

K2 Reinsurance Ltd.

**Financial Statements and
Independent Auditors' Report**

December 31, 2023



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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 sheets as of December 31, 2023 and 2022, and the related statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years 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, 2023 and 2022, 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.

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 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 2023 and prior and the average annual percentage payout of incurred claims by age disclosed 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 29, 2024

K2 REINSURANCE LTD.
BALANCE SHEETS
as at December 31, 2023 and 2022
(expressed in U.S. dollars)

	2023	2022
ASSETS:		
Cash and cash equivalents (Notes 3)	\$ 4,451,302	\$ 3,712,219
Investments (Note 4)	562,784	516,553
Funds withheld (Note 5)	383,242	422,142
Premiums receivable	749,020	900,320
Other receivable	72,163	-
Deferred reinsurance premium ceded	43,336	38,962
Investment income due and accrued	798	798
Deferred acquisition costs	424,352	398,445
	<u>\$ 6,686,997</u>	<u>\$ 5,989,439</u>
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 83,770	\$ 82,370
Unearned premium reserve	1,231,295	1,155,542
Insurance balances payable	367,043	421,084
Due to Parent (Note 9)	525,050	389,030
Net deferred tax liability (Note 10)	28,644	27,372
Provision for losses and loss expenses (Note 8)	1,712,391	1,012,668
	<u>3,948,193</u>	<u>3,088,066</u>
SHAREHOLDER'S EQUITY:		
Share capital (Note 11)	120,000	120,000
Retained earnings	2,618,804	2,781,373
	<u>2,738,804</u>	<u>2,901,373</u>
	<u>\$ 6,686,997</u>	<u>\$ 5,989,439</u>

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

APPROVED BY THE BOARD:

.....Director
.....Date

K2 REINSURANCE LTD.
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
for the years ended December 31, 2023 and 2022
(expressed in U.S. dollars)

	2023	2022
UNDERWRITING INCOME:		
Reinsurance premiums written	\$ 2,791,406	\$ 2,686,334
Reinsurance premiums ceded	(100,000)	(88,050)
	2,691,406	2,598,284
Net written premiums	2,691,406	2,598,284
Net change in unearned premium reserve	(75,752)	57,613
Net change in deferred reinsurance premium	4,374	2,418
	2,620,028	2,658,315
UNDERWRITING EXPENSES:		
Losses and loss expenses incurred (Note 8)	1,016,829	813,651
Acquisition costs	951,689	952,465
	1,968,518	1,766,116
UNDERWRITING INCOME	651,510	892,199
NET INVESTMENT (LOSS) INCOME (Note 4)	121,846	(60,716)
GENERAL AND ADMINISTRATIVE EXPENSES	(183,341)	(193,437)
	590,015	638,046
INCOME BEFORE INCOME TAXES	590,015	638,046
INCOME TAXES (Note 8)	(127,584)	(133,989)
	462,431	504,057
COMPREHENSIVE INCOME	\$ 462,431	\$ 504,057

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

K2 REINSURANCE LTD.
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
for the years ended December 31, 2023 and 2022
(expressed in U.S. dollars)

	<u>Share Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at December 31, 2021	\$ 120,000	\$ 2,943,316	\$ 3,063,316
Net income	-	504,057	504,057
Dividend	-	(666,000)	(666,000)
Balance at December 31, 2022	120,000	2,781,373	2,901,373
Net income	-	462,431	462,431
Dividend	-	(625,000)	(625,000)
Balance at December 31, 2023	\$ 120,000	\$ 2,618,804	\$ 2,738,804

