

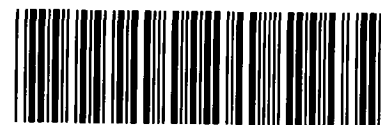
K2 Financial Limited

Annual Report and Financial Statements

For the year ended 31 December 2021

Registered No: 12493035

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COMPANIES HOUSE

K2 Financial Limited

Registered No: 12493035

Directors

R J Coello

S J Holt

R Kimmel

Auditor

Grant Thornton UK LLP

Chartered Accountants and Statutory Auditor

30 Finsbury Square

London

EC2A 1AG

Registered Office

5th Floor

35 Great St. Helen's

London

EC3A 6AP

K2 Financial Limited

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K2 Financial Limited

Strategic report to the members of K2 Financial Limited

The Directors present their Strategic Report for the year ended 31 December 2021. The comparative figures represent a 9 month period ended 31 December 2020.

K2 Financial Limited ('the Company') undertakes insurance market activities with the principal activity being an insurance general agent.

The Company is an appointed representative of Pioneer Underwriting Limited ('Pioneer') who are regulated by the Financial Conduct Authority.

Results and dividends

The financial results are set out in the profit and loss account on page 13.

At the year end the Company had a shareholder surplus of £6.5m (2020: £5.5m). No dividends were paid during the year (2020: £nil).

Key performance indicators

	2021	2020
	£m	£m
Turnover	5.0	2.7
Profit before tax	1.3	0.3

Performance during the year was consistent with the directors' expectations.

Principal Risks and Uncertainties

A review of the principal risks and uncertainties faced by the Company, and how it mitigates against them, is set out in the Directors' Report.

Greenhouse Gas Emissions

The Company has assessed its energy consumption for the year ended 31 December 2021 to be less than 40,000 KHW and is therefore categorised as a Low Energy User and exempt from the greenhouse gas emission disclosure requirements under The Companies Act 2006.

Supplier Payment Policy and performance

It is the Company's policy to agree appropriate terms and conditions in advance with its suppliers and to make payment in accordance with those terms and conditions, provided that the supplier has complied with them.

Shareholders

Engagement with shareholders is essential for the long-term success of the Company. Shareholders are engaged through board meetings and regular monthly updates on business performance. The discussions covered include performance of the Company, corporate governance, employee compensation and the strategic direction of the Company.

K2 Financial Limited

Strategic report (continued) to the members of K2 Financial Limited

Employment policies and diversity

During the year the Company employed an average of 4 people (2020: 4), all of whom are employed in the United Kingdom.

The Board recognises that the continuing success of the Company depends on its employees and is adopting policies designed to retain, attract, develop and train talented individuals and teams.

The Company is an equal opportunities employer and bases decisions on an individual's ability regardless of race, religion, gender, age or disability.

Customers

Customer care is within the Board's main area of interest. Listening to our customers' needs and acting in their best interest is our priority. Working with the international markets, we bring innovative and tailored solutions to our customers, and once built, we maintain long lasting relationships with them. The Company's engagement with customers is routinely discussed in monthly meetings.

Regulatory relationships

The Company is an appointed representative of Pioneer. The Company engages with Pioneer in a transparent manner, facilitated by the Company's legal and compliance team which reports on a regular basis to the board and deals with any ad hoc queries.

Approved by the Board of Directors on 14 June 2022 and signed on its behalf by



Richard Coello

Director

K2 Financial Limited

5th Floor, 35 Great St. Helen's

London, EC3A 6AP

K2 Financial Limited

Directors' report to the members of K2 Financial Limited

The directors present their report and audited accounts together with the financial statements and auditor's report for year ended 31 December 2021. The comparative figures represent a 9 month period ended 31 December 2020.

Principal activity

The Company undertakes insurance market activities with the principal activity being an insurance general agent.

Directors

The current directors of the Company are listed on page 1.

