

R.V.I. Guaranty Co., Ltd. and subsidiaries

**Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022**

R.V.I. Guaranty Co., Ltd. and subsidiaries
Index
For the Years Ended December 31, 2023 and 2022

	Page(s)
Independent Auditor’s Report	2
Financial Statements	
Consolidated Balance Sheets	4
Consolidated Statements of Income and Comprehensive Income	5
Consolidated Statements of Changes in Stockholder Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements.....	8



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Independent Auditor's Report

Shareholder and Board of Directors
R.V.I. Guaranty Co., Ltd.
201 Broad Street, Sixth Floor
Stamford, Connecticut 06901

Opinion

We have audited the consolidated financial statements of R.V.I. Guaranty Co., Ltd. and subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income and comprehensive income, changes in stockholder equity and cash flows for the years ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as December 31, 2023 and 2022, and the results of its operations and its cash flows for the years 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional

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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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the incurred and paid claims development information, and the historical claims duration information on page 26 and 27 be presented to supplement the basic financial statements. Such information is the responsibility of management, and although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with the sufficient evidence to express an opinion or provide any insurance.

BDO USA, P.C.

New York, NY
March 8, 2024

R.V.I. Guaranty Co., Ltd. and subsidiaries
Consolidated Balance Sheets
December 31, 2023 and 2022
(Dollars in thousands)

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 44,792	\$ 34,714
Restricted cash and cash equivalents	15,492	4,914
Investment securities, available-for-sale, at fair value (amortized cost; \$163,417 - 2023; \$142,893 - 2022)	152,511	127,985
Restricted investment securities, at fair value (amortized cost; \$11,205 - 2023; \$10,728 - 2022)	10,380	9,544
Other invested assets	12,070	6,237
Accrued investment income	1,603	1,077
Premiums receivable	12,555	16,944
Reinsurance recoverable	689	713
Prepaid reinsurance premiums	-	159
Deferred policy acquisition costs	5,197	4,500
Assets held for sale	589	23,980
Federal taxes recoverable, net	296	1,685
Deferred tax assets, net	2,887	4,611
Property and equipment, net	548	326
Intangible assets	8,465	9,784
Goodwill	30,105	30,105
Other assets	<u>6,303</u>	<u>3,061</u>
Total assets	<u>\$304,482</u>	<u>\$280,339</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 16,473	\$ 11,028
Unpaid losses and loss adjustment expenses	15,405	6,507
Unearned premiums	31,465	28,016
Reinsurance payable on paid losses and loss adjustment expenses	1,301	476
Derivatives		
Unearned derivative fee revenue	45,143	50,138
Accumulated fair value (gains)/losses	<u>(2,742)</u>	<u>1,833</u>
Derivatives, total	42,401	51,971
Federal taxes payable to parent	511	280
Junior subordinated debentures	<u>15,464</u>	<u>15,464</u>
Total liabilities	<u>123,020</u>	<u>113,742</u>
Commitments and contingencies (Notes 11, 15 and 21)		
Stockholder equity		
Common stock, one dollar par value (100,000,000 shares authorized, 50,000,000 issued and outstanding)	50,000	50,000
Additional paid in capital	95,000	95,000
Retained earnings	45,729	34,310
Accumulated other comprehensive loss	<u>(9,267)</u>	<u>(12,713)</u>
Total stockholder equity	<u>181,462</u>	<u>166,597</u>
Total liabilities and stockholder equity	<u>\$304,482</u>	<u>\$280,339</u>

The accompanying notes are an integral part of these consolidated financial statements.

R.V.I. Guaranty Co., Ltd. and subsidiaries
Consolidated Statements of Income and Comprehensive Income
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Revenue		
Net premiums earned	\$ 35,369	\$ 13,131
Net realized and unrealized gains on derivatives	25,313	32,182
Net investment income	8,668	6,128
Net realized and unrealized investment gains	786	156
Fee income	2,372	1,528
Income related to asset held for sale	869	938
Gain on disposal from asset held for sale	<u>1,559</u>	<u>-</u>
Total revenue	<u>74,936</u>	<u>54,063</u>
Costs and expenses		
Insurance loss provision	21,301	4,538
Policy acquisition expenses	7,453	2,471
Other operating and general expenses	23,685	25,063
Expenses related to asset held for sale	6,559	1,392
Interest expense, net	<u>1,480</u>	<u>915</u>
Total costs and expenses	<u>60,478</u>	<u>34,379</u>
Income from operations before income taxes	14,458	19,684
Income taxes	<u>3,039</u>	<u>4,126</u>
Net income	<u>11,419</u>	<u>15,558</u>
Other comprehensive loss, net of tax		
Change in unrealized losses on investment securities	3,512	(12,023)
Reclassification adjustment for investment gains included in net income	<u>(66)</u>	<u>(123)</u>
Other comprehensive loss	<u>3,446</u>	<u>(12,146)</u>
Comprehensive income	<u>\$ 14,865</u>	<u>\$ 3,412</u>

The accompanying notes are an integral part of these consolidated financial statements.

R.V.I. Guaranty Co., Ltd. and subsidiaries
Consolidated Statements of Changes in Stockholder Equity
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

	<u>Common Stock</u>	<u>Additional Paid In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income/(Loss)</u>	<u>Total Stockholder Equity</u>
Balance, at December 31, 2021	\$ 50,000	\$ 95,000	\$ 18,752	\$ (567)	\$163,185
Net income			15,558		15,558
Change in unrealized losses on investment securities and restricted investment securities, net of deferred taxes of \$3,261				(12,023)	(12,023)
Reclassification adjustment for investment securities gains included in net income, net of deferred taxes of \$33	_____	_____	_____	(123)	(123)
Balance, at December 31, 2022	\$ 50,000	\$ 95,000	\$ 34,310	\$ (12,713)	\$166,597
Net income			11,419		11,419
Change in unrealized gains on investment securities and restricted investment securities, net of deferred taxes of \$(898)				3,512	3,512
Reclassification adjustment for investment securities gains included in net income, net of deferred taxes of \$17	_____	_____	_____	(66)	(66)
Balance, at December 31, 2023	<u>\$ 50,000</u>	<u>\$ 95,000</u>	<u>\$ 45,729</u>	<u>\$ (9,267)</u>	<u>\$181,462</u>

The accompanying notes are an integral part of these consolidated financial statements.

R.V.I. Guaranty Co., Ltd. and subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

	<u>2023</u>	<u>2022</u>
Cash flows - operating activities		
Premiums and proceeds from derivative policies	\$ 59,588	\$ 33,395
Losses and loss adjustment expenses paid, net of recoveries	(12,330)	(2,485)
Cost to acquire derivatives	(673)	(725)
Fee income	1,848	1,234
Federal income taxes and interest received	-	2,959
Federal income taxes paid	-	(5,142)
Federal taxes payable to parent	(611)	(1,494)
(Losses)/income related to assets held for sale	(6,952)	561
Net investment income	8,142	5,737
Interest expense	(1,517)	(967)
Other operating expenses	(25,398)	(26,757)
Net cash provided by operating activities	<u>22,097</u>	<u>6,316</u>
Cash flows - investing activities		
Purchase of investment securities - available-for-sale	(59,468)	(57,156)
Purchases of other invested assets	(4,099)	-
Sales/maturities of investment securities - available-for-sale	37,469	56,276
Proceeds from the disposal of assets held for sale	25,000	-
Acquisition of property and equipment	(343)	(254)
Capitalized improvements to assets held for sale	-	(170)
Net cash used in investing activities	<u>(1,441)</u>	<u>(1,304)</u>
Net increase in cash, cash equivalents and restricted cash	20,656	5,012
Cash, cash equivalents and restricted cash		
Beginning of period	39,628	34,616
End of period	<u>\$ 60,284</u>	<u>\$ 39,628</u>
Reconciliation of net income to cash flows - operating activities		
Net income	\$ 11,419	\$ 15,558
Adjustments to reconcile net income to net cash provided by operating		
Net unrealized gains on derivatives	(4,575)	(8,489)
Other derivative components	(4,995)	(9,571)
Depreciation and amortization	121	103
Amortization, intangible assets	1,319	3,297
Realized investment securities gains, net	(83)	(156)
Unrealized investment securities gains, net	(703)	-
Gain on disposal of assets held for sale	(1,559)	-
Deferred income taxes	809	1,083
Change in:		
Premiums receivable and other receivables	3,863	(9,240)
Deferred policy acquisition costs	(697)	(2,563)
Mortgage receivable	-	588
Assets held for sale	-	(588)
Other assets	(3,242)	(2,177)
Accounts payable and accrued liabilities	5,445	1,760
Unpaid losses and loss adjustment expenses, net	8,922	1,989
Unearned premiums	3,608	14,884
Federal taxes recoverable, net	1,389	(918)
Federal taxes payable to parent	231	280
Reinsurance payable on paid losses and loss adjustment expenses	825	476
Net cash provided by operating activities	<u>\$ 22,097</u>	<u>\$ 6,316</u>
Supplementary Disclosure on Consolidated Cash Flows Information:		
Cash	\$ 44,792	\$ 34,714
Restricted cash	<u>15,492</u>	<u>4,914</u>
Total cash, cash equivalents and restricted cash shown in the Consolidated Statements of Cash Flows	<u>\$ 60,284</u>	<u>\$ 39,628</u>

The accompanying notes are an integral part of these consolidated financial statements.

