOME TAXES (Note 10)	(268,286)	(323,254)
	\$ 809,565	\$ 1,140,865
NET INCOME, BEING COMPREHNSIVE INCOME	\$ 809,565	\$ 1,140,865

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

K2 REINSURANCE LTD.
STATEMENT OF SHAREHOLDER'S EQUITY
for the years ended December 31, 2020 and 2019
(expressed in U.S. dollars)

	<u>Share Capital</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at December 31, 2018	\$ 120,000	\$ 325,333	\$ 4,966,703	\$ 5,412,036
Opening Adjustment	-	(325,333)	325,333	-
Net income	-	-	1,140,865	1,140,865
Dividend	-	-	(3,000,000)	(3,000,000)
Balance at December 31, 2019	<u>120,000</u>	<u>-</u>	<u>3,432,901</u>	<u>3,552,901</u>
Net income	-	-	809,565	809,565
Dividend	-	-	(2,077,705)	(2,077,705)
Balance at December 31, 2020	<u>\$ 120,000</u>	<u>\$ -</u>	<u>\$ 2,164,761</u>	<u>\$ 2,284,761</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, 2020 and 2019
(expressed in U.S. dollars)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 809,565	\$ 1,140,865
Adjustment to reconcile net income to net cash provided by operating activities:		
Realized (gain) on investments	(74,711)	-
Unrealized losses (gain) on investments	203,321	(1,001)
Deferred tax expense	(1,565)	(376)
Changes in assets and liabilities:		
Funds withheld	(49,224)	(45,665)
Premiums receivable	(30,626)	(261,152)
Due from Parent	632,884	387,767
Deferred reinsurance premium ceded	(9,864)	(164)
Investment income due and accrued	315,574	74,468
Deferred acquisition costs	(9,879)	(12,938)
Accounts payable and accrued liabilities	7,875	(11,428)
Unearned premium reserve	26,185	43,518
Insurance balances payable	29,438	61,076
Income taxes payable	(559,869)	242,934
Provision for losses and loss expenses	161,538	80,132
	1,450,642	1,698,036
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	190,211	-
Purchase of investments	(191,120)	-
	(909)	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	-	(3,000,000)
	-	(3,000,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,449,733	(1,301,964)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,328,122	2,630,086
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,777,855	\$ 1,328,122

Non-cash Financing activities:

During the year dividends in the amount of \$2,077,705 were used as repayment of the loan to parent.

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

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019
(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 55% quota share (2019 – 55% quota share from July 1, 2019 to December 31, 2019 and 60% quota share from January 1, 2019 to June 30, 2019) basis of the first \$2,000,000 layer per occurrence, after application of local deductibles. For the years ended December 31, 2020 the Company obtained aggregate reinsurance protection in the amount of \$1,000,000 excess of \$1,100,000 for losses incurred (2019 -\$1,000,000 excess of \$1,200,000). 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 1.51003% of audited payroll, whichever the greater, subject to a limit of liability to the Company of \$2,000,000 or the difference between 1.51003% and 1.84559% of the audited payroll. The estimated payroll is \$596,014,519. 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 5% share (\$50,000) 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, 2020 and 2019
(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 \$28,833 as at December 31, 2020 (2019 - \$64,412) 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, 2020, 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, 2020 and 2019
(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.

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 \$500,000 (2019 - \$500,000), and Dale Underwriting Partners Syndicate 1729 in the amount of \$500,000 (2019 - \$Nil). 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, 2020 and 2019
(expressed in U.S. dollars)

5. INVESTMENTS

	<u>Cost</u>	Gross Unrealized Holding <u>Gains</u>	Gross Unrealized Holding <u>Losses</u>	Estimated Fair <u>Value</u>
As of December 31, 2020				
Equity Investment Funds	\$ 455,159	\$ 156,330	\$ -	\$ 611,489
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As of December 31, 2019				
Equity Investment Funds	\$ 264,039	\$ 70,192	\$ -	\$ 334,231
Equities	115,542	343,454	-	458,996
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 379,581	\$ 413,646	\$ -	\$ 793,227
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

At December 31, 2020, no equity investment funds (2019: no) were in an unrealized loss position and none (2019: none) have been in a continuous unrealized loss position for 12 months or greater.