The directors of the Company who served during the year under review and up to the date of this report were:

R J Coello

S J Holt

R Kimmel

Directors' liabilities

The Company has granted an indemnity to all directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third-party indemnity provision remains in force at the date of approving the directors' report.

Future developments

The Company expects to continue to operate as an insurance general agent for the foreseeable future. The Company continues to seek additional partners to expand the capacity of the business. There are currently no adverse future expected developments.

The Company has not been, nor expects to be impacted by Covid-19. Over-rider income has been earned as expected, receivables are collected in a timely manner and the Company has been able to effectively work remotely. The Directors have therefore determined that there are no material items to be disclosed as a result of Covid-19.

The Company has not been, nor expects to be impacted by the Ukraine conflict. The Directors have therefore determined that there are no material items to be disclosed as a result of this.

Dividends

Dividends paid to parent company during the year was £nil (2020: £nil).

Going concern

The directors are confident the Company is a going concern and have adequate resources to continue in operational existence for the foreseeable future. Operational support is provided to the Company from K2 Group Services Limited, a direct subsidiary of K2 Group Holdings Limited. Both the UK parent company and ultimate parent company in the US have provided assurance that all group companies will be supported throughout.

K2 Financial Limited

Directors' report (continued) to the members of K2 Financial Limited

Financial instruments

The company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk.

Cash flow risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. A fellow Group company has entered into derivative contracts to provide a commercial hedge against these exposures in 2021 and 2022.

Credit risk

The Company's principal financial assets are trade receivables. The amounts presented in the balance sheet are net of allowance for doubtful receivables, of which there are none for the year ended December 2021. The company has no significant concentration of credit risk, with exposure spread over a number of counterparties.

Liquidity risk

The Company's liquidity is managed by a fellow Group company which continuously monitors forecast and actual cash flows. The Company has access to funds from the ultimate parent if required.

Principal risks and uncertainties

The management of the business and the execution of the strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are considered to relate to:

- competition from other MGAs and insurers;
- the relative value of sterling against our key currencies, notably the US Dollar;
- claims and claims costs, which can affect the level of profit commission that the Company receives, (although the underwriting agency operations are not directly responsible for claims); and
- in respect of Brexit, the Company has considered the implications of leaving the EU and does not believe it will have a material impact.

There are regular leadership group meetings to review strategic risks, a strategic planning process and due diligence and risk assessments to help mitigate against the above risks. The Company does not expect the risks going forward to differ to those currently faced.

Events after the balance sheet date

Refer to note 18 for further detail on events after the balance sheet date.

Directors' confirmations

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

K2 Financial Limited

Directors' report (continued)
to the members of K2 Financial Limited

Independent auditors

The auditors, Grant Thornton UK LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 14 June 2022 and signed on its behalf by:

Richard Coello

Richard Coello

Director

K2 Financial Limited

5th Floor, 35 Great St. Helen's

London, EC3A 6AP

K2 Financial Limited

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102, "the financial reporting standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

K2 Financial Limited

**Independent Auditor's report
to the members of K2 Financial Limited****Opinion**

We have audited the financial statements of K2 Financial Limited (the 'company') for the year ended 31 December 2021, which comprise the Profit and Loss Account, Balance Sheet and Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

K2 Financial Limited

Independent Auditor's report (continued)
to the members of K2 Financial Limited**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

K2 Financial Limited

Independent Auditor's report (continued)

to the members of K2 Financial Limited

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and industry in which it operates. We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors and management. We determined that the most significant laws and regulations were United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Companies Act 2006;
- We enquired of the directors and management to obtain an understanding of how the Company is complying with those legal and regulatory frameworks and whether there were any instances of non-compliance with laws and regulations and whether they had any knowledge of actual or suspected fraud. We corroborated the results of our enquiries through our review of the minutes of the Company's board meetings, inspection of the incidents and breaches report, inspection of legal and regulatory correspondence;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included an evaluation of the risk of management override of controls. Audit procedures performed by the engagement team in connection with the risks identified included:
 - evaluation of the design and implementation of controls that management has put in place to prevent and detect fraud;
 - testing journal entries, including manual journal entries processed at the year-end for financial statements preparation; and
 - challenging the assumptions and judgements made by management in its significant accounting estimates.