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

1. Organization and Description of Business

R.V.I. Guaranty Co., Ltd. (“the Company”) was formed and incorporated in Bermuda in 1989. On May 12, 2020 100% of the Company was acquired in a business combination by R.V.I. Acquisition Holdings LLC (“RVIAH”), a wholly owned subsidiary of R.V.I. Holdings, LLC (“RVIH” or “Parent”), which is an affiliate of Group1001.

The Company is licensed as a property and casualty and other insurer and primarily underwrites residual value insurance for risks on a worldwide basis. The insurance is purchased by participants in asset finance transactions to obtain third-party financial support for regulatory compliance, catastrophic coverage and accounting treatment. The insurance provides coverage for unexpected declines in value of insured assets. Products are offered with varying degrees of residual value coverage with terms varying from 1 to 27 years. The Company focuses on four classes of assets: commercial equipment, real estate, passenger vehicles and aircraft. The Company markets business directly and through insurance brokers. The Company’s issued policies are classified for these consolidated financial statements as either insurance or derivatives based on the individual contract language; however, all the contracts are considered insurance for state insurance regulatory purposes as well as Federal income tax purposes. As of December 31, 2023, all of the in force commercial real estate business, approximately 22% and 24% of the in force commercial equipment / aircraft business and in force passenger vehicle business, respectively, are classified as insurance for these consolidated financial statements. Approximately 76% of the in force passenger vehicle business and approximately 78% of the in force commercial equipment /aircraft business are classified as derivative contracts for these consolidated financial statements.

The risk of loss varies by contract. The terms and conditions of an incurred loss are defined in the contracts. Underwriting guidelines include, but are not limited to, exclusions of certain types of assets and take into consideration the availability of a secondary market for insured assets.

The Company is also licensed as a property and casualty reinsurer.

In 2022, the Company entered into Quota Share Reinsurance Agreements under which the Company will accept a quota share participation in new and renewal business for a dealer open lot physical damage program on a risk attaching basis and for a non-standard private passenger automobile liability program on a loss occurring basis. The Company renewed treaty year 2022 Quota Share Reinsurance Agreements in 2023. In addition, the Company entered into six Quota Share Agreements consisting of Homeowners, Excess and Umbrella, Commercial Property and Business Owners Policies lines of business. The Company also entered into one Property Excess of Loss agreement in 2023.

Independent Management Ltd., a company incorporated in Bermuda, is the Company’s Principal Representative for purposes prescribed or permitted under Bermuda’s The Insurance Act 1978 (“The Act”).

2. Summary of Significant Accounting Policies

Basis of Presentation

These consolidated financial statements are prepared in conformity with U.S. Generally Accepted Accounting Principles (“U.S. GAAP”).

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. Material estimates are particularly susceptible to significant change in the near term including accumulated fair value losses on derivatives and unpaid losses and loss adjustment expenses.

In the ordinary course of accounting for the items discussed above, management will revise its estimates as more current information becomes available. Such changes in estimates and refinements or estimation methodologies are recorded in the period in which the changes are made and, if material, are disclosed in the notes to the consolidated financial statements.

Premiums

Net premiums written are recorded on the accrual basis in accordance with the insurance policies and reinsurance agreements written. Direct and assumed premiums are earned ratably over the term of the contract and ceded premiums reduce gross revenue ratably over the term of the contract. Unearned premiums and prepaid reinsurance premiums represent the portion of premiums written and written premiums ceded which are applicable to the unexpired terms of insurance and reinsurance contracts.

Derivatives

Insurance contracts that pay claims or settle to third-party published values meet the derivative requirements under Accounting Standards Codification (“ASC”) 815, “Derivatives and Hedging”. These instruments are valued using the net present value of expected future cash flows. The change in fair value of these instruments appears on the consolidated statements of income and comprehensive income as net realized and unrealized gains or losses on derivatives.

Net realized and unrealized gains or losses on derivatives include net revenues earned, acquisition costs incurred, ceding commissions received, claims paid and realized and unrealized gains and losses pursuant to the Company’s pricing models. Derivative fee revenues are recorded as income ratably as they are earned over the life of the transaction. Gross assets and gross liabilities for all derivatives are recorded on the consolidated balance sheets.

The Company establishes derivative liabilities for unearned derivative fee income related to the unexpired terms of the risks undertaken and derivative assets for the unearned fees related to the portion of the risk that has been shared with various counterparties. Estimates of losses and loss adjustment expenses are included in the fair value of the derivatives.

Losses and Loss Adjustment Expenses

For the insurance business not recorded as derivatives, losses and loss adjustment expenses are based upon estimates of the ultimate aggregate losses inherent in the residual value insurance portfolio as of the reporting date. The evaluation process for determining the level of reserves is subject to certain

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

estimates and judgments. Losses are recorded when they become probable and can be reasonably estimated. Incurred claims estimates are forecast in advance of a claim notice as a result of active surveillance of the insured assets. The Company routinely performs surveillance on these portfolios to identify specific estimated claim reserves. For real estate, the Company considers appraised versus insured values, vacancy rates, tenant credits and market conditions. For commercial equipment / aircraft and the passenger vehicle portfolios, the Company considers specific probable asset values, probability of asset returns and other market conditions. For quota share reinsurance business, the reserve is based on statements provided by the ceding companies as well as management estimates of ultimate losses and associated loss expense.

Deferred Policy Acquisition Costs

Acquisition costs represent direct costs, such as ceded and third-party commissions, premium taxes, employee compensation and other underwriting expenses, that vary with and are primarily related to the acquisition of new or renewal insurance premium written. These costs are deferred and amortized over the period in which the premiums written are earned. These deferred costs are reviewed for recoverability based on the profitability of the underlying insurance contracts.

Investment income is not anticipated in the recoverability of deferred policy acquisition costs.

For business recorded as derivatives, all policy acquisition costs are expensed as incurred.

Cash and Cash Equivalents

Cash equivalents include all investments with original maturities of three months or less and are stated at cost, which approximates fair value.

Restricted Cash, Cash Equivalents and Investment Securities

Restricted cash, cash equivalents and investment securities consists of any cash or investment that is held for a specific purpose and therefore not available to the Company for immediate or general business use.

Investment Securities

The Company reports investments in fixed income securities as available-for-sale and at fair value based on quoted market prices, or, if quoted market prices are not available, discounted expected cash flows using market rates commensurate with the credit quality and expected maturity of the investment. Temporary unrealized gains and losses on available-for-sale securities are included in stockholder equity, net of applicable taxes. The investment securities are regularly reviewed for impairment based on both quantitative and qualitative criteria that include the extent to which cost exceeds market value, the maturity date, the expected duration of that market decline and the financial position of the issuer and whether it is more likely than not that the Company will not sell the security until maturity or until it recovers in value. Unrealized losses that are considered other than temporary are recognized in earnings. For debt securities an other than temporary loss is recognized in the consolidated statement of income and comprehensive income when the Company determines that there is a credit loss. For these debt securities, the amount representing the credit loss is reported as an impairment loss in the consolidated statements of income and comprehensive income and the amount related to all other factors will be reported in accumulated other comprehensive income/(loss). Realized gains and losses are accounted for on the specific identification method.

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

Investment income is recognized on the interest method. Amortization of bond premiums and accretion of bond discounts is calculated using the effective interest method and included in investment income.

Allowance for Credit Losses

In accordance with Accounting Standards Codification (“ASC”) 326, “Measurement of Credit Losses on Financial Instruments”, the Company has evaluated the impact of the new standard on its financial statements and has determined that the adoption of ASC 326 does not have a material impact on its financial position, results of operations, or cash flows.

The determination was based on an assessment of the Company’s investment securities portfolio and other financial assets subject to credit risk. Management assessed the existing credit risk measurement methodologies, including the allowance for credit losses, impairment assessments, and provisioning practices, against the requirements of ASC 326.

The Company reviews the credit quality of its business partners and performs a monthly aging analysis of any outstanding premiums receivable. To date the Company has not recorded any credit allowances related to its premiums receivable.

Based on this assessment, the Company concluded that its current methodologies for estimating credit losses adequately capture the expected credit losses inherent in its investment securities portfolio. Therefore, no significant changes to the measurement or recognition of credit losses were required upon adoption of ASC 326.

Property and Equipment

Property and equipment are recorded at cost and are depreciated on a straight-line basis over the estimated economic life of the asset. The Company generally capitalizes property and equipment expenditures which are greater than one thousand dollars. Furniture and fixtures and computer equipment are depreciated over five and three years, respectively.

Assets Held for Sale

Assets classified as held for sale are primarily non-current assets expected to be realized principally through a sale rather than through continuing use. These are measured at the lower of their carrying amount or fair value less costs to sell. Assets classified as held for sale are not depreciated.

Internal Use Software Costs

The Company develops aspects of its proprietary technology platform. The primary applications relate to (1) a transactional platform which provides the Company with the ability to perform policy processing, client and asset analysis, production tracking, asset portfolio management, premium booking, cash collection, and (2) the internal use database that is designed to support the analysis and reporting needs of the Company. The software and related costs of developing the transactional platform and database have been capitalized in accordance with ASC 350-40, “Internal Use Software”, and are included with property and equipment. The Company tests the software each year for impairment and will write off any impairments. The internal use software is amortized on a straight-line basis over three years.