The Company periodically evaluates its investments for other than temporary impairment. Factors considered in determining whether declines in fair value are other than temporary include the significance of the decline, the time duration of the decline, current economic conditions and the Company's ability and intent to hold the investment until such time that the fair value recovers. At the time an investment is determined to be other than temporarily impaired, the Company records a realized loss in the statement of income and a new cost basis is established. Any subsequent increase or decrease in the investment's market value is reported as an unrealized gain or loss.

Based on the factors described above, the Company concluded that the investment in an unrealized loss position at December 31, 2020 and 2019 was only temporarily impaired.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019
(expressed in U.S. dollars)

5. INVESTMENTS (Cont'd)

Proceeds from sales of available for sale investments during 2020 and 2019 were \$190,211 and \$Nil, respectively. Gross realized gains of \$74,711 and \$51,390 in 2020 and 2019, respectively, and gross realized losses of \$Nil and \$Nil in 2020 and 2019, respectively, were realized on those sales.

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

	2020	2019
Interest and dividend income	\$ 194,502	\$ 400,006
Interest expense	(513)	(1,903)
Realized gain on investments	74,711	51,390
Unrealized (loss) gain on investments	(203,321)	1,001
	<hr/>	<hr/>
Net investment income	\$ 65,379	\$ 450,494
	<hr/> <hr/>	<hr/> <hr/>

Fair Value Measurement

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, and 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, 2020 and 2019
(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, 2020 and 2019 are as follows:

	2020	2019
Level 1 – Quoted prices		
<i>Equity investment funds</i>	\$ 611,489	\$ 334,231
<i>Equities</i>	-	458,996
Level 2 – Other significant observable inputs	-	-
Level 3 – Significant unobservable inputs	-	-
	\$ 611,489	\$ 793,227
	\$ 611,489	\$ 793,227

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 13% (2019 - 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 13% (2019 - 5%) 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, 2020 and 2019
(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:

	2020	2019
Balance, beginning of year	\$ 528,108	\$ 447,976
Incurred related to:		
Current year	186,712	128,345
Prior years	146,357	164,733
Total incurred	<u>333,069</u>	<u>293,078</u>
Paid and payable related to:		
Current year	41,170	14,848
Prior years	130,361	198,098
Total paid	<u>171,531</u>	<u>212,946</u>
Balance, end of year	<u>\$ 689,646</u>	<u>\$ 528,108</u>
	2020	2019
Consisting of:		
Outstanding case reserves	\$ 424,387	\$ 193,497
Incurred but not reported	265,259	334,611
	<u>\$ 689,646</u>	<u>\$ 528,108</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 by \$146,357 for the year ended December 31, 2020 and by \$164,733 for the year ended December 31, 2019.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019
(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, 2020, 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
2011	306,131	306,131	-	12
2012	2,311,577	2,311,577	-	15
2013	130,025	130,025	-	10
2014	60,486	60,486	-	12
2015	44,849	44,849	-	7
2016	241,457	236,584	8,644	12
2017	146,169	130,034	14,205	8
2018	414,468	79,870	45,582	9
2019	62,576	14,796	75,558	8
2020	59,626	37,993	111,040	4
Totals	3,778,364	3,356,345	255,029	97
Cumulative paid losses and loss adjustment expenses from 2020	(3,356,345)			
Reserves for losses and loss adjustment expenses	421,019			

