

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

**Consolidated Financial Statements  
For the Years Ended December 31, 2022 and 2021**



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New York, NY 10017

## **Independent Auditor's Report**

Shareholder and Board of Directors  
R.V.I. Guaranty Co., Ltd.  
201 Broad Street  
Stamford, CT 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, 2022 and 2021, and the related consolidated statements of income and comprehensive income, changes in stockholder equity and cash flows for the years ended December 31, 2022 and 2021, 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 of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years ended December 31, 2022 and 2021 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 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 25 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, LLP

New York, NY  
March 6, 2023

**R.V.I. Guaranty Co., Ltd. and subsidiaries**  
**Consolidated Balance Sheets**  
**December 31, 2022 and 2021**  
*(Dollars in thousands)*

|                                                                                                                  | <u>2022</u>             | <u>2021</u>             |
|------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| <b>Assets</b>                                                                                                    |                         |                         |
| Cash and cash equivalents                                                                                        | \$ 34,714               | \$ 34,511               |
| Restricted cash and cash equivalents                                                                             | 4,914                   | 105                     |
| Investment securities, available-for-sale, at fair value<br>(amortized cost; \$142,893 - 2022; \$143,209 - 2021) | 127,985                 | 142,450                 |
| Restricted investment securities, at fair value<br>(amortized cost; \$10,728 - 2022; \$4,377 - 2021)             | 9,544                   | 4,418                   |
| Other invested assets                                                                                            | 4,993                   | 4,993                   |
| Accrued investment income                                                                                        | 1,077                   | 686                     |
| Premiums receivable                                                                                              | 16,944                  | 8,095                   |
| Reinsurance recoverable                                                                                          | 713                     | 738                     |
| Prepaid reinsurance premiums                                                                                     | 159                     | -                       |
| Deferred policy acquisition costs                                                                                | 4,500                   | 1,937                   |
| Mortgage receivable                                                                                              | -                       | 588                     |
| Assets held for sale                                                                                             | 23,980                  | 23,222                  |
| Federal taxes recoverable, net                                                                                   | 1,685                   | 767                     |
| Deferred tax assets, net                                                                                         | 4,611                   | 2,466                   |
| Property and equipment, net                                                                                      | 326                     | 175                     |
| Intangible assets                                                                                                | 9,784                   | 13,081                  |
| Goodwill                                                                                                         | 30,105                  | 30,105                  |
| Other assets                                                                                                     | 4,305                   | 7,127                   |
| <b>Total assets</b>                                                                                              | <b><u>\$280,339</u></b> | <b><u>\$275,464</u></b> |
| <b>Liabilities</b>                                                                                               |                         |                         |
| Accounts payable and accrued liabilities                                                                         | \$ 11,028               | \$ 9,268                |
| Unpaid losses and loss adjustment expenses                                                                       | 6,507                   | 4,543                   |
| Unearned premiums                                                                                                | 28,016                  | 12,973                  |
| Reinsurance payable on paid losses and loss<br>adjustment expenses                                               | 476                     | -                       |
| Derivatives                                                                                                      |                         |                         |
| Unearned derivative fee revenue                                                                                  | 50,138                  | 59,709                  |
| Accumulated fair value losses                                                                                    | 1,833                   | 10,322                  |
| Derivatives, total                                                                                               | 51,971                  | 70,031                  |
| Federal taxes payable to parent                                                                                  | 280                     | -                       |
| Junior subordinated debentures                                                                                   | 15,464                  | 15,464                  |
| <b>Total liabilities</b>                                                                                         | <b><u>113,742</u></b>   | <b><u>112,279</u></b>   |
| Commitments and contingencies (Notes 11, 15 and 21)                                                              |                         |                         |
| <b>Stockholder equity</b>                                                                                        |                         |                         |
| Common stock, one dollar par value (100,000,000 shares<br>authorized, 50,000,000 issued and outstanding)         | 50,000                  | 50,000                  |
| Additional paid in capital                                                                                       | 95,000                  | 95,000                  |
| Retained earnings                                                                                                | 34,310                  | 18,752                  |
| Accumulated other comprehensive loss                                                                             | (12,713)                | (567)                   |
| <b>Total stockholder equity</b>                                                                                  | <b><u>166,597</u></b>   | <b><u>163,185</u></b>   |
| <b>Total liabilities and stockholder equity</b>                                                                  | <b><u>\$280,339</u></b> | <b><u>\$275,464</u></b> |