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

Income Taxes

The Company accounts for income taxes using the liability method in accordance with ASC 740, “Income Taxes”. The liability method measures the expected future tax effects of temporary differences at the enacted tax rates applicable for the period in which the deferred tax asset or liability is expected to be realized or settled. Temporary differences are differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements. The Company evaluates the need for a valuation allowance against its deferred tax assets on a regular basis. In the course of its review, the Company assesses all available evidence, both positive and negative, including future sources of income, tax planning strategies, future contractual cash flows and reversing temporary differences. Additional valuation allowance benefits or charges could be recognized in the future due to changes in management’s expectations regarding the realization of tax benefits. Uncertain tax positions taken or expected to be taken in a tax return by the Company are recognized in the consolidated financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. As of December 31, 2023 and 2022, the Company had recognized all its tax benefits.

Goodwill and Identifiable Intangible Assets, Net

Goodwill represents the excess of purchase price over the value assigned to the tangible and identifiable intangible assets, net of liabilities assumed of acquired businesses. Goodwill is not subject to amortization but is tested for impairment annually through a qualitative or quantitative assessment and when events and circumstances indicate that the estimated fair value of the Company may no longer exceed its carrying value. The qualitative factors include economic environment, business climate, market capitalization, operating performance and competition. The Company has the option to proceed directly to the quantitative test without performing the qualitative test. The Company has identified one operating segment or reporting unit for the purposes of goodwill impairment testing. The Company did not record any goodwill impairment during the years ended December 31, 2023 and 2022.

Identifiable intangible assets consist of state insurance licenses, proprietary software, customer relationships and trade name. The Company amortizes finite lived identifiable assets over their estimated useful lives, ranging from three to ten years, on a straight-line basis. Such assets are tested annually for impairment.

Impairment of Identifiable Intangible Assets

The Company reviews its finite-lived intangible assets, for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For these assets, an impairment loss is indicated when the undiscounted future cash flows estimated to be generated by the asset group are not sufficient to recover the unamortized balance of the asset group. If indicators exist, the loss is measured as the excess of carrying value over the asset groups’ fair value, as determined based on discounted future cash flows, asset appraisals or market values of similar assets.

Rental Income and Expense

Rental income and expense are recognized on a straight-line basis over the term of the lease.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss presents temporary unrealized gains and losses on investment securities.

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

Foreign Currency

The U.S. dollar is the functional currency of the Company's operations. Exchange gains and losses arising from transactions of foreign currency-denominated monetary assets and liabilities are included in the consolidated statements of income and comprehensive income in the period in which they occur.

Fee Income

The requirements of ASC 606, "Revenue from Contracts with Customers" excludes revenue from insurance contracts, investments, derivatives and financial instruments from its scope. Under ASC 606, the Company recognizes fee income as services are provided to the customers.

Leases

In 2022, the Company adopted ASC 842 "Leases", using the modified retrospective method. This guidance establishes a new model for lessee accounting that requires a lessee to recognize lease liabilities and corresponding right-of-use ("ROU") assets, reflecting the future commitments and rights created by lease contracts. ASC 842 primarily affects the accounting for leases that were previously accounted for as operating leases. It replaces the straight-line operating lease expenses with a depreciation charge for ROU assets and interest expense on lease liabilities.

At the date of adoption, the Company applied ASC 842 using the modified retrospective approach under which the ROU asset is measured at an amount equal to the lease liability, adjusted for any prepayments or accruals. Adoption of ASC 842 resulted in the recognition of total operating lease liability obligations totaling \$1,432 and the recognition of operating lease ROU assets totaling \$1,254 as of January 1, 2022. The initial balance sheet gross up upon adoption was related to operating leases for office building for one lease agreement. The Company elected to apply the package of practical expedients allowed by the new standard under which it need not reassess whether any expired or existing contracts are leases or contain leases; the Company need not reassess the lease classification for any expired or existing lease; and the Company need not reassess initial direct costs for any existing leases.

Adoption of New Accounting Standard

In 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13 "Financial Instruments-Credit Losses ("ASC 326"): Measurement of Credit Losses on Financial Instruments," as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the Current Expected Credit Loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loans, held-to maturity debt investment securities and other receivables. Additionally, under ASC 326 credit losses for available-for-sale investment securities are required to be presented as an allowance rather than a write-down on available-for-sale investment securities management does not intend to sell or believes that it is more likely than not they will be required to sell. As of December 31, 2023 and 2022, the Company has not recorded any allowance for credit losses.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported consolidated balance sheets, statements of income and comprehensive income.

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

3. Investment Securities

The amortized cost, estimated gross unrealized gains and losses recognized in accumulated other comprehensive income and estimated fair value of investments at December 31, 2023 and 2022 are as follows:

		<u>Estimated</u>		
	<u>Amortized</u>	<u>Gross</u>	<u>Gross</u>	<u>Fair</u>
	<u>Cost</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Gains</u>	<u>Losses</u>	
<u>2023</u>				
Investment securities, available-for-sale				
U.S. government and other government agencies	\$ 5,970	\$ 2	\$ (551)	\$ 5,421
Asset-backed securities	56,273	76	(2,706)	53,643
Mortgage-backed securities	48,083	42	(6,982)	41,143
Corporate bonds	64,296	325	(1,937)	62,684
Total at December 31, 2023	<u>\$174,622</u>	<u>\$ 445</u>	<u>\$ (12,176)</u>	<u>\$162,891</u>
<u>2022</u>				
Investment securities, available-for-sale				
U.S. government and other government agencies	\$ 5,976	\$ -	\$ (801)	\$ 5,175
Asset-backed securities	42,669	-	(4,043)	38,626
Mortgage-backed securities	46,924	-	(7,832)	39,092
Corporate bonds	58,052	691	(4,107)	54,636
Total at December 31, 2022	<u>\$153,621</u>	<u>\$ 691</u>	<u>\$ (16,783)</u>	<u>\$137,529</u>

Estimated fair values approximate market values. Investments with estimated fair values of approximately \$46,385 and \$44,985 as of December 31, 2023 and 2022, respectively, are maintained in a trust for the benefit of the Company's insurance subsidiary. The Company is not exposed to significant concentrations of credit risk within its investment portfolio.

As of December 31, 2023 and 2022, \$4,741 and \$4,103, respectively, of the investment portfolio are restricted assets on deposit with U.S. government authorities as required to comply with U.S. statutory requirements (Note 5). Additionally, as of December 31, 2023 and 2022, \$5,639 and \$5,441, respectively of the Company's investment portfolio is in Trusts (Note 5).

The following tables summarize all securities in an unrealized loss position as of December 31, 2023 and 2022, the aggregate estimated fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position, and an allowance for credit losses has not been recorded.

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

	In Loss Position For					
	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Estimated</u> <u>Fair</u> <u>Value</u>	<u>Gross</u> <u>Unrealized</u> <u>Loss</u>	<u>Estimated</u> <u>Fair</u> <u>Value</u>	<u>Gross</u> <u>Unrealized</u> <u>Loss</u>	<u>Estimated</u> <u>Fair</u> <u>Value</u>	<u>Gross</u> <u>Unrealized</u> <u>Loss</u>
2023						
Fixed income securities						
U.S. government and other government agencies	\$ 2,663	\$ (256)	\$ 2,450	\$ (295)	\$ 5,113	\$ (551)
Asset-backed securities	8,444	(19)	37,899	(2,687)	46,343	(2,706)
Mortgage-backed securities	407	(10)	35,696	(6,972)	36,103	(6,982)
Corporate bonds	-	-	20,720	(1,937)	20,720	(1,937)
Total at December 31, 2023	<u>\$ 11,514</u>	<u>\$ (285)</u>	<u>\$ 96,765</u>	<u>\$ (11,891)</u>	<u>\$108,279</u>	<u>\$ (12,176)</u>
2022						
Fixed income securities						
U.S. government and other government agencies	\$ -	\$ -	\$ 5,175	\$ (801)	\$ 5,175	\$ (801)
Asset-backed securities	3,483	(207)	35,143	(3,836)	38,626	(4,043)
Mortgage-backed securities	358	(27)	38,734	(7,805)	39,092	(7,832)
Corporate bonds	22,975	(2,030)	15,775	(2,077)	38,750	(4,107)
Total at December 31, 2022	<u>\$ 26,816</u>	<u>\$ (2,264)</u>	<u>\$ 94,827</u>	<u>\$ (14,519)</u>	<u>\$121,643</u>	<u>\$ (16,783)</u>

The Company reviewed each available-for-sale debt security that had an unrealized loss at December 31, 2023 and 2022. At December 31, 2023, the Company evaluated whether the decline in fair value resulted from credit losses or other factors under ASC 326. The Company does not have the intent to sell these investment securities and it is more likely than not the Company will not be required to sell the investment securities before recovery of the amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements as well as contractual and regulatory obligations, none of which the Company believes would cause the sale of the investment securities. All of these investment securities are rated investment grade or above and have a long history of no credit losses. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. In determining the risk of loss for available-for-sale investment securities, the Company considered that mortgage-backed investment securities are either fully guaranteed or issued by a government sponsored enterprise, which has a credit rating and perceived credit risk comparable to U.S. government. Each of these investment securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. Based on this review, management believes that the unrealized losses have resulted from other factors not deemed credit-related and no allowance for credit loss was recorded.