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019
(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
2011	178,658	18,658	-	1,375
2012	186,823	186,823	-	950
2013	164,520	164,520	-	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	41,198	40,730	261	262
2020	6,078	3,178	9,969	31
Totals	1,000,994	997,626	10,230	5,720
Cumulative paid losses and loss adjustment expenses from 2020	<u>(997,626)</u>			
Reserves for losses and loss adjustment expenses	3,368			

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	2020 Reserves for losses and loss adjustment expenses incurred but not reported	2020 incurred losses
Line of business -			
Trustee Errors & Omissions	421,019	255,029	676,048
Student Accident	3,368	10,230	13,598
Total	424,387	265,259	689,646

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, 2020 and 2019
(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 K2 Reinsurance's estimated unpaid liability as of December 2020 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 \$845,768 (2019 - \$845,866) were paid to BRPS.

The due from Parent receivable in the amount of \$Nil (2019 - \$2,710,589) is unsecured, bears interest at the U.S. prime rate plus 2% and is repayable no later than December 31, 2020. During the year, the Company recognized \$145,663 (2019 - \$334,462) of interest income.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019
(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:

	2020	2019
Current expense	\$ 269,851	\$ 323,629
Deferred expense	(1,565)	(375)
	<u>\$ 268,286</u>	<u>\$ 323,254</u>

At December 31, 2020 and 2019, the tax effects of temporary differences that give rise to significant portions of the deferred tax asset and deferred tax liability as follows:

	2020	2019
Discount on outstanding losses and loss expenses	\$ 12,052	\$ 9,291
Unearned premiums	47,230	46,130
Loss carryforward	-	-
Deferred tax asset	<u>59,282</u>	<u>55,421</u>
Unrealized gain on investments	(32,829)	(86,747)
Deferred acquisition costs	(70,277)	(68,100)
Deferred tax liability	<u>(103,107)</u>	<u>(154,847)</u>
Net deferred tax liability	<u>\$ 43,825</u>	<u>\$ (99,427)</u>

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019
(expressed in U.S. dollars)

11. SHARE CAPITAL

	2020	2019
Authorized, issued and fully paid:		
120,000 common shares of US \$1 each par value	\$ 120,000	\$ 120,000

12. STATUTORY REQUIREMENTS expressed in ‘000s of dollars

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, 2020, these requirements have been met. The minimum required statutory capital and surplus was \$1,000 (2019: \$1,000) and actual statutory capital and surplus was \$1,915 (2019: \$3,193) at December 31, 2020. The minimum required level of liquid assets was \$1,729(2019: \$1,988) and actual liquid assets were \$4,264 (2019: \$3,231) at December 31, 2020.

As a result of these requirements, retained earnings in the amount of \$672 (2019: \$797) at December 31, 2020 were restricted for distribution to the shareholder.

13. SUBSEQUENT EVENTS

In preparing the financial statements, management has evaluated subsequent events through April 30, 2021, 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, 2020 and 2019
(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, 2020

AY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total of Incurred but not reported liabilities plus expected development on Reported Claims	Cumulative Number of Reported Claims
2011	10,4581	414,488	265,844	262,651	320,415	331,845	305,938	305,986	306,055	306,131	-	12
2012	-	104,579	163,219	327,545	1,095,779	2,312,959	2,311,421	2,311,526	2,311,577	2,311,577	-	15
2013	-	-	157,241	231,101	204,085	155,246	155,246	134,256	134,981	130,025	-	10
2014	-	-	-	159,087	203,251	156,408	123,067	60,314	60,410	60,486	-	12
2015	-	-	-	-	80,930	140,150	126,246	44,791	44,791	44,849	-	7
2016	-	-	-	-	-	151,813	205,549	304,843	304,775	241,457	8,644	12
2017	-	-	-	-	-	-	70,261	214,870	196,894	146,169	14,205	8
2018	-	-	-	-	-	-	-	119,519	268,498	414,468	45,582	9
2019	-	-	-	-	-	-	-	-	96,174	63,428	75,558	8
2020	-	-	-	-	-	-	-	-	-	56,626	111,040	4
Total										3,778,216	255,029	97