K2 Financial Limited

Independent Auditor's report (continued) to the members of K2 Financial Limited

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with, audit engagements of a similar nature and complexity, through appropriate training and participation;
 - knowledge of the industry in which the Company operates; and
 - understanding of the legal and regulatory frameworks applicable to the Company.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton UK LLP

William Pointon

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

14 June 2022

K2 Financial Limited

Profit and Loss Account

For the year ended 31 December 2021

	Notes	2021 £'000	2020 (9 month period) £'000
Turnover	2	4,951	2,686
Administrative expenses		(3,616)	(2,357)
Profit before taxation		1,335	329
Tax charge on profit	5	(400)	(107)
Profit for the year		935	222

All operations derive from continuing activities.

A statement of comprehensive income has not been prepared as there is no other comprehensive income for the current financial year other than as stated in the profit and loss account.

The accompanying notes form an integral part of the financial statements.

K2 Financial Limited

Balance Sheet

As at 31 December 2021

	Notes	2021 £'000	2020 £'000
Fixed assets			
Intangible assets	6	3,932	4,408
Current assets			
Debtors:			
- due within one year	7	3,867	1,880
		<u>3,867</u>	<u>1,880</u>
Creditors: amounts falling due within one year	8	(974)	(449)
Net current assets		<u>2,893</u>	<u>1,431</u>
Deferred tax	9	(347)	(296)
Net assets		<u>6,478</u>	<u>5,543</u>
Capital and reserves			
Called up share capital	10	1	1
Share premium account	11	1,664	1,664
Other reserve	12	3,656	3,656
Profit and loss account		<u>1,157</u>	<u>222</u>
Equity shareholders' funds		<u>6,478</u>	<u>5,543</u>

The accompanying notes form an integral part of the financial statements for K2 Financial Limited, which were approved by the Board of Directors on 14 June 2022 and signed on its behalf.



Richard Coello

Director

K2 Financial Limited

5th Floor, 35 Great St. Helen's

London, EC3A 6AP

K2 Financial Limited

Statement of changes in equity

For the year ended 31 December 2021

	Called up share capital	Share premium account	Other reserve	Profit and loss account	Total equity shareholders' funds
	£'000	£'000	£'000	£'000	£'000
Share capital issued	1	1,664	–	–	1,665
Capital contribution	–	–	3,656	–	3,656
Total comprehensive income for the period	–	–	–	222	222
<i>As at 31 December 2020</i>	1	1,664	3,656	222	5,543
Total comprehensive income for the year	–	–	–	935	935
<i>As at 31 December 2021</i>	1	1,664	3,656	1,157	6,478

The accompanying notes form an integral part of the financial statements.

K2 Financial Limited

Notes to the accounts

For the year ended 31 December 2021

1. Accounting policies**Company information**

The Company is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and registered in 2020. The address of the Company's registered office is shown on page 1.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year.

As permitted by FRS 102, the Company has taken advantage of certain disclosure exemptions available under this standard including those related to the statement of cash flows.

General information and basis of accounting

The accounts are prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of the Company is pounds sterling because that is the currency of the primary economic environment in which the Company operates. The financial statements are also presented in pounds sterling.

Going concern

The financial statements have been prepared under the going concern basis. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. These enquiries include Cashflow and Profit & Loss forecasts which have been sensitized to provide comfort sufficient resources are available.

Covid-19 has not had a significant impact on the Company during 2020 and 2021 and it is not expected to have a material impact going forward.

The Company has not been, nor expects to be impacted by the Ukraine conflict.

The Directors have a reasonable expectation that the Company has adequate support from K2 Group Holdings Limited to continue in operational existence for the foreseeable future or until such point that they are no longer owned by K2 Group Holdings Limited.