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, 2022 and 2021**  
*(Dollars in thousands)*

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|                                                                                     | <u>December 31, 2022</u> | <u>December 31, 2021</u> |
|-------------------------------------------------------------------------------------|--------------------------|--------------------------|
| <b>Revenue</b>                                                                      |                          |                          |
| Net premiums earned                                                                 | \$ 13,131                | \$ 6,399                 |
| Net realized and unrealized gains on derivatives                                    | 32,182                   | 27,392                   |
| Net investment income                                                               | 6,128                    | 3,595                    |
| Net realized investment gains/(losses)                                              | 156                      | (321)                    |
| Fee income                                                                          | 1,528                    | 2,921                    |
| Income related to assets held for sale                                              | <u>938</u>               | <u>3,054</u>             |
| <b>Total revenue</b>                                                                | <b><u>54,063</u></b>     | <b><u>43,040</u></b>     |
| <b>Costs and expenses</b>                                                           |                          |                          |
| Insurance loss provision                                                            | 4,538                    | 1,536                    |
| Policy acquisition expenses                                                         | 2,471                    | 860                      |
| Other operating and general expenses                                                | 25,063                   | 23,434                   |
| Interest expense, net                                                               | 915                      | 662                      |
| Expenses related to assets held for sale                                            | <u>1,392</u>             | <u>1,815</u>             |
| <b>Total costs and expenses</b>                                                     | <b><u>34,379</u></b>     | <b><u>28,307</u></b>     |
| Income from operations before income taxes                                          | 19,684                   | 14,733                   |
| Income taxes                                                                        | <u>4,126</u>             | <u>2,534</u>             |
| <b>Net income</b>                                                                   | <b><u>15,558</u></b>     | <b><u>12,199</u></b>     |
| <b>Other comprehensive loss, net of tax</b>                                         |                          |                          |
| Change in unrealized losses on investment securities                                | (12,023)                 | (1,146)                  |
| Reclassification adjustment for investment<br>(gains)/losses included in net income | <u>(123)</u>             | <u>254</u>               |
| Other comprehensive loss                                                            | <u>(12,146)</u>          | <u>(892)</u>             |
| <b>Comprehensive income</b>                                                         | <b><u>\$ 3,412</u></b>   | <b><u>\$ 11,307</u></b>  |

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, 2022 and 2021**  
*(Dollars in thousands)*

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|                                                                                                                             | <u>Common<br/>Stock</u> | <u>Additional<br/>Paid<br/>In Capital</u> | <u>Retained<br/>Earnings</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income/(Loss)</u> | <u>Total<br/>Stockholder<br/>Equity</u> |
|-----------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------------------------|------------------------------|------------------------------------------------------------------|-----------------------------------------|
| <b>Balance, at December 31, 2020</b>                                                                                        | <b>\$ 50,000</b>        | <b>\$ 95,000</b>                          | <b>\$ 6,553</b>              | <b>\$ 325</b>                                                    | <b>\$151,878</b>                        |
| Net income                                                                                                                  |                         |                                           | 12,199                       |                                                                  | 12,199                                  |
| Change in unrealized losses on investment securities, and restricted investment securities net of deferred taxes of \$170   |                         |                                           |                              | (1,146)                                                          | (1,146)                                 |
| Reclassification adjustment for investment securities losses included in net income, net of deferred taxes of (\$67)        | _____                   | _____                                     | _____                        | 254                                                              | 254                                     |
| <b>Balance, at December 31, 2021</b>                                                                                        | <b>\$ 50,000</b>        | <b>\$ 95,000</b>                          | <b>\$ 18,752</b>             | <b>\$ (567)</b>                                                  | <b>\$163,185</b>                        |
| 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)                                   |
| <b>Balance, at December 31, 2022</b>                                                                                        | <b><u>\$ 50,000</u></b> | <b><u>\$ 95,000</u></b>                   | <b><u>\$ 34,310</u></b>      | <b><u>\$ (12,713)</u></b>                                        | <b><u>\$166,597</u></b>                 |