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

K2 REINSURANCE LTD.
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2023 and 2022
(expressed in U.S. dollars)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 462,431	\$ 504,057
Adjustment to reconcile net income to net cash (used in) provided by operating activities:		
Realized (gain) losses on investments	(32,273)	(6,000)
Unrealized losses (gain) on investments	(36,523)	113,042
Deferred tax expense	(8,436)	(637)
Changes in assets and liabilities:		
Funds withheld	38,900	(226,816)
Premiums receivable	151,300	(302,424)
Other receivable	(72,163)	-
Deferred reinsurance premium ceded	(4,374)	(2,419)
Deferred acquisition costs	(25,907)	1,743
Accounts payable and accrued liabilities	1,400	19,072
Unearned premium reserve	75,753	(57,611)
Insurance balances payable	(54,041)	120,709
Due to Parent	136,020	134,626
Provision for losses and loss expenses	699,723	350,744
	1,331,810	648,084
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	32,273	6,000
Purchase of investments	-	-
	32,273	6,000
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(625,000)	(666,000)
	(625,000)	(666,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	739,083	(11,916)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,712,219	3,724,135
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,451,302	\$ 3,712,219

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

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022
(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 60% quota share (2022 – 57.5% for January 2023 and 60% quota share for February through December) basis of the first \$2,000,000 layer per occurrence, after application of local deductibles. For the years ended December 31, 2023, the Company obtained aggregate reinsurance protection in the amount of \$1,000,000 excess of \$1,150,000 for losses incurred (2022 -\$1,000,000 excess of \$1,150,000). The Company had also purchased aggregate reinsurance protection in prior years which was not utilized.

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, 2023 and 2022
(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.

Accounting Standards Adopted in 2023

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

In addition, CECL made changes to the accounting for available for sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. No transition adjustment for the adoption of CECL is included in the financial statements. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards (“Incurred Loss”).

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available for sale securities was not deemed material.

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022
(expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Con't)

the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

Allowance for Credit Losses – Available for Sale Securities

For available for sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings. If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security.

If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income. Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available for sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met.

At December 31, 2023, there was no allowance for credit loss related to the available for sale portfolio.

Allowance for Credit Losses – Premiums Receivable

The Company recognizes premium receivables arising from the issuance of insurance contracts. These receivables represent the portion of the premiums due from policyholders for coverage periods extending beyond the reporting date. Premium receivables are initially recorded at their estimated collectible amount, which considers historical collection experience and any specific credit risk factors. Subsequent adjustments to the allowance for credit losses are made based on changes in the collectability assessment in accordance with the Current Expected Credit Loss (CECL) model.

As of December 31, 2023, no allowance for credit loss related to Premiums Receivable has been recorded, as management determined that the collectability of premium receivables is probable based on historical collection experience and the Company's assessment of current credit risk factors.

Premium receivables are evaluated for impairment regularly, and adjustments are recorded as necessary to reflect changes in credit risk. The allowance for credit losses related to premium receivables is included in the consolidated balance sheet as a deduction from premium receivables.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022
(expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 \$27,700 as at December 31, 2023 (2022 - \$54,000) 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, 2023, 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.

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.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022
(expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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. 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.

	2023	2022
Cash	\$ 552,129	\$ 595,631
Money Market Funds	1,248,704	466,431
Insured Deposit with FDIC	2,650,469	2,650,157
	<u> </u>	<u> </u>
	<u>\$ 4,451,302</u>	<u>\$ 3,712,219</u>

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022
(expressed in U.S. dollars)

4. 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, 2023				
Equity	\$ 264,039	\$ -	\$ (27,546)	\$ 236,493
Exchange Traded Funds	191,120	135,171	-	326,291
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 455,159	\$ 135,171	\$ (27,546)	\$ 562,784
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	<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	\$ 264,039	\$ 17,165	\$ -	\$ 281,204
Exchange Traded Funds	191,120	44,229	-	253,349
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 455,159	\$ 61,394	\$ -	\$ 516,553
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

One investment classified as available-for-sale was in an unrealized loss position at December 31, 2023.

At December 31, 2023, one Equity investment, and no Exchange traded Funds (2022: none) were in an unrealized loss position and none (2022: none) have been in a continuous unrealized loss position for 12 months or greater.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022
(expressed in U.S. dollars)

4. INVESTMENTS (Cont'd)

Proceeds from sales of available for sale investments during 2023 and 2022 were \$32,273 and \$6,000, respectively. Gross realized gains of \$32,273 and \$6,000 in 2023 and 2022, respectively, and gross realized losses of \$Nil in 2023 and 2022, respectively, were realized on those sales.