Turnover**Commission**

The Company acts primarily as an agent of the insurer while acting in the capacity as underwriting agent. The Company's performance obligations are distinct from those of the insurer and are primarily completed prior to the inception of the insurance policy. Commissions earned are associated with the placement of insurance contracts net of commissions payable to other directly involved parties. Commission is recognised at the later of the policy inception date or when the policy placement has been completed and confirmed.

Profit Commission

Profit commission is recognised based on best estimate ultimate loss ratios which are reassessed each quarter as part of the actuarial reserving process. As part of the transaction with Pioneer, profit commission attributable to policies incepting prior to the incorporation of the Company was transferred. This profit commission is adjusted on a quarterly basis as part of the reserving process and collected on an annual basis and is recognised in revenue. Any profit commission attributable to policies incepting after the incorporation of the Company is only recognised when collected in cash in line with the terms of the facility agreements, which is the point at which revenue can be measured reliably and the economic benefits flow to the entity.

K2 Financial Limited

Notes to the accounts (continued)

For the year ended 31 December 2021

1. Accounting policies (continued)**Pensions**

All employees are eligible to become members of a group defined contribution pension scheme within three months service.

The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rules and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

K2 Financial Limited

Notes to the accounts (continued)

For the year ended 31 December 2021

1. Accounting policies (continued)**Intangible assets excluding goodwill**

Intangible assets acquired in business combinations are recognised separately from goodwill at the acquisition date where it is probable that the expected future economic benefits attributable to the asset will flow to the entity and the cost or value of the assets can be measured reliably; the intangible asset arises from contractual or other legal rights; and the intangible asset is separate from the entity.

Amortisation is recognised to write down the cost or valuation of assets over their useful lives on the following bases:

Trade names 10 years straight line

Agency relationships 10 years straight line

Intangible assets are subject to an impairment review at the end of the first full financial year following acquisition. Subsequent impairment reviews are performed when there are indicators of impairment. When assets are disposed of, the profit or loss arising is calculated by including the attributable amount of the asset not previously charged in the profit and loss account.

Goodwill

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the company's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

Goodwill is recognised separately from other intangible assets and carried at cost less accumulated amortisation.

Amortisation is recognised to write down the cost of goodwill over its useful life. It is amortised on the straight-line basis over 10 years.

Impairment of intangible assets

The Company tests annually whether assets have suffered any impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investment, including factors such as industry and sector performance and operational and financing cash flows.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the end of the month. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting year end date. Gains and losses arising on translation are included in the income statement for the year.

Other financial liabilities

Other financial liabilities, including intercompany borrowing and other short-term monetary liabilities, are measured at cost.

K2 Financial Limited

Notes to the accounts (continued)

For the year ended 31 December 2021

1. Accounting policies (continued)**Reserves**

The Company's reserves are as follows:

- Called up share capital reserve represents the nominal value of the shares issued.
- The share premium account includes the premium on issue of equity shares, net of any issue costs.
- The other reserve is the difference between the final capital injected into the Company and what was expected at the time of the transaction.
- Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Company has adopted the disclosure and presentation requirements of Sections 11 and 12 of FRS 102.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

(iii) Impairment of financial assets

Financial assets, other than those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

K2 Financial Limited

Notes to the accounts (continued)

For the year ended 31 December 2021

1. Accounting policies (continued)**Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Critical judgements in applying the Company's accounting policies

In preparing these financial statements, the directors have made the following judgements:

(i) Impairment

Determine whether there are indicators of impairment of the Company's intangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Key source of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Profit commission

Profit commission is recognised based on best estimate ultimate loss ratios which are reassessed each quarter as part of the actuarial reserving process. As part of the transaction with Pioneer, profit commission attributable to policies incepting prior to the incorporation of the Company was transferred. This profit commission is adjusted on a quarterly basis as part of the reserving process and collected on an annual basis. Any profit commission attributable to policies incepting after the incorporation of the Company is only recognised when collected in cash in line with the terms of the facility agreements.