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, 2022 and 2021**  
*(Dollars in thousands)*

|                                                                                                     | <u>2022</u>      | <u>2021</u>      |
|-----------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Cash flows - operating activities</b>                                                            |                  |                  |
| Premiums and proceeds from derivative policies                                                      | \$ 33,395        | \$ 25,620        |
| Losses and loss adjustment expenses paid, net of recoveries                                         | (2,485)          | (5,591)          |
| Cost to acquire derivatives                                                                         | (725)            | (932)            |
| Fee income                                                                                          | 1,234            | 3,553            |
| Federal income taxes and interest received                                                          | 2,959            | -                |
| Federal income taxes paid                                                                           | (5,142)          | (1,530)          |
| Federal taxes payable to parent                                                                     | (1,494)          | -                |
| Income from assets held for sale                                                                    | 561              | 3,125            |
| Proceeds from sale of assets held for sale                                                          | -                | 2,895            |
| Proceeds from mortgages receivable                                                                  | -                | 995              |
| Acquisition of mortgages receivable                                                                 | -                | (95)             |
| Net investment income                                                                               | 5,737            | 3,770            |
| Interest expense                                                                                    | (967)            | (661)            |
| Other operating expenses                                                                            | (26,757)         | (22,623)         |
| Net cash provided by operating activities                                                           | <u>6,316</u>     | <u>8,526</u>     |
| <b>Cash flows - investing activities</b>                                                            |                  |                  |
| Purchase of investment securities - available-for-sale                                              | (57,156)         | (121,246)        |
| Purchases of other invested assets                                                                  | -                | (4,993)          |
| Sales/maturities of investment securities - available-for-sale                                      | 56,276           | 128,196          |
| Acquisition of property and equipment                                                               | (254)            | (119)            |
| Capitalized improvements to assets held for sale                                                    | (170)            | (186)            |
| Net cash (used in)/provided by investing activities                                                 | <u>(1,304)</u>   | <u>1,652</u>     |
| Net increase in cash, cash equivalents and restricted cash                                          | 5,012            | 10,178           |
| <b>Cash, cash equivalents and restricted cash</b>                                                   |                  |                  |
| Beginning of period                                                                                 | 34,616           | 24,438           |
| End of period                                                                                       | <u>\$ 39,628</u> | <u>\$ 34,616</u> |
| <b>Reconciliation of net income to cash flows - operating activities</b>                            |                  |                  |
| Net income                                                                                          | \$ 15,558        | \$ 12,199        |
| Adjustments to reconcile net income to net cash provided by operating                               |                  |                  |
| Net unrealized gains on derivatives                                                                 | (8,489)          | (6,706)          |
| Other derivative components                                                                         | (9,571)          | (8,530)          |
| Depreciation and amortization                                                                       | 103              | 94               |
| Amortization, intangible assets                                                                     | 3,297            | 3,296            |
| Realized investment securities (gains)/losses                                                       | (156)            | 321              |
| Deferred income taxes                                                                               | 1,083            | 69               |
| Change in:                                                                                          |                  |                  |
| Premiums receivable and other receivables                                                           | (9,240)          | (5,567)          |
| Deferred policy acquisition costs                                                                   | (2,563)          | (1,570)          |
| Mortgage receivable                                                                                 | 588              | 901              |
| Assets held for sale                                                                                | (588)            | 3,511            |
| Other assets                                                                                        | (2,177)          | 10               |
| Accounts payable and accrued liabilities                                                            | 1,760            | 1,493            |
| Unpaid losses and loss adjustment expenses, net                                                     | 1,989            | 1,380            |
| Unearned premiums                                                                                   | 14,884           | 6,691            |
| Federal taxes recoverable, net                                                                      | (918)            | 934              |
| Federal taxes payable to parent                                                                     | 280              | -                |
| Reinsurance payable on paid losses and loss adjustment expenses                                     | 476              | -                |
| Net cash provided by operating activities                                                           | <u>\$ 6,316</u>  | <u>\$ 8,526</u>  |
| <b>Supplementary Disclosure on Consolidated Cash Flows Information:</b>                             |                  |                  |
| Cash                                                                                                | \$ 34,714        | \$ 34,511        |
| Restricted cash                                                                                     | <u>4,914</u>     | <u>105</u>       |
| Total cash, cash equivalents and restricted cash shown in the Consolidated Statements of Cash Flows | <u>\$ 39,628</u> | <u>\$ 34,616</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, 2022 and 2021**  
*(Dollars in thousands)*

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**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, 2022, all of the in force commercial real estate business, approximately 15% and 21% 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 79% of the in force passenger vehicle business and approximately 85% 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.