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

	2023	2022
Interest and dividend income	\$ 53,050	\$ 46,326
Interest expense	-	-
Realized (loss) gain on investments	32,273	6,000
Unrealized (loss) gain on investments	36,523	(113,042)
	<hr/>	<hr/>
Net investment income	\$ 121,846	\$ (60,716)
	<hr/> <hr/>	<hr/> <hr/>

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, 2023 and 2022
(expressed in U.S. dollars)

4. 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, 2023 and 2022 are as follows:

	2023	2022
Level 1 – Quoted prices		
<i>Equity</i>	\$ 236,493	\$ 281,204
<i>Exchange Traded Funds</i>	326,291	253,349
	\$ 562,784	\$ 516,553
	\$ 562,784	\$ 516,553

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

5. FUNDS WITHHELD

The Company records funds withheld by ceding companies in the form of cash held as paid loss deposit funds to settle loss and loss expenses resulting from claim settlements. These funds represent amounts held by ceding companies as security for potential claims and are managed in accordance with contractual agreements with these companies.

The funds withheld by ceding companies are recorded on the Company's balance sheet as an asset, reflecting the quota share of cash held by those ceding companies funded by the Company. The amount of funds withheld may fluctuate based on changes in claims activity and contractual agreements with ceding companies.

The Company regularly assesses the adequacy of the funds withheld by ceding companies to ensure sufficient resources are available to meet claim obligations. Any adjustments to the funds are recorded in the period in which they are determined.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022
(expressed in U.S. dollars)

6. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

The Company's financial instruments include cash and cash equivalents, investments, investment income due and accrued, Premium and Other receivable, 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, Premiums and Other receivable, and 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 8% (2022 - 9%) 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 8% (2022 - 9%) 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.

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.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022
(expressed in U.S. dollars)

8. PROVISION FOR LOSSES AND LOSS EXPENSES

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

	2023	2022
Balance, beginning of year	\$ 1,012,668	\$ 661,954
Incurred related to:		
Current year	242,660	201,522
Prior years	774,169	612,128
Total incurred	<u>1,016,829</u>	<u>813,650</u>
Paid and payable related to:		
Current year	2,562	3,701
Prior years	314,544	459,205
Total paid	<u>317,106</u>	<u>462,906</u>
Balance, end of year	<u>\$ 1,712,391</u>	<u>\$ 1,012,668</u>
	2023	2022
Consisting of:		
Outstanding case reserves	\$ 963,901	\$ 470,966
Incurred but not reported	748,490	541,702
	<u>\$ 1,712,391</u>	<u>\$ 1,012,668</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 \$774,169 for the year ended December 31, 2023 and to \$612,128 for the year ended December 31, 2022.

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022
(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, 2023, 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
2014	60,486	60,486	3,000	12
2015	44,885	44,885	-	7
2016	274,680	274,680	-	12
2017	165,176	165,176	4,832	8
2018	651,465	629,794	7,624	10
2019	240,033	184,944	5,427	7
2020	696,593	322,541	59,724	13
2021	229,579	120,406	123,021	9
2022	448,440	61,911	318,666	9
2023	-	-	223,515	1
Totals	2,811,336	1,863,982	745,809	88
Cumulative paid losses and loss adjustment expenses from 2023	(1,863,982)			
Reserves for losses and loss adjustment expenses	947,354			

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
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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
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	31,048	31,048	-	252
2022	46,391	44,036	292	298
2023	16,753	2,561	2,389	127
Totals	579,035	562,488	2,681	3,384
Cumulative paid losses and loss adjustment expenses from 2023	(562,488)			
Reserves for losses and loss adjustment expenses	16,547			

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	2023 Reserves for losses and loss adjustment expenses incurred but not reported	2023 incurred losses
Line of business -			
Trustee Errors & Omissions	947,354	745,809	1,693,163
Student Accident	16,547	2,681	19,228
Total	963,901	748,490	1,712,391

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

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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 2023 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 \$977,596 (2022 - \$950,723) were paid to BRPS.