K2 REINSURANCE LTD.
UNAUDITED SUPPLEMENTARY SCHEDULES
December 31, 2020 and 2019
(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, 2020**

AY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	3,567	22,336	195,698	222,388	294,815	302,958	305,938	305,986	306,055	306,131
2012	-	-	21,943	91,218	657,994	2,071,826	2,095,184	2,311,423	2,311,577	2,311,577
2013	-	-	-	9,940	84,470	112,466	122,423	126,013	129,806	130,025
2014	-	-	-	8,646	28,196	48,569	57,706	60,314	60,410	60,486
2015	-	-	-	-	-	9,439	22,264	44,791	44,791	44,849
2016	-	-	-	-	-	-	39,604	182,873	212,351	236,584
2017	-	-	-	-	-	-	4,950	37,832	110,743	134,034
2018	-	-	-	-	-	-	-	1,650	38,685	79,870
2019	-	-	-	-	-	-	-	-	5,670	14,796
2020	-	-	-	-	-	-	-	-	-	37,993

Total										3,356,345
All Outstanding Liabilities before 2008, Net of Reinsurance										-
Provision for Loss and Loss adjustment expenses, Net of reinsurance										421,019

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	9%	14%	37%	21%	18%	1%	3%	0%	0%	0%

K2 REINSURANCE LTD.
UNAUDITED SUPPLEMENTARY SCHEDULES
December 31, 2020 and 2019
(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, 2020

AY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total of Incurred but not reported liabilities plus expected development on Reported Claims	Cumulative Number of Reported Claims
2011	103,042	177,667	178,567	178,658	178,658	178,658	178,658	178,658	178,658	178,658	-	1,375
2012	-	57,568	188,100	186,824	186,824	186,824	186,824	186,824	186,824	186,824	-	950
2013	-	-	90,603	163,398	164,553	164,653	164,652	164,520	164,520	164,520	-	811
2014	-	-	-	73,539	134,697	134,705	134,918	134,918	134,918	134,918	-	732
2015	-	-	-	-	15,391	80,710	78,847	78,961	78,779	78,779	-	466
2016	-	-	-	-	-	27,972	72,043	71,464	71,485	71,418	-	361
2017	-	-	-	-	-	-	28,186	57,709	55,568	55,542	-	345
2018	-	-	-	-	-	-	-	43,432	83,389	83,060	-	387
2019	-	-	-	-	-	-	-	-	32,172	41,198	261	262
2020	-	-	-	-	-	-	-	-	-	6,078	9,969	31
Total										1,000,994	10,230	5,720

K2 REINSURANCE LTD.
UNAUDITED SUPPLEMENTARY SCHEDULES
December 31, 2020 and 2019
(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, 2020

AY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	24,440	173,612	178,567	178,568	178,568	178,568	178,568	178,568	178,568	178,568
2012	-	54,611	185,932	186,824	186,824	186,824	186,824	186,823	186,823	186,823
2013	-	-	32,939	159,934	164,458	164,378	164,652	164,520	164,520	164,520
2014	-	-	-	22,318	132,726	134,705	134,918	134,918	134,918	134,918
2015	-	-	-	-	-	76,348	78,578	78,691	78,779	78,779
2016	-	-	-	-	-	4,626	70,463	71,464	71,485	71,418
2017	-	-	-	-	-	-	3,413	56,383	55,568	55,542
2018	-	-	-	-	-	-	-	22,276	82,341	83,060
2019	-	-	-	-	-	-	-	-	9,179	40,730
2020	-	-	-	-	-	-	-	-	-	3,178
Total										997,626
All Outstanding Liabilities before 2008, Net of Reinsurance										-
Provision for Loss and Loss adjustment expenses, Net of reinsurance										3,368

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	19%	83%	1%	0%	0%	0%	0%	0%	0%	0%