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.

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”).

**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.



**R.V.I. Guaranty Co., Ltd. and subsidiaries**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2022 and 2021**  
*(Dollars in thousands)*

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**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 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

**R.V.I. Guaranty Co., Ltd. and subsidiaries**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2022 and 2021**  
*(Dollars in thousands)*

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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.

**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.

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.

**R.V.I. Guaranty Co., Ltd. and subsidiaries**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2022 and 2021**  
*(Dollars in thousands)*

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Short-term investments are recorded at fair value. Short-term investments are those with original maturities greater than three months but less than one year.

**Other Invested Assets**

The Company accounts for other investments using the equity method of accounting unless its interest equity is so minor that the Company has no influence over partnership operating and financial policies. In those instances, the Company records such investments at cost and evaluates them for impairment at each reporting period.

**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 of 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.

**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, 2022 and 2021, the Company had recognized all its tax benefits.

**R.V.I. Guaranty Co., Ltd. and subsidiaries**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2022 and 2021**  
*(Dollars in thousands)*

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**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, 2022 and 2021.

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.

**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**

The Company has 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

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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. Accordingly, the comparative information presented for 2021 has not been restated. 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 at the date of adoption. 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.

**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 statements of income and comprehensive income. An adjustment has been made to the consolidated balance sheet for the year ended December 31, 2021, to identify the amounts of restricted cash and restricted investment securities.

**3. Investment Securities**

The amortized cost, estimated gross unrealized gains and losses and estimated fair value of investments at December 31, 2022 and 2021 are as follows:

|                                                  |                         | <b>Estimated</b>     |                           |                         |
|--------------------------------------------------|-------------------------|----------------------|---------------------------|-------------------------|
|                                                  | <b>Amortized</b>        | <b>Gross</b>         | <b>Gross</b>              | <b>Fair</b>             |
|                                                  | <b>Cost</b>             | <b>Unrealized</b>    | <b>Unrealized</b>         | <b>Value</b>            |
|                                                  |                         | <b>Gains</b>         | <b>Losses</b>             |                         |
| <b><u>2022</u></b>                               |                         |                      |                           |                         |
| <b>Investment securities, available-for-sale</b> |                         |                      |                           |                         |
| U.S. government and other government agencies    | \$ 5,976                | \$ -                 | \$ (801)                  | \$ 5,175                |
| Municipal bonds                                  | -                       | -                    | -                         | -                       |
| Asset-backed securities                          | 42,669                  | -                    | (4,043)                   | 38,626                  |
| Mortgage-backed securities                       | 46,924                  | -                    | (7,832)                   | 39,092                  |
| Corporate bonds                                  | <u>58,052</u>           | <u>691</u>           | <u>(4,107)</u>            | <u>54,636</u>           |
| <b>Total at December 31, 2022</b>                | <b><u>\$153,621</u></b> | <b><u>\$ 691</u></b> | <b><u>\$ (16,783)</u></b> | <b><u>\$137,529</u></b> |

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|                                                  | <u>Amortized<br/>Cost</u> | <u>Estimated</u>                      |                                        | <u>Fair<br/>Value</u>   |
|--------------------------------------------------|---------------------------|---------------------------------------|----------------------------------------|-------------------------|
|                                                  |                           | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> |                         |
| <b>2021</b>                                      |                           |                                       |                                        |                         |
| <b>Investment securities, available-for-sale</b> |                           |                                       |                                        |                         |
| U.S. government and other government agencies    | \$ 7,100                  | \$ -                                  | \$ (131)                               | \$ 6,969                |
| Municipal bonds                                  | 4,598                     | 30                                    | -                                      | 4,628                   |
| Asset-backed securities                          | 44,610                    | 79                                    | (412)                                  | 44,277                  |
| Mortgage-backed securities                       | 58,792                    | 35                                    | (925)                                  | 57,902                  |
| Corporate bonds                                  | <u>32,486</u>             | <u>753</u>                            | <u>(147)</u>                           | <u>33,092</u>           |
| <b>Total at December 31, 2021</b>                | <b><u>\$147,586</u></b>   | <b><u>\$ 897</u></b>                  | <b><u>\$ (1,615)</u></b>               | <b><u>\$146,868</u></b> |

Estimated fair values approximate market values. Investments with estimated fair values of approximately \$56,600 and \$51,000 as of December 31, 2022 and 2021, 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, 2022 and 2021, approximately \$4,100 and \$4,500, 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 4). Additionally, as of December 31, 2022, approximately \$5,400 of the Company's investment portfolio is in Trusts (Note 4).