K2 Financial Limited

Notes to the accounts (continued)

For the year ended 31 December 2021

2. Geographical analysis of turnover by source

	2021	2020
United Kingdom	£'000	£'000
Commission	4,440	3,333
Profit commission	511	(647)
Turnover	<u>4,951</u>	<u>2,686</u>

The business activities of the Company are based in the United Kingdom where the Company's operating profits are generated and its net assets are held. The turnover arises from the Company's principal activity.

The movement in profit commission reflects a movement in loss ratios during the year.

3. Operating profit

	2021	2020
	£'000	£'000
Operating profit is stated after charging:		
Staff costs including directors' emoluments:		
Salaries (including bonus)	1,458	848
Social security costs	204	112
Other pension costs	10	18
Other staff costs	30	3
Foreign exchange losses	18	144
Amortisation of intangible assets	477	357
Audit fee	15	15

In addition to the above audit fee, non-audit tax services were received from Grant Thornton during the year. These were paid for and borne by a fellow group company, K2 Group Services Limited, on behalf of all companies in the UK K2 group.

The average number of employees during the year was 4 (2020: 4).

K2 Financial Limited

Notes to the accounts (continued)

For the year ended 31 December 2021

4. Directors' remuneration

	2021	2020
	£'000	£'000
Remuneration of directors of the Company included in staff costs was as follows:		
Emoluments	1,299	689
Company contributions payable to defined contribution pension scheme	-	-
	2021	2020
	No.	No.
Number of directors who are members of defined contribution pension scheme	-	-
	2021	2020
	£'000	£'000
In respect of the highest paid director:		
Emoluments	758	397
	2021	2020
	£'000	£'000
Company contributions payable to defined contribution pension scheme	-	-

The highest paid director received no further emoluments or remuneration in the year.

K2 Financial Limited

Notes to the accounts (continued)

For the year ended 31 December 2021

5. Tax on profit on ordinary activities

	2021 £'000	2020 £'000
Taxation charge comprises:		
Current tax		
UK corporation tax at 19%	349	131
Total current tax	349	131
Deferred tax		
Permanent differences	51	(24)
Total deferred tax (note 9)	400	(24)
Tax charge on profit on ordinary activities	400	107

There is no expiry date on timing differences or tax credits.

Factors affecting the tax charge for the year

The tax rate for the year is explained below:

	2021 £'000	2020 £'000
Profit on ordinary activities before tax	1,335	329
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19%	254	63
Effects of:		
Intangible assets ineligible amortisation	59	44
Expenses not deductible for tax purposes	5	-
Remeasurement of deferred tax for changes in tax rates	82	-
Total tax charge for the year	400	107

The UK Government has enacted reductions in the main tax rate to 19% from 1 April 2020. At the balance sheet date, the deferred tax asset has been provided for at rates at which management believe the assets will be utilised.

K2 Financial Limited

Notes to the accounts (continued)

For the year ended 31 December 2021

6. Intangible fixed assets

	Goodwill	Other Intangibles	Total
	£'000	£'000	£'000
Cost			
Cost at 1 January 2021	2,763	2,002	4,765
At 31 December 2021	2,763	2,002	4,765
Amortisation			
At 1 January 2021	207	150	357
Charged in the year	276	200	476
At 31 December 2020	483	350	833
Carrying value			
At December 2021	2,280	1,652	3,932
At 31 December 2020	2,556	1,852	4,408

The carrying value of other intangibles include trade names (2021: £50,000; 2020: £56,000) and agency relationships (2021: £1,602,000; 2020: £1,796,000), i.e. the relationship with capacity providers.

The directors have satisfied themselves by assessing the future profits and cashflows of the Company that the intangibles are expected to continue generating future economic benefit and no impairment is required.

7. Debtors – amounts falling due within one year

	2021 £'000	2020 £'000
Commission income receivable	2,971	1,705
Prepayments	16	-
Amount owed from parent company	880	175
As at 31 December	3,867	1,880

No provisions have been included at the year end.