The Due to Parent payable in the amount of \$525,050 (2022 - \$389,030) is the tax liability paid for by the parent on behalf of the company.

K2 REINSURANCE LTD.
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10. TAXATION

Bermuda

On December 27, 2023, the Government of Bermuda enacted the Corporate Income Tax Act of 2023 (the "Act") which will apply a 15% corporate income tax to certain Bermuda businesses beginning on January 1, 2025. The Act provides that the tax applies regardless of whether in scope entities had a prior undertaking from the Bermuda Government exempting them from income tax. The Company, as a wholly owned subsidiary of a larger enterprise, meets the definitions of an entity subject to the tax. For the period ending December 31, 2023 the Company recorded a deferred tax liability for the anticipated future tax liabilities and an offsetting deferred tax asset for a foreign tax credit that will be available to the Company because it is also taxed on its income in the US; see discussion below regarding the Company's Section 953(d) election.

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, 2023, 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 operating expenses.

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

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
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10. TAXATION (Cont'd)

Income taxes attributable to continuing operations comprise:

	2023	2022
Current expense	\$ 136,020	\$ 134,626
Deferred expense	(8,436)	(637)
	\$ 127,584	\$ 133,990
	\$ 127,584	\$ 133,990

At December 31, 2023 and 2022, the tax effects of temporary differences that give rise to significant portions of the deferred tax asset and deferred tax liability as follows:

	2023	2022
Discount on outstanding losses and loss expenses	\$ 24,710	\$ 16,987
Unearned premiums	67,972	48,533
Foreign Tax Credit	79,145	-
Deferred tax asset	171,826	65,520
Unrealized gain on investments	(38,745)	(12,893)
Deferred acquisition costs	(162,013)	(79,999)
Other	287	-
Deferred tax liability	(200,470)	(92,892)
Net deferred tax liability	\$ (28,644)	\$ (27,372)

11. SHARE CAPITAL

	2023	2022
Authorized, issued and fully paid: 120,000 common shares of US \$1 each par value	\$ 120,000	\$ 120,000

11. 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, 2023, these requirements have been met. The minimum required

K2 REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS
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12. STATUTORY REQUIREMENTS expressed in '000s (Cont'd)

statutory capital and surplus was \$1,000 (2022: \$1,000) and actual statutory capital and surplus was \$2,314 (2022: \$2,503) at December 31, 2023. The minimum required level of liquid assets was \$2,907 (2022: \$2,267) and actual liquid assets were \$6,219 (2022: \$5,552) at December 31, 2023.

As a result of these requirements, retained earnings in the amount of \$1,109 (2022: \$1,335) at December 31, 2023 were restricted for distribution to the shareholder.

13. SUBSEQUENT EVENTS

In preparing the financial statements, management has evaluated subsequent events through April 29, 2024, which is the date these financial statements were available to be issued and there were no events noted.

K2 REINSURANCE LTD.
UNAUDITED SUPPLEMENTARY SCHEDULES
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Appendix

Supplementary unaudited information to Note 7 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, 2023**

AY	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total of Incurred but not reported liabilities plus expected development on Reported Claims	Cumulative Number of Reported Claims
2014	159,087	203,251	156,408	123,067	60,314	60,410	60,486	60,486	60,486	60,486	3,000	12
2015	-	80,930	140,150	126,246	44,791	44,791	44,849	44,885	44,885	44,885	-	7
2016	-	-	151,813	205,549	304,843	304,775	241,457	277,044	277,188	274,680	-	12
2017	-	-	-	70,261	214,870	196,894	146,169	176,565	165,176	165,176	4,832	8
2018	-	-	-	-	119,519	268,498	414,468	521,979	658,803	651,465	7,624	10
2019	-	-	-	-	-	96,174	63,428	103,141	189,298	240,033	5,427	7
2020	-	-	-	-	-	-	59,626	237,071	610,188	696,593	59,724	13
2021	-	-	-	-	-	-	-	30,750	62,848	229,579	123,021	9
2022	-	-	-	-	-	-	-	-	18,840	448,440	318,666	9
2023	-	-	-	-	-	-	-	-	-	-	223,515	1
Total										2,811,337	745,809	88