The following tables summarize all securities in an unrealized loss position as of December 31, 2022 and 2021, the aggregate estimated fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position.

|                                               | <u>In Loss Position For</u>         |                                      |                                     |                                      |                                     |                                      |
|-----------------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|
|                                               | <u>Less than 12 Months</u>          |                                      | <u>12 Months or More</u>            |                                      | <u>Total</u>                        |                                      |
|                                               | <u>Estimated<br/>Fair<br/>Value</u> | <u>Gross<br/>Unrealized<br/>Loss</u> | <u>Estimated<br/>Fair<br/>Value</u> | <u>Gross<br/>Unrealized<br/>Loss</u> | <u>Estimated<br/>Fair<br/>Value</u> | <u>Gross<br/>Unrealized<br/>Loss</u> |
| <b>2022</b>                                   |                                     |                                      |                                     |                                      |                                     |                                      |
| <b>Fixed income securities</b>                |                                     |                                      |                                     |                                      |                                     |                                      |
| 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                               | <u>22,975</u>                       | <u>(2,030)</u>                       | <u>15,775</u>                       | <u>(2,077)</u>                       | <u>38,750</u>                       | <u>(4,107)</u>                       |
| <b>Total at December 31, 2022</b>             | <b><u>\$ 26,816</u></b>             | <b><u>\$ (2,264)</u></b>             | <b><u>\$ 94,827</u></b>             | <b><u>\$ (14,519)</u></b>            | <b><u>\$121,643</u></b>             | <b><u>\$ (16,783)</u></b>            |

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|                                                  | <b>In Loss Position For</b>                     |                                                  |                                                 |                                                  |                                                 |                                                  |
|--------------------------------------------------|-------------------------------------------------|--------------------------------------------------|-------------------------------------------------|--------------------------------------------------|-------------------------------------------------|--------------------------------------------------|
|                                                  | <u>Less than 12 Months</u>                      |                                                  | <u>12 Months or More</u>                        |                                                  | <u>Total</u>                                    |                                                  |
|                                                  | <u>Estimated</u><br><u>Fair</u><br><u>Value</u> | <u>Gross</u><br><u>Unrealized</u><br><u>Loss</u> | <u>Estimated</u><br><u>Fair</u><br><u>Value</u> | <u>Gross</u><br><u>Unrealized</u><br><u>Loss</u> | <u>Estimated</u><br><u>Fair</u><br><u>Value</u> | <u>Gross</u><br><u>Unrealized</u><br><u>Loss</u> |
| <b><u>2021</u></b>                               |                                                 |                                                  |                                                 |                                                  |                                                 |                                                  |
| <b>Fixed income securities</b>                   |                                                 |                                                  |                                                 |                                                  |                                                 |                                                  |
| U.S. government and other<br>government agencies | \$ 6,969                                        | \$ (131)                                         | \$ -                                            | \$ -                                             | \$ 6,969                                        | \$ (131)                                         |
| Asset-backed securities                          | 34,693                                          | (412)                                            | -                                               | -                                                | 34,693                                          | (412)                                            |
| Mortgage-backed securities                       | 47,748                                          | (819)                                            | 4,434                                           | (106)                                            | 52,182                                          | (925)                                            |
| Corporate bonds                                  | <u>12,306</u>                                   | <u>(147)</u>                                     | <u>-</u>                                        | <u>-</u>                                         | <u>12,306</u>                                   | <u>(147)</u>                                     |
| <b>Total at December 31, 2021</b>                | <b><u>\$101,716</u></b>                         | <b><u>\$ (1,509)</u></b>                         | <b><u>\$ 4,434</u></b>                          | <b><u>\$ (106)</u></b>                           | <b><u>\$106,150</u></b>                         | <b><u>\$ (1,615)</u></b>                         |

The Company owned 169 and 107 securities with an unrealized loss position as of December 31, 2022 and 2021, respectively.