Accrued interest receivable on available-for-sale investment securities totaled \$1,603 and \$1,077 at December 31, 2023 and 2022, respectively, and is excluded from the estimate of credit losses.

Unrealized losses on investment securities have not been recognized into income because management does not intend to sell, and it is likely that management will not be required to sell these investment securities prior to their anticipated recovery.

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

The Company owned 131 and 169 securities with an unrealized loss position as of December 31, 2023 and 2022, respectively, for which there was no allowance for credit losses recorded.

Investment income, including amortization of premiums and accretion of discounts, and net gains on sale of investments for December 31, 2023 and, December 31, 2022, were derived from:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Net investment income		
Interest and dividends		
Cash and short-term investments	\$ 2,308	\$ 369
U.S. government and other government agencies	114	65
Municipal bonds	-	24
Mortgage and asset-backed securities	2,580	2,067
Corporate bonds	3,907	3,857
Floating rate common securities	44	20
Total investment income	8,953	6,402
Expenses		
Investment expenses	(285)	(274)
Net investment income	<u>\$ 8,668</u>	<u>\$ 6,128</u>
Net realized and unrealized investment gains		
Municipal bonds	\$ -	\$ (7)
Mortgage and asset-backed securities	-	(37)
Corporate bonds	83	200
Other invested assets	703	-
Net realized and unrealized investment gains	<u>\$ 786</u>	<u>\$ 156</u>

Proceeds from the sale of investments were \$28,466 and \$33,189 for the years ended December 31, 2023 and 2022, respectively.

Liquidity

Business risks for the Company include the matching of the cash flows of the investment portfolio with the expected payment of policy liabilities and to assure that there is adequate unrestricted cash to meet the Company's operating obligations. The amortized cost and estimated fair value of the fixed income securities as of December 31, 2023 by effective maturity are presented below. Actual maturities may differ from effective maturities as certain investments may be subject to call or prepayment risk, with or without call or prepayment penalties:

<u>Due In</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
2024	\$ 13,100	\$ 13,189
2025 – 2028	29,263	28,330
2029 – 2033	27,903	26,586
Mortgage and asset-backed securities	104,356	94,786
Total	<u>\$174,622</u>	<u>\$162,891</u>

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

There are statutory insurance restrictions on the investments owned by the Company and its insurance subsidiary as disclosed in Note 5. Management believes that there is adequate liquidity to meet the ongoing obligations of the Company while continuing to comply with the statutory regulations.

4. Other Invested Assets

As of December 31, 2023 and 2022, other invested assets consist of the following:

	<u>December 31, 2023</u>		<u>December 31, 2022</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Membership interests	\$ 7,093	\$ 7,093	\$ 4,993	\$ 4,993
Preferred shares	4,063	3,031	-	-
Warrants	914	1,244	1,244	1,244
Total	<u>\$ 12,070</u>	<u>\$ 11,368</u>	<u>\$ 6,237</u>	<u>\$ 6,237</u>

The Company classifies its investments in membership interests, preferred shares of private operating companies and warrants as other invested assets and records them at fair value as disclosed in Note 6.

5. Restricted Cash, Cash Equivalents, and Investment Securities

The Company, in order to conduct business in certain states, is required to maintain letters of credit or assets on deposit to support state mandated regulatory requirements and certain third party agreements. The Company also utilizes trust accounts to collateralize business with its reinsurance counterparties. These assets held are primarily in the form of cash or certain high grade securities.

The fair value of the Company's restricted cash, cash equivalents and investment securities as of December 31, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Restricted cash and cash equivalents	\$ 15,492	\$ 4,914
Restricted investment securities	\$ 10,380	\$ 9,544

6. Fair Value Measurements

The Company has adopted ASC 820, "Fair Value Measurement", for all financial instruments accounted for at fair value on a recurring basis. ASC 820 requires fair value to be determined based on the exchange price that would be received for assets or paid to transfer liabilities (an exit price) in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants. ASC 820 emphasizes that an entity's valuation technique for measuring fair value should maximize observable inputs and minimize unobservable inputs.

ASC 820 established a fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of the fair value hierarchy as defined by ASC 820 are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active and model derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Unobservable significant inputs to the valuation model.

The following tables show, by level within the fair value hierarchy, the Company’s financial assets and liabilities that are accounted for at fair value on a recurring basis as of December 31, 2023 and 2022. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the asset’s or liability’s placement within the fair value hierarchy levels.

Recurring Fair Value Measurements by Level:

	December 31, 2023			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investment securities, available-for-sale:				
U.S. government and other government agencies	\$ 1,944	\$ 3,477	\$ -	\$ 5,421
Asset-backed securities	-	53,643	-	53,643
Mortgage-backed securities	-	41,143	-	41,143
Corporate bonds	-	20,723	41,961	62,684
Total investment securities, available for sale	<u>\$ 1,944</u>	<u>\$118,986</u>	<u>\$ 41,961</u>	<u>\$162,891</u>
Other invested assets:				
Membership interests	\$ -	\$ -	\$ 7,093	\$ 7,093
Preferred shares	-	-	4,063	4,063
Warrants	-	-	914	914
Total other invested assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,070</u>	<u>\$ 12,070</u>
Liabilities:				
Derivative liabilities:				
Commercial equipment/aircraft	\$ -	\$ -	\$ 32,285	\$ 32,285
Passenger vehicle	-	-	10,116	10,116
Total derivative liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,401</u>	<u>\$ 42,401</u>

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

	December 31, 2022			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investment securities, available-for-sale:				
U.S. government and other government agencies	\$ 1,603	\$ 3,572	\$ -	\$ 5,175
Asset-backed securities	-	38,626	-	38,626
Mortgage-backed securities	-	39,092	-	39,092
Corporate bonds	-	24,151	30,485	54,636
Total investment securities, available for sale	<u>\$ 1,603</u>	<u>\$105,441</u>	<u>\$ 30,485</u>	<u>\$137,529</u>
Other invested assets:				
Membership interests	\$ -	\$ -	\$ 4,993	\$ 4,993
Preferred shares	-	-	-	-
Warrants	-	-	1,244	1,244
Total other invested assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,237</u>	<u>\$ 6,237</u>
Liabilities:				
Derivative liabilities:				
Commercial equipment/aircraft	\$ -	\$ -	\$ 39,495	\$ 39,495
Passenger vehicle	-	-	12,476	12,476
Total derivative liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,971</u>	<u>\$ 51,971</u>

The following tables provide additional information about the significant unobservable (Level 3) inputs developed internally by the Company to determine accumulated fair value losses and gains of derivative policies as of December 31, 2023 and 2022:

December 31, 2023			
<u>Fair Value Gains</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
\$(2,742)	Future probable value	Unemployment forecasts	3.6 – 4.2%
		GDP growth rate forecasts	0.3 – 3.0%
		Light vehicle sales forecasts (million)	15.8 – 17.8
		Lease Supply index	0.1 – 0.2
		Used vehicle stock forecasts	0.8 – 1.0
		Used vehicle competitive index forecasts	0.9 – 1.0
		Market incentive level	5.2 – 8.2
		Gasoline spending per household income	0.7 – 1.0%
		Inventory to sales forecasts	1.4 – 2.4

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

December 31, 2022

<u>Fair Value Losses</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
\$1,833	Future probable value	Unemployment forecasts	3.6 – 4.1%
		GDP growth rate forecasts	-0.1 – 3.1%
		Light vehicle sales forecasts (million)	15.4 – 17.9
		Lease Supply index	0.1 – 0.3
		Used vehicle stock forecasts	0.6 – 2.5
		Used vehicle competitive index forecasts	0.4 – 8.0
		Market incentive level	3.0 – 8.4
		Gasoline spending per household income	0.7 – 1.1%
		Inventory to sales forecasts	1.3 – 2.4

Investment Securities

The Company uses the market approach for recurring fair value measurements and the valuation techniques use inputs that are observable, or can be corroborated by observable data, in an active marketplace.

The following information relates to the classification into the fair value hierarchy:

Fixed Income – Investments in U.S. Treasuries are classified as Level 1 of the fair value hierarchy. For securities classified as Level 2 of the fair value hierarchy, the Company uses third-party pricing models. Such pricing models use standard inputs including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities and other reference data.

Corporate Debt – Investments in certain corporate debt are classified as Level 3 of the fair value hierarchy. The Company uses an independent third-party to value these investments based on a discounted cash flows loan pricing model. This pricing model uses inputs on loans based with similar characteristics such as industry, rating, region and time-to-maturity. Discount factors, which range from 0.727 to 0.999, are applied to the expected cash flows of the corporate debt to calculate the present value of the cash flows, and thus a fair value price. The significant unobservable inputs used in the fair value measurement of these investments are credit risk and discount rate.

Other Invested Assets – Other invested assets are classified as Level 3 of the fair value hierarchy. The Company values its equity investments at fair market value using comparable company multiples based approach. The Company may also use a recently closed equity transaction for the portfolio company if available. Warrants are valued using the Black Sholes model.