8. Creditors – amounts falling due within one year

	2021 £'000	2020 £'000
Accruals	880	445
Corporation tax	94	4
As at 31 December	974	449

K2 Financial Limited

Notes to the accounts (continued)

For the year ended 31 December 2021

9. Deferred tax

	2021 £'000	2020 £'000
Permanent differences:		
At 1 January	296	320
Movement in year	51	(24)
As at 31 December	347	296

The Company has no unused tax losses or credits.

The deferred tax liability recognised relates to the intangibles assets acquired on the business combination.
The reversal of the deferred tax liability expected in 2022 is £43,000.

10. Called up share capital

	2021 £	2020 £
Allotted, called up and fully paid:		
700 Class A Ordinary Shares of £1 each	700	700
300 Class B Ordinary Shares of £0.10 each	30	30
As at 31 December	730	730

The company has 2 classes of ordinary shares which carry no right to fixed income and no right to redeem.
The profit and loss reserve represents cumulative profits.

Class A ordinary shareholders are entitled to attend and vote at general meetings of the company with one vote per A ordinary share held. Dividends shall be distributed among the holders of A ordinary shares.

Class B ordinary shareholders are not entitled to vote, attend or speak at any general meeting in their capacity as holder of such ordinary B shares. Class B ordinary shareholders do not have any rights to dividends.

11. Share premium account

	2021 £'000	2020 £'000
Class A share premium	1,650	1,650
Class B share premium	14	14
As at 31 December	1,664	1,664

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

K2 Financial Limited

Notes to the accounts (continued)

For the year ended 31 December 2021

12. Other reserve

	2021 £'000	2020 £'000
Other reserve	3,656	3,656
As at 31 December	3,656	3,656

Share capital and share premium represented the expected capital in the Company at the time of the transaction with Pioneer in May 2020. Following the completion of the opening balance sheet in April 2021, which included an adjustment to the consideration paid to Pioneer, the other reserve is the difference between the final capital injected into the Company and what was expected at the time of the transaction. This represents assets contributed to the Company by its parent in the form of a capital contribution.

13. Pensions

The Group operates a defined contribution pension scheme, the assets being held separate from the group in independently administered funds. The total paid by the Company into the scheme in the year was £10,000 (2020: £18,000). There were no prepaid or outstanding contributions by the Company at the year end.

14. Related party transactions

Included within administration expenses are recharges paid to a fellow group company of £1,411,000 (2020: £857,000). All transactions were conducted on an arm's length basis on normal trading terms. At the year end, included within debtors was £880,000 (2020: £175,000) owed by the parent company.

15. Capital risk management

The company manages its capital to ensure that it will be able to continue as a going concern. Cash management is controlled by another group company. The capital structure of the company consists of an intra-group loan and equity comprising of share capital, share premium, other reserve and retained earnings.

The capital structure of the company is reviewed annually by management.

16. Financial instruments

The company has the following financial instruments held at amortised cost:

	2021 £'000	2020 £'000
Financial asset		
Trade receivables	2,971	1,705
Amounts owed by parent company	880	175
Total financial assets	3,851	1,880
Financial liabilities		
Salaries and bonus costs	(863)	(440)
Corporation tax	(94)	(4)
Other creditors	(17)	(5)
Total financial liabilities	(974)	(449)

K2 Financial Limited

Notes to the accounts (continued)

For the year ended 31 December 2021

17. Ultimate parent undertaking

The parent undertaking is K2 Group Holdings Limited, a company registered and operating in England and Wales.

The ultimate parent undertaking and controlling entity is K2 Hold Co LP a company registered and operating in the United States of America. The ultimate parent undertaking is the smallest and largest to consolidate these financial statements. Copies of the K2 Hold Co LP financial statements can be obtained from the Company Secretary at 11452 El Camino Real, Suite 250, San Diego, CA 92130.

18. Post balance sheet events

There have been no post balance sheet events.