Investment income, including amortization of premiums and accretion of discounts, and gains/(losses) on sale of investments for December 31, 2022 and, December 31, 2021, were derived from:

|                                               | <u>December 31, 2022</u> | <u>December 31, 2021</u> |
|-----------------------------------------------|--------------------------|--------------------------|
| <b>Net investment income</b>                  |                          |                          |
| <b>Interest and dividends</b>                 |                          |                          |
| Cash and short-term investments               | \$ 369                   | \$ 34                    |
| U.S. government and other government agencies | 65                       | 160                      |
| Municipal bonds                               | 24                       | 70                       |
| Mortgage and asset-backed securities          | 2,067                    | 1,450                    |
| Corporate bonds                               | 3,857                    | 2,160                    |
| Floating rate common securities               | <u>20</u>                | <u>20</u>                |
| <b>Total investment income</b>                | <b>6,402</b>             | <b>3,894</b>             |
| <b>Expenses</b>                               |                          |                          |
| Investment expenses                           | <u>(274)</u>             | <u>(299)</u>             |
| <b>Net investment income</b>                  | <b><u>\$ 6,128</u></b>   | <b><u>\$ 3,595</u></b>   |
| <b>Net realized investment gains/(losses)</b> |                          |                          |
| Municipal bonds                               | \$ (7)                   | \$ -                     |
| Mortgage and asset-backed securities          | (37)                     | (223)                    |
| Corporate bonds                               | <u>200</u>               | <u>(98)</u>              |
| <b>Net realized investment gains/(losses)</b> | <b><u>\$ 156</u></b>     | <b><u>\$ (321)</u></b>   |

Proceeds from the sale of investments were \$33,189 and \$77,103 for the years ended December 31, 2022 and 2021, respectively. Original cost of the sale of these investments was \$33,242 and \$78,581 for years end December 31, 2022 and 2021, respectively.

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**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, 2022 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<br/>Cost</u> | <u>Estimated<br/>Fair Value</u> |
|--------------------------------------|---------------------------|---------------------------------|
| 2023                                 | \$ 4,300                  | \$ 4,284                        |
| 2024 – 2027                          | 49,403                    | 47,252                          |
| 2028 – 2032                          | 10,325                    | 8,275                           |
| Mortgage and asset-backed securities | <u>89,593</u>             | <u>77,718</u>                   |
| <b>Total</b>                         | <b><u>\$153,621</u></b>   | <b><u>\$137,529</u></b>         |

There are statutory insurance restrictions on the investments owned by the Company and its insurance subsidiary as disclosed in Note 4. Management believes that there is adequate liquidity to meet the ongoing obligations of the Company while continuing to comply with the statutory regulations.

**4. 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, 2022 and 2021, are as follows:

|                                      | <u>2022</u> | <u>2021</u> |
|--------------------------------------|-------------|-------------|
| Restricted cash and cash equivalents | \$ 4,914    | \$ 105      |
| Restricted investment securities     | \$ 9,544    | \$ 4,418    |

**5. Mortgage Receivable**

In 2020, the Company was assigned a mortgage note receivable for the purpose of mitigating losses on the Company's residual value insurance policy supporting the financing of this property. During 2022, the Company received title to this property and reclassified it to assets held for sale (Note 7).

**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.



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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.

**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, 2022 and 2021. 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:

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

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|                                                        | <b>December 31, 2021</b> |                         |                         |                         |
|--------------------------------------------------------|--------------------------|-------------------------|-------------------------|-------------------------|
|                                                        | <b>Level 1</b>           | <b>Level 2</b>          | <b>Level 3</b>          | <b>Total</b>            |
| <b>Assets:</b>                                         |                          |                         |                         |                         |
| Investment securities, available-for-sale:             |                          |                         |                         |                         |
| U.S. government and other government agencies          | \$ 1,643                 | \$ 5,326                | \$ -                    | \$ 6,969                |
| Municipal bonds                                        | -                        | 4,628                   | -                       | 4,628                   |
| Asset-backed securities                                | -                        | 42,777                  | 1,500                   | 44,277                  |
| Mortgage-backed securities                             | -                        | 57,902                  | -                       | 57,902                  |
| Corporate bonds                                        | -                        | 22,461                  | 10,631                  | 33,092                  |
| <b>Total investment securities, available for sale</b> | <b><u>\$ 1,643</u></b>   | <b><u>\$133,094</u></b> | <b><u>\$ 12,131</u></b> | <b><u>\$146,868</u></b> |
| <b>Liabilities:</b>                                    |                          |                         |                         |                         |
| Derivative liabilities:                                |                          |                         |                         |                         |
| Commercial equipment/aircraft                          | \$ -                     | \$ -                    | \$ 54,760               | \$ 54,760               |
| Passenger vehicle                                      | -                        | -                       | 15,271                  | 15,271                  |
| <b>Total derivative liabilities</b>                    | <b><u>\$ -</u></b>       | <b><u>\$ -</u></b>      | <b><u>\$ 70,031</u></b> | <b><u>\$ 70,031</u></b> |