Derivative Liabilities - The derivative liabilities include unrealized gains and losses in the fair value calculation of certain of the Company's residual value contracts. The Company has determined that contracts that pay claims or settle to third-party published values meet the requirements under ASC 815 to be recorded as derivatives. The fair value calculation uses a valuation model that was internally developed and uses an income approach. Many of the assumption inputs are obtained from independent third parties such as Black Book, Moody's, specific guidebook asset values and appraisals. Additional assumptions include, but are not limited to, unemployment forecasts, gasoline spending per household income, used vehicle stock and competitive index forecasts, lease supply index, light vehicle sales

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

forecasts, external appraisals and Gross Domestic Product (“GDP”) growth rate. These forecasts are included in the internally developed model to calculate the future probable values of passenger vehicles. Specific guidebook asset values and appraisals are used in calculating probable values for the commercial equipment accounted for as derivatives. The probable values are then compared to the insured values and the fair value of the liabilities is then determined using an income approach. These liabilities were classified as Level 3 of the fair value hierarchy.

The following tables present the changes in Level 3 investment securities and derivatives measured on a recurring basis for the years ended December 31, 2023 and December 31, 2022. The Level 3 balances consist of certain investment securities as well as certain Company contracts recorded as derivatives under ASC 820:

	<u>Jan. 1</u> <u>2023</u>	<u>Change</u> <u>In</u> <u>Market</u> <u>Value</u>	<u>Net Realized</u> <u>/Unrealized</u> <u>Gains/(Losses)</u> <u>Included in</u> <u>Earnings</u>	<u>Purchases</u> <u>and</u> <u>Issuances</u>	<u>Sales,</u> <u>Paydown</u> <u>and</u> <u>Settlements</u>	<u>Dec. 31</u> <u>2023</u>
Investment securities, available for sale:						
Corporate bonds	<u>\$ 30,485</u>	<u>\$ 1,047</u>	<u>\$ -</u>	<u>\$ 26,985</u>	<u>\$(16,556)</u>	<u>\$ 41,961</u>
Other invested assets:						
Membership interests	\$ 4,993	\$ -	\$ -	\$ 2,100	\$ -	\$ 7,093
Preferred shares	-	-	1,033	3,030	-	4,063
Warrants	<u>1,244</u>	<u>-</u>	<u>(330)</u>	<u>-</u>	<u>-</u>	<u>914</u>
Other invested assets	<u>\$ 6,237</u>	<u>\$ -</u>	<u>\$ 703</u>	<u>\$ 5,130</u>	<u>\$ -</u>	<u>\$ 12,070</u>
Derivative liability, net by asset class:						
Commercial equipment/aircraft	\$ 39,495	\$ -	\$ (19,145)	\$ 11,935	\$ -	\$ 32,285
Passenger vehicle	<u>12,476</u>	<u>-</u>	<u>(7,015)</u>	<u>4,655</u>	<u>-</u>	<u>10,116</u>
Net derivative liability	<u>\$ 51,971</u>	<u>\$ -</u>	<u>\$(26,160)</u>	<u>\$ 16,590</u>	<u>\$ -</u>	<u>\$ 42,401</u>

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

	<u>Jan. 1</u> <u>2022</u>	<u>Change</u> <u>In</u> <u>Market</u> <u>Value</u>	<u>Net Realized</u> <u>/Unrealized</u> <u>Losses</u> <u>Included in</u> <u>Earnings</u>	<u>Purchases</u> <u>and</u> <u>Issuances</u>	<u>Sales,</u> <u>Paydown</u> <u>and</u> <u>Settlements</u>	<u>Dec. 31</u> <u>2022</u>
Investment securities, available for sale:						
Corporate bonds	<u>\$ 10,631</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,854</u>	<u>\$ -</u>	<u>\$ 30,485</u>
Other invested assets:						
Membership interests	\$ 4,993	\$ -	\$ -	\$ -	\$ -	\$ 4,993
Preferred shares	-	-	-	-	-	-
Warrants	<u>612</u>	<u>-</u>	<u>-</u>	<u>632</u>	<u>-</u>	<u>1,244</u>
Other invested assets	<u>\$ 5,605</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 632</u>	<u>\$ -</u>	<u>\$ 6,237</u>
Derivative liability, net by asset class:						
Commercial equipment/aircraft	\$ 54,760	\$ -	\$ (24,313)	\$ 9,048	\$ -	\$ 39,495
Passenger vehicle	<u>15,271</u>	<u>-</u>	<u>(8,689)</u>	<u>5,894</u>	<u>-</u>	<u>12,476</u>
Net derivative liability	<u>\$ 70,031</u>	<u>\$ -</u>	<u>\$ (33,002)</u>	<u>\$ 14,942</u>	<u>\$ -</u>	<u>\$ 51,971</u>

There were no transfers between levels during the years ended December 31, 2023 and 2022.

7. Assets Held for Sale

As of December 31, 2023 and 2022, assets held for sale are stated at the lower of depreciated cost or fair value less costs to sell. Occasionally, the Company will take deed of a real estate property for the purpose of mitigating potential loss on the Company's residual value insurance policy supporting the financing of the property.

In 2016, the Company paid a claim and obtained title to a real estate property for the purpose of mitigating potential loss on the Company's residual value insurance policy supporting the financing of the property. The claim payment was reflected as a use of operating cash flow. This property was sold in December 2023 at a gain on disposal of \$1,559. Proceeds from the sale of the property are reflected in cash from investing activities in the statement of cash flows for the year ended December 31, 2023.

In 2022, the Company obtained title of a property. During the years ended December 31, 2023 and 2022, the Company did not capitalize any costs. This property is expected to be sold in 2024.

At December 31, 2023 and 2022, the assets relating to the real estate properties held for sale are presented below. There were no liabilities relating to the real estate properties held for sale.

	<u>2023</u>	<u>2022</u>
Assets held for sale		
Property and equipment	<u>\$ 589</u>	<u>\$ 23,980</u>
Total assets held for sale	<u>\$ 589</u>	<u>\$ 23,980</u>

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

Income and expenses for the real estate properties held for sale for the years ended December 31, 2023, and December 31, 2022, are as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Income related to assets held for sale		
Rental income	\$ 869	\$ 938
Total income related to assets held for sale	<u>\$ 869</u>	<u>\$ 938</u>
Gain on disposal from asset related to assets held for sale	<u>\$ 1,559</u>	<u>\$ -</u>
Expenses related to assets held for sale		
Operating and general expenses	\$ 2,569	\$ 1,392
Selling costs	3,990	-
Total expenses related to assets held for sale	<u>\$ 6,559</u>	<u>\$ 1,392</u>

8. Property and Equipment, Net

At December 31, 2023 and 2022, property and equipment, net consisted of the following:

	<u>2023</u>	<u>2022</u>
Office furniture and equipment	\$ 22	\$ 15
Computer equipment	203	159
Internally developed software	<u>705</u>	<u>413</u>
	930	587
Less, accumulated depreciation and amortization	<u>382</u>	<u>261</u>
Total property and equipment, net	<u>\$ 548</u>	<u>\$ 326</u>

Depreciation and amortization expense for property and equipment were \$121 and \$103 for the years ended December 31, 2023 and 2022, respectively

During the years ended December 31, 2023 and December 31, 2022 the Company did not dispose of any fully depreciated assets no longer in use.

9. Junior Subordinated Debentures

In November, 2002 the Company established a Grantor Trust, R.V.I.G. Preferred Securities, L.L.T. ("The Grantor Trust"), under the laws of Connecticut. In December, 2002 the Company purchased 100% of the Floating Rate Common Securities (the "Common Securities") from The Grantor Trust for \$464. The Grantor Trust issued and sold 15,000,000 of The Grantor Trust's Floating Rate Capital Securities, with a liquidation amount of one dollar per capital security (the "Capital Securities"), to an unaffiliated pool of investors, and received proceeds of \$15,000. The entire proceeds from the sale by The Grantor Trust to the holders of the Capital Securities were combined with the entire proceeds from the sale by The Grantor Trust to the Company of the Common Securities. These funds were used by The Grantor Trust to purchase \$15,464 in principal amount of Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Debentures") from the Company. The net outstanding debt of the Company to external parties is \$15,000.

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

The Debentures accrue cash distributions and bear interest at a rate equal to the 3-month CME Term SOFR plus 4.0% per annum. Interest is paid quarterly in arrears. Interest expense was \$1,457 and \$895 for the years ended December 31, 2023 and December 31, 2022, respectively.

At the option of the Company, interest payments can be deferred for up to twenty consecutive quarterly periods and no interest will be due or payable. The deferral of interest subjects the Company to certain restrictions, such as the declaration of dividends, or the repayment, repurchase or redemption of debt, junior to the Debentures. As of both December 31, 2023 and 2022, the Company did not defer interest payments and does not plan to defer future interest payments. The Debentures can be redeemed by the Company, in whole or in part, but in all cases in a principal amount with integral multiples of one thousand dollars on any March 4, June 4, September 4 or December 4, with a final maturity date of December 4, 2032.

10. Intangible Assets

The Company identified intangible assets as a result of the acquisition of the Company as described in Note 1. These intangible assets consist of both indefinite lived state insurance licenses, which are not subject to amortization, as well as finite lived assets which are amortized on a straight-line basis over the useful life of the finite lived assets.