K2 REINSURANCE LTD.
UNAUDITED SUPPLEMENTARY SCHEDULES
December 31, 2023 and 2022
(expressed in U.S. dollars)

Appendix (Cont'd)

Supplementary unaudited information to Note 7 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, 2023

AY	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2014	8,646	28,196	48,569	57,706	60,314	60,410	60,486	60,486	60,486	60,486
2015	-	-	9,439	22,264	44,791	44,791	44,849	44,885	44,885	44,885
2016	-	-	-	39,604	182,873	212,351	236,584	265,045	273,666	274,680
2017	-	-	-	4,950	37,832	110,743	134,034	153,800	165,176	165,176
2018	-	-	-	-	1,650	38,685	79,870	449,451	610,302	629,794
2019	-	-	-	-	-	5,670	14,796	94,391	170,771	184,944
2020	-	-	-	-	-	-	37,993	124,313	281,775	322,541
2021	-	-	-	-	-	-	-	-	20,010	120,406
2022	-	-	-	-	-	-	-	-	840	61,071
2023	-	-	-	-	-	-	-	-	-	-

Total										1,863,983
All Outstanding Liabilities before 2013, Net of Reinsurance										-
Provision for Loss and Loss adjustment expenses, Net of reinsurance										947,354

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%	15%	33%	26%	10%	4%	1%	0%	0%	0%

K2 REINSURANCE LTD.
UNAUDITED SUPPLEMENTARY SCHEDULES
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(expressed in U.S. dollars)

Appendix (Cont'd)

Supplementary unaudited information to Note 7 of the Financial Statement Student Accident Program

Student Accident Program:
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance
Years Ended December 31, 2023

AY	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total of Incurred but not reported liabilities plus expected development on Reported Claims	Cumulative Number of Reported Claims
2014	73,539	134,697	134,705	134,918	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	78,779	-	466
2016	-	-	27,972	72,043	71,464	71,485	71,418	71,418	71,418	71,418	-	361
2017	-	-	-	28,186	57,709	55,568	55,542	55,542	55,527	55,527	-	345
2018	-	-	-	-	43,432	83,389	83,060	83,060	83,060	83,060	-	387
2019	-	-	-	-	-	32,172	41,198	42,998	43,308	43,308	-	283
2020	-	-	-	-	-	-	6,078	18,601	17,833	17,833	-	133
2021	-	-	-	-	-	-	-	13,740	32,858	31,048	-	252
2022	-	-	-	-	-	-	-	-	11,909	46,391	292	298
2023	-	-	-	-	-	-	-	-	-	16,753	2,389	127
Total										579,035	2,681	3,384

K2 REINSURANCE LTD.
UNAUDITED SUPPLEMENTARY SCHEDULES
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Appendix (Cont'd)

Supplementary unaudited information to Note 7 of the Financial Statement Trustee Errors & Omissions program

**Student Accident Program:
Cumulative Paid Claims and Allocated Expenses, Net of Reinsurance
Years Ended December 31, 2023**

AY	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2014	22,318	132,726	134,705	134,918	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	78,779
2016	-	-	4,626	70,463	71,464	71,485	71,418	71,418	71,418	71,418
2017	-	-	-	3,413	56,383	55,568	55,542	55,542	55,527	55,527
2018	-	-	-	-	22,276	82,341	83,060	83,060	83,060	83,060
2019	-	-	-	-	-	9,179	40,730	42,998	43,308	43,308
2020	-	-	-	-	-	-	3,178	16,662	17,833	17,833
2021	-	-	-	-	-	-	-	4,157	29,901	31,048
2022	-	-	-	-	-	-	-	-	3,701	44,036
2023	-	-	-	-	-	-	-	-	-	2,561
Total										562,488
All Outstanding Liabilities before 2014, Net of Reinsurance										-
Provision for Loss and Loss adjustment expenses, Net of reinsurance										16,547

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	13%	84%	3%	0%	0%	0%	0%	0%	0%	0%