The following table summarizes these intangible assets, net of accumulated amortization as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>	<u>Useful Life in Years</u>
Intangible assets:			
State insurance licenses	\$ 6,375	\$ 6,375	Indefinite
Software	2,200	2,200	10
Trade name	1,100	1,100	10
Customer relationships	<u>8,900</u>	<u>8,900</u>	3
Sub-total	18,575	18,575	
Less, accumulated amortization	<u>10,110</u>	<u>8,791</u>	
Total intangible assets, net	<u>\$ 8,465</u>	<u>\$ 9,784</u>	

No impairment loss was recorded in the years ended December 31, 2023 and 2022.

Amortization of intangible assets was \$1,319 and \$3,297 for the years ended December 31, 2023 and 2022, respectively, and is included in other operating and general expenses in the Company's consolidated statements of income and comprehensive income.

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

Amortization expense for the next five years is as follows:

<u>Year</u>	<u>Expense</u>
2024	\$ 330
2025	330
2026	330
2027	330
2028	330
Thereafter	440
Total	<u>\$ 2,090</u>

11. Revolving Line of Credit

The Company has a financing agreement with a related party (see Note 23) that permits the Company to borrow for general purposes, at any time through November 30, 2026, up to \$20,000 at an interest rate of CME Term SOFR 1 month plus 1.21%. The Company will repay the amount of each revolving loan advance in full within 364 days of the date on which such amount is borrowed. There is an unused commitment fee of 0.25% per annum. Unused commitment fee incurred was \$51 for both years ended December 31, 2023 and 2022. There was no amount outstanding on the line of credit as of December 31, 2023 and 2022.

12. Unpaid Losses and Loss Adjustment Expenses on Insurance Contracts

The following table provides a reconciliation of the beginning and ending balances of reserves for losses and loss adjustment expenses:

	<u>2023</u>	<u>2022</u>
Gross unpaid losses and loss adjustment expenses, beginning of year	\$ 6,507	\$ 4,543
Less, reinsurance recoverable	<u>713</u>	<u>738</u>
Net balance, beginning of year	<u>5,794</u>	<u>3,805</u>
Changes to loss provision:		
Current year	5,383	4,538
Prior year	<u>15,973</u>	<u>55</u>
Gross change to loss provision	21,356	4,593
Less, recoverable	<u>55</u>	<u>55</u>
Net change to loss provision	<u>21,301</u>	<u>4,538</u>
Less, paid claims and loss adjustment expenses:		
Current year	(930)	(739)
Prior year	<u>(11,479)</u>	<u>(1,730)</u>
Gross paid claims and loss adjustment expenses	(12,409)	(2,469)
Less, recoverable on paid	<u>(79)</u>	<u>(80)</u>
Net paid claims and loss adjustment expenses	<u>(12,330)</u>	<u>(2,389)</u>
Foreign exchange gains	(49)	(160)
Gross unpaid losses and loss adjustment expenses, end of year	15,405	6,507
Less, reinsurance recoverable	<u>689</u>	<u>713</u>
Net balance, end of year	<u>\$ 14,716</u>	<u>\$ 5,794</u>

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

The net incurred and paid losses and loss expenses development by accident year for each of the years ending December 31, 2014 through 2023, and the total of incurred but not reported (“IBNR”) and case reserves, as at each of the years ended December 31, 2014 through 2023 are presented in the tables below. All amounts from 2014 through 2022 are unaudited.

Net Incurred Losses and Loss Expenses Development Table
For the year ended December 31

Accident Year											December 31, 2023 Total of Net IBNR and Case Reserves
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
2014	143	143	143	143	143	143	143	143	143	143	-
2015		-	-	-	-	-	-	-	-	-	-
2016			-	-	-	-	-	-	-	-	-
2017				1,752	(1,418)	(1,536)	(1,536)	(1,536)	(1,536)	(1,536)	-
2018					(994)	(1,613)	(1,613)	(1,613)	(1,613)	(1,613)	-
2019						125	-	-	-	-	-
2020							2,627	2,173	2,173	2,173	-
2021								1,990	540	540	-
2022									5,987	21,905	4,519
2023										5,383	10,406
Total										26,995	14,925
										Less: FX gain	(209)
										Ending 12/31/23 net loss and LAE	14,716

Net Paid Losses and Loss Expenses Development Table
For the year ended December 31

Accident Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2014	143	143	143	143	143	143	143	143	143	143
2015		-	-	-	-	-	-	-	-	-
2016			-	-	-	-	-	-	-	-
2017				-	(1,768)	(1,536)	(1,536)	(1,536)	(1,536)	(1,536)
2018					(3,119)	(1,613)	(1,613)	(1,613)	(1,613)	(1,613)
2019						-	-	-	-	-
2020							(48)	523	2,173	2,173
2021								(165)	(165)	(165)
2022									740	12,138
2023										930
Total										12,070

The negative incurred and negative paid (recovery) amounts presented above were due to various real estate properties that the Company took deed to in prior years for purposes of mitigating potential losses relating to its residual value insurance policies. The sale of these properties resulted in gains that led to these negative amounts above.

The above tables include the Company’s residual value insurance business (accounted for as insurance only) as well as Quota Share reinsurance business discussed in Note 1. The reinsurance had net

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

incurred loss and loss expenses of \$18,929 and net paid loss and loss expenses of \$12,330, for the year ended December 31, 2023.

The following is supplementary information about the average annual percentage payout of incurred claims by age, net of amounts recoverable from reinsurers, for the year ended December 31, 2023 (amounts are unaudited).

	Years	1	2	3	4	5	6	7	8	9	10
Residual Value Insurance and P&C Reinsurance		27.3%	52.1%	20.6%	-	-	-	-	-	-	-

13. Derivatives

Although the Company and its insurance subsidiary are licensed as property and casualty insurers by the Bermuda and Delaware insurance regulators, respectively, certain of its products, in accordance with U.S. GAAP, are recorded as derivatives. As of March 22, 2023, the Company's insurance subsidiary redomesticated from Connecticut to Delaware. The Company has determined that contracts that pay claims or settle to third-party published values meet the requirements under ASC 815 to be recorded as derivatives. Under ASC 815, contracts that have as part of the settlement process reference to third-party indexes are not eligible for the ASC 815 scope exception for insurance accounting and, accordingly, are accounted for as derivatives.

The fair value is estimated using a valuation model that was internally developed and uses an income approach. The model includes, among other things, projected future claims, probable estimated asset values at contract end date using third-party published values and market surveillance. For assets in which the probable future values during a reporting period either increase or decrease premium is calculated which generates the fair value adjustment to mark to market. The model and the related assumptions are updated quarterly with current market information. The fair value of insurance contracts accounted for as derivatives reflects the estimated value of the contracts at that reporting date.

Net realized and unrealized gains and losses on insurance contracts accounted for as derivatives include the mark to market fair value adjustment, the total of the earned derivative fee revenue, losses paid and the costs to acquire these contracts. Changes in net realized and unrealized gains and losses on derivative financial instruments are reflected in the consolidated statements of income and comprehensive income. If a derivative has an increase in estimated fair value during a period, the increase will add to the Company's total revenue for that period. Conversely, if a derivative has a decline in estimated fair value during the period, the decline will be deducted from the Company's total revenue for that period. Cumulative unrealized gains and losses are reflected in either derivative assets or derivative liabilities in the Company's consolidated balance sheets. Unrealized gains and losses resulting from changes in the fair value of derivatives occur because of the related impact on estimated pricing of a contract.

The Company recorded net realized and unrealized gains before income taxes on derivative financial instruments of \$25,313 and \$32,182 for the years ended December 31, 2023 and December 31, 2022, respectively. The components of net realized and unrealized gains on derivatives are as follows:

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Derivative fee revenue	\$ 21,585	\$ 24,513
Fair value adjustment gains	<u>4,575</u>	<u>8,489</u>
Net realized/unrealized gains included in earnings	26,160	33,002
Cost to acquire derivatives	(673)	(725)
Losses paid	<u>(174)</u>	<u>(95)</u>
Net realized and unrealized gains on derivatives	<u>\$ 25,313</u>	<u>\$ 32,182</u>

The derivative liabilities represent the gross unearned revenue and cumulative unrealized gains and losses on the derivative contracts. The derivative assets represent the portion of unearned revenue and cumulative unrealized gains and losses shared with third-party reinsurers. There were no derivative assets at December 31, 2023 and 2022, respectively. The components of the Company's derivative liabilities are as follows at December 31:

	<u>2023</u>	<u>2022</u>
Derivative Liabilities		
Unearned derivative fee revenue	\$ 45,143	\$ 50,138
Accumulated fair value (gains)/losses	<u>(2,742)</u>	<u>1,833</u>
Total derivative liabilities	<u>\$ 42,401</u>	<u>\$ 51,971</u>

14. Estimated Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments. These determinations were based on available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data to develop the estimates and, therefore, the estimates may not necessarily be indicative of the amount the Company could realize in a current market exchange. Due to the relatively short-term nature of cash and cash equivalents, short-term investments, premiums receivable and accrued investment income, their carrying amounts are reasonable estimates of fair value.

	<u>Carrying Value</u>	<u>Fair Value</u>
December 31, 2023		
Assets		
Cash and cash equivalents	\$ 44,792	\$ 44,792
Restricted cash and cash equivalents	15,492	15,492
Fixed maturity investments, available-for-sale	152,511	152,511
Restricted investment securities	10,380	10,380
Other invested assets	12,070	12,070
Liabilities		
Derivative liabilities	\$ 42,401	\$ 42,401

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

December 31, 2022	<u>Carrying Value</u>	<u>Fair Value</u>
Assets		
Cash and cash equivalents	\$ 34,714	\$ 34,714
Restricted cash and cash equivalents	4,914	4,914
Fixed maturity investments, available-for-sale	127,985	127,985
Restricted investment securities	9,544	9,544
Other invested assets	6,237	6,237
Liabilities		
Derivative liabilities	\$ 51,971	\$ 51,971

Investment Securities

The fair values of investment securities, shown in Note 3, approximate market values, which are based on quoted market prices or model derived valuations.

Derivative Contracts

The Company's insurance contracts recorded as derivatives are recorded at fair value (see Note 13).

15. Commitments and Contingencies

Right of Use Leases and Lease Liability

On January 1, 2022, the Company adopted ASC 842, "Leases". The Company has two operating leases related to its administrative office. One of the operating leases is for the corporate office space and expired in December 2023. The Company signed a four month lease extension for which it is not required to be reported under ASC842 as it has an expiration date less than 12 months remaining. The other operating lease relates to two printers and expired in December 2022. This lease is not required to be reported under ASC 842 as the operating lease had an expiration date less than 12 months remaining as of the date of implementation.

As the implicit rates of the Company's existing leases are not readily determinable, the incremental borrowing rate used in determining the lease liability obligation for each individual lease was the risk-free rate.

The implementation of the new standard resulted in the recognition of a \$622 ROU asset for an operating lease related to corporate office space as of December 31, 2022. The ROU asset is included in other assets and the lease liability in accounts payable and accrued liabilities on the consolidated balance sheets. There is no ROU asset or related lease liability as of December 31, 2023.

The following tables present information about the Company's lease and the related lease costs as of and for the years ended December 31, 2023 and 2022:

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Weighted-average remaining lease term		
Operating lease	0.0 year(s)	1.0 year(s)
Weighted-average discount rate		
Operating lease	0.78%	0.78%
Operating lease	1.0 year(s)	1.0 year(s)
	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Operating lease expense	\$ -	\$ 728
Cash paid for amounts included in the measurement of lease liabilities	\$ 730	\$ 713
Non-cash investing and financing activities:		
ROU asset and operating lease liability obligation	\$ -	\$ 106

16. Stockholder Equity

Dividends Paid to Shareholders

There were no dividends declared or paid in 2023 and 2022.

Accumulated Other Comprehensive Loss

Balances of related after-tax components comprising other comprehensive loss included in stockholder equity at December 31, 2023 and 2022 are as follows:

	Unrealized Losses On Debt Securities	Accumulated Other Comprehensive Loss
Balance at December 31, 2021	\$ (567)	\$ (567)
Gross change for 2022	(15,374)	(15,374)
Deferred taxes change for 2022	3,228	3,228
Net change for 2022	<u>(12,146)</u>	<u>(12,146)</u>
Balance at December 31, 2022	\$ (12,713)	\$ (12,713)
Gross change for 2023	4,361	4,361
Deferred taxes change for 2023	(915)	(915)
Net change for 2023	<u>3,446</u>	<u>3,446</u>
Balance at December 31, 2023	<u>\$ (9,267)</u>	<u>\$ (9,267)</u>

17. Statutory Requirements

These consolidated financial statements are prepared on a U.S. GAAP basis, which differs in certain respects from accounting practices prescribed or permitted by the insurance regulatory authorities of the Delaware Department of Insurance (“DDI”) and the statutory requirements of the Bermuda Monetary Authority (“BMA”). As of March 22, 2023, the Company’s insurance subsidiary

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

redomesticated from Connecticut to Delaware. The significant differences between statutory accounting practices and U.S. GAAP are as follows:

- contracts accounted for as derivatives under U.S. GAAP are treated as insurance for statutory purposes;
- acquisition costs and ceding commissions and allowances are charged/credited to operations incurred for statutory reporting and deferred and amortized as the related insurance premiums are earned for U.S. GAAP;
- fixed-maturity investments are generally reported at amortized cost for statutory and fair value for U.S. GAAP;
- certain changes in net deferred income taxes are recognized as a separate component of gains and losses in surplus for statutory purposes. Under U.S. GAAP, certain changes in the Company's net deferred income tax balances are recorded as income tax expense or benefit;
- unpaid losses, loss adjustment expenses and unearned premiums are presented net of reinsurance for statutory reporting and gross for U.S. GAAP; and
- certain assets designated as "non-admitted assets" are charged directly to surplus for statutory purposes but are reflected as assets under U.S. GAAP.

The Company is a Bermuda regulated Class 3A and C insurer/reinsurer and prepares its statutory financial statements in conformity with the accounting principles set forth in The Act, amendments thereto and related regulations. Premiums assumed from its affiliates were \$19,852, and \$20,052, for December 31, 2023, and December 31, 2022, respectively, and eliminate in consolidation.

As of December 31, 2023 and 2022, the Company's statutory capital and surplus has exceeded the minimum statutory capital and surplus required by The Act. The Company is prohibited from declaring or paying any dividends during any financial year if it would cause the Company to fail to meet its solvency margin and minimum liquidity ratio. Under The Act, if a company fails to meet its solvency margin and minimum liquidity ratio on the last day of any financial year, it shall not, without the approval of the BMA, declare or pay any dividends during the next financial year. The Company has met both the solvency margin and the minimum liquidity ratio since its inception. The amount of dividends which can be paid by the Company is restricted to 25% of the previous year's total statutory capital and surplus by The Act without prior approval of the BMA.

The Company's insurance subsidiary is subject to comprehensive regulation by its state of domicile, Delaware. Under these regulations, there are certain limits on dividend payments and intercompany transactions. No dividends can be declared or paid, from any source other than earned surplus, to shareholders without prior approval of the Delaware Insurance Commissioner ("DIC"). Earned surplus is defined as an amount equal to the unassigned funds of an insurer's most recently filed annual statement including all or part of the surplus arising from unrealized capital gains or revaluation of assets. Additionally, no insurer may pay any extraordinary dividend or other extraordinary distribution to its shareholders until (1) 30 days after the DIC has received notice of the declaration and has not disapproved such payment or (2) the DIC has approved such payment within the 30 day period. An extraordinary dividend or distribution is defined by the DIC as any dividend or distribution of cash or other property, whose fair market value together with that of other dividends or distributions made with the preceding 12 months exceeds the greater of (1) 10% of statutory surplus or (2) net income, not including realized capital gains and may not include pro rata distributions of any class of the insurer's

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

own securities. No dividends were paid or declared during the years ended December 31, 2023 and 2022.

The insurance subsidiary is also required to adhere to minimum risk-based capital (“RBC”) requirements developed by the National Association of Insurance Commissioners. As of both December 31, 2023 and 2022, the insurance subsidiary’s capital exceeded these minimum RBC requirements.

The statutory amounts for each of the statutory companies are below:

(in millions)	<u>Statutory Gross Written Premiums</u>	<u>Statutory Capital and Surplus</u>	<u>Statutory Net Income</u>
December 31, 2023			
R.V.I. Guaranty Co., Ltd. (Bermuda)	\$ 38.0	\$149.9	\$ 17.7
R.V.I. America Insurance Company (Delaware)	23.9	87.2	2.1
December 31, 2022			
R.V.I. Guaranty Co., Ltd. (Bermuda)	\$ 38.8	\$134.3	\$ 20.2
R.V.I. America Insurance Company (Connecticut)	24.2	85.0	1.9

18. Income Taxes

The Company and its consolidated affiliates (the “Consolidated Group”) are subject to U.S. taxation and file a consolidated Federal tax return. The Consolidated Group participates in an agreement that the tax attributes of each subsidiary are determined as if each such subsidiary were filing a separate Federal income tax return on a stand-alone basis. Each subsidiary will be timely paid the tax effect of any losses or credits used by the Consolidated Group in computing the tax liability on the consolidated Federal income tax return filed by the Parent. As of April 1, 2023 the Consolidated Group’s new parent is Group 1001, LLC. The Consolidated Group will pay or receive the Company’s share of the tax effect of any losses or credits used by the Consolidated Group in computing the tax liability on the consolidated Federal income tax return as filed by Group 1001, LLC beginning with the April 1, 2023 through December 31, 2023 tax year.

The Company has recognized all its tax benefits. The Company classifies interest on tax deficiencies as interest expense and income tax penalties are included in other operating and general expenses. For the years ended December 31, 2023 and December 31, 2022, no interest or penalties were recognized in the consolidated statements of income and other comprehensive income.

The components of the provision for income taxes are as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Current tax expense	\$ 2,230	\$ 3,043
Deferred tax expense	<u>809</u>	<u>1,083</u>
Total	<u>\$ 3,039</u>	<u>\$ 4,126</u>

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

A reconciliation of the U.S. Federal statutory rate to the Company's effective tax are as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
U.S. statutory tax	21.0%	21.0%
Effective income tax rate	<u>21.0%</u>	<u>21.0%</u>

For the period January 1, 2020 through May 11, 2020, the Company incurred a Federal tax net operating loss ("NOL") of approximately \$7,900. This Federal tax NOL was carried back to the year ended December 31, 2015 and resulted in a Federal tax rate differential of 14% as the Federal tax rate in 2015 was 35% versus the then current enacted Federal tax rate of 21%. For the period ended December 31, 2021, the Company recorded a tax rate differential from this Federal tax NOL of \$542. The Internal Revenue Service ("IRS") is currently examining the carryback claim and the 2015 Federal income tax return, along with the Federal income tax return for the period January 1, 2020 through May 11, 2020.

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. The Company evaluates the recoverability of these future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences.

Net deferred tax assets as of December 31, 2023 and 2022 are comprised of the following:

	<u>2023</u>	<u>2022</u>
Assets:		
Unearned premiums and derivative fee revenue	\$ 3,218	\$ 3,276
Unpaid losses and loss adjustment expenses	663	212
Derivative components	-	120
Leasing commissions	-	61
Deferred compensation	681	425
Accrued rent receivable	-	94
Unrealized losses on investments	2,464	3,379
Other	<u>35</u>	<u>68</u>
Total deferred tax assets	<u>7,061</u>	<u>7,635</u>
Liabilities:		
Intangible assets	1,778	2,055
Deferred policy acquisition costs	1,091	945
Derivative components	804	-
Other	<u>501</u>	<u>24</u>
Total deferred tax liabilities	<u>4,174</u>	<u>3,024</u>
Net deferred tax assets	<u>\$ 2,887</u>	<u>\$ 4,611</u>

The Company is under examination by the IRS as noted above and remains subject to examination for tax years 2020 through 2023.

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

19. Reinsurance and Risk Syndication

In the normal course of business, the Company has entered into reinsurance agreements and reinsured exposures to limit losses and increase capacity. This risk sharing does not relieve the Company from primary liability to the holders of its contracts and, to the extent that a counterparty would be unable to meet its obligations, the Company would be liable. Management believes its counterparties are financially sound and will continue to meet their obligations.

The following table illustrates the effect of reinsurance on the insurance contracts for years ended December 31, 2023, and December 31, 2022, respectively

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Premiums written		
Direct	\$ 7,308	\$ 9,604
Assumed	31,452	18,627
Ceded	217	(217)
Net premiums written	<u>\$ 38,977</u>	<u>\$ 28,014</u>
Premiums earned		
Direct	\$ 3,209	\$ 2,555
Assumed	32,102	10,634
Ceded	58	(58)
Net premiums earned	<u>\$ 35,369</u>	<u>\$ 13,131</u>
Loss and loss adjustment provision changes		
Direct	\$ 55	\$ 55
Assumed	21,301	4,538
Ceded	(55)	(55)
Net loss and loss adjustment provision changes	<u>\$ 21,301</u>	<u>\$ 4,538</u>
Unearned premiums		
Direct	\$ 19,334	\$ 15,235
Assumed	12,131	12,781
Ceded	-	(159)
Net unearned premiums	<u>\$ 31,465</u>	<u>\$ 27,857</u>

20. Cash and Deferred Bonus Plan

Effective January 1, 2021, the Compensation Committee (“the Committee”) of the Board of Directors (“BOD”) approved the 2021 RVI Group Cash and Deferred Bonus Plan (the “2021 Plan”). The 2021 Plan is intended to be a “bonus program” as defined under the Employee Retirement Income Security Act of 1974, as amended, (“ERISA”) and shall at all times be unfunded until payment is made. The 2021 Plan provides for the award of both cash and deferred bonuses. All employees are eligible to receive a cash bonus award, the value of which is based upon individual, departmental and overall Company performance. The 2021 Plan also provides, that certain employees are eligible to receive a deferred bonus award. The deferred bonus award is credited to the participant’s account and the account is subject to adjustment annually based upon Company performance. Deferred bonus awards vest in

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

four equal installments of 25% of the original award on each of the first four anniversaries of the grant date. The vested account amounts for each deferred bonus award will be paid as follows: 25% of the applicable vested account on the first year anniversary of the applicable vesting date; 33 1/3% of the remaining applicable vested account on the second anniversary, 50% of the remaining applicable vested account on the third anniversary and 100% of the remaining applicable vested account on the fourth anniversary.

The amount granted under the 2021 Plan will be determined by the Committee in its sole discretion. The 2021 Plan expense and liability for the deferred bonus award for the years ended December 31, 2023 and 2022 were \$1,703 and \$1,205, respectively. The unvested liability was \$4,398 and \$4,217 as of December 31, 2023 and 2022, respectively.

21. Other Employee Benefit Plans

Defined Contribution Plan

The Company has a defined contribution 401(k) Savings Plan which is subject to the provisions of ERISA.

The Plan's eligibility requirements for employees include a minimum of one month of service and a minimum age requirement of 21 years. Eligible employees may contribute up to 100% of their eligible compensation subject to certain limitations in the Internal Revenue Code of 1986, as amended. The Company makes a contribution at a rate of 3% of base salary plus the Company matches 70% of employee contributions up to an additional 3% of base salary to each employee. Employees are fully vested in their voluntary contributions and in the employer match. Company contributions of approximately \$470, and \$446, were made during December 31, 2023 and December 31, 2022, respectively.

22. Risks and Uncertainties

The following is a description of the most significant risks facing the Company and how the Company mitigates those risks:

Legal/Regulatory Risk is the risk that changes in the legal or regulatory environment in which an insurer operates will occur and create additional claims costs or expenses not anticipated by the insurer in pricing its products. These changes could include regulatory initiatives designed to reduce insurer profits or new legal theories which may create costs for the insurer beyond those recorded in the consolidated financial statements. The risk is reduced by underwriting and loss adjusting practices that identify and minimize the adverse impact of these risks. In addition, although the Company is not currently a party to any litigation where the outcome would have a material adverse effect on its financial condition, the Company's status as an insurance carrier places it at an increased risk of litigation.

Credit Risk is the risk that issuers of securities owned by the Company will default or other parties, including reinsurers, will not pay. The Company minimizes this risk by adhering to a conservative investment strategy and by maintaining reinsurance and credit and collection policies.

Interest Rate and Liquidity Risk is the risk that interest rates will change and cause a change in the value of an insurer's investments and that current liabilities are greater than positive cash flows. The

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

Company mitigates this risk by attempting to match the maturity schedule of its assets with the expected payouts of its liabilities. To the extent that liabilities come due more quickly than assets mature, the Company may have to sell assets prior to maturity and recognize a loss.

For the years ended December 31, 2023 and 2022, the Company's five largest clients comprised approximately 59% and 61% of gross written premiums, respectively. None of the five clients had the same percentages in both years. Should the Company discontinue doing business with these clients, the impact may be significant.

Concentration of Credit Risk

The areas where significant concentrations of credit risk may exist include reinsurance recoverable on paid and unpaid losses and loss adjustment expenses and prepaid reinsurance premiums (collectively "reinsurance assets"), investments, cash and cash equivalents and premiums receivable. The Company's reinsurance assets at December 31, 2023 and 2022 amounted to \$689 and \$713 and resulted from reinsurance arrangements in the normal course of its operations. A credit exposure exists with respect to reinsurance assets as they may be uncollectible. The Company manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound and, if necessary, the Company may hold collateral in the form of trust accounts. This collateral can be drawn on for the amounts that remain unpaid beyond specified time periods on an individual reinsurer basis.

The Company's available-for-sale investment portfolio is managed by external managers in accordance with guidelines that have been tailored to meet specific investment strategies, including standards of diversification, which limits among other things, the allowable holdings of any single issue. The Company did not have an aggregate investment in a single entity, in excess of 10% of its statutory admitted assets at December 31, 2023 or 2022.

The Company maintains a substantial portion of its cash and cash equivalents in one financial institution that the Company considers high quality. Premiums receivable consist of amounts relating to insurance and derivative contracts. The Company extends credit to its customers in the normal course of business and monitors the balances of individual accounts to assess any collectability issues. The Company has not experienced significant losses related to receivables in the past.

23. Related Party

Revolving Line of Credit

The Company has a financing agreement with Delaware Life Insurance Company ("DLIC") of Group1001. Under this financing agreement, DLIC permits the Company to borrow, for general purposes, at any time through November 30, 2026 up to \$20,000 at an interest rate of CME Term SOFR 1 month plus 1.21%. The Company will repay the amount of each revolving loan advance in full within 364 days of the date on which such amount is borrowed. There is an unused commitment fee equal to .25% per annum. Unused commitment fee incurred was \$51 for both periods ended December 31, 2023 and 2022.

Investment Securities

As of December 31, 2023 and 2022, the Company had debt securities with fair value of \$5,500 and \$3,000, respectively which are invested in an entity that is majority-owned by Group1001.

R.V.I. Guaranty Co., Ltd. and subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

24. Subsequent Events

The Company's management has performed subsequent events procedures through March 8, 2024 which is the date the consolidated financial statements were available to be issued and there were no subsequent events requiring adjustment to the consolidated financial statements or disclosures as stated herein.