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, 2022 and 2021:

| <b>December 31, 2022</b>        |                                   |                                          |                     |
|---------------------------------|-----------------------------------|------------------------------------------|---------------------|
| <b><u>Fair Value Losses</u></b> | <b><u>Valuation Technique</u></b> | <b><u>Unobservable Input</u></b>         | <b><u>Range</u></b> |
| \$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           |

| <b>December 31, 2021</b>        |                                   |                                          |                     |
|---------------------------------|-----------------------------------|------------------------------------------|---------------------|
| <b><u>Fair Value Losses</u></b> | <b><u>Valuation Technique</u></b> | <b><u>Unobservable Input</u></b>         | <b><u>Range</u></b> |
| \$10,322                        | Future probable value             | Unemployment forecasts                   | 3.5 – 4.3%          |
|                                 |                                   | GDP growth rate forecasts                | 1.8 – 6.2%          |
|                                 |                                   | Light vehicle sales forecasts (million)  | 15.7 – 17.8         |
|                                 |                                   | Lease Supply index                       | 0.1 – 0.2           |
|                                 |                                   | Used vehicle stock forecasts             | 0.6 – 2.3           |
|                                 |                                   | Used vehicle competitive index forecasts | 0.2 – 9.1           |
|                                 |                                   | Market incentive level                   | 5.9 – 8.8           |
|                                 |                                   | Gasoline spending per household income   | 0.7 – 0.9%          |
|                                 |                                   | Inventory to sales forecasts             | 1.6 – 2.5           |

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**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 and asset-backed securities 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 0.636 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.

**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 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, 2022 and December 31, 2021. The Level 3 balances consist of certain investment securities as well as certain Company contracts recorded as derivatives under ASC 820:

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|                                            | <b>January 1,</b>       | <b>Net Realized<br/>/Unrealized<br/>Losses<br/>Included in<br/>Earnings</b> | <b>Purchases<br/>and<br/>Issuances</b> | <b>Sales<br/>and<br/>Settlements</b> | <b>December 31,</b>     |
|--------------------------------------------|-------------------------|-----------------------------------------------------------------------------|----------------------------------------|--------------------------------------|-------------------------|
|                                            | <b><u>2022</u></b>      | <b><u>          </u></b>                                                    | <b><u>          </u></b>               | <b><u>          </u></b>             | <b><u>2022</u></b>      |
| Investment securities, available for sale: |                         |                                                                             |                                        |                                      |                         |
| Corporate bonds                            | \$ <u>10,631</u>        | \$ <u>      -</u>                                                           | \$ <u>19,854</u>                       | \$ <u>      -</u>                    | \$ <u>30,485</u>        |
| Derivative liability, net by asset class:  |                         |                                                                             |                                        |                                      |                         |
| Commercial equipment/aircraft              | \$ <u>54,760</u>        | \$ <u>(24,313)</u>                                                          | \$ <u>9,048</u>                        | \$ <u>      -</u>                    | \$ <u>39,495</u>        |
| Passenger vehicle                          | <u>15,271</u>           | <u>(8,689)</u>                                                              | <u>5,894</u>                           | <u>      -</u>                       | <u>12,476</u>           |
| <b>Net derivative liability</b>            | <b><u>\$ 70,031</u></b> | <b><u>\$ (33,002)</u></b>                                                   | <b><u>\$ 14,942</u></b>                | <b><u>\$      -</u></b>              | <b><u>\$ 51,971</u></b> |

|                                            | <b>January 1,</b>       | <b>Net Realized<br/>/Unrealized<br/>Losses<br/>Included in<br/>Earnings</b> | <b>Purchases<br/>and<br/>Issuances</b> | <b>Sales<br/>and<br/>Settlements</b> | <b>December 31,</b>     |
|--------------------------------------------|-------------------------|-----------------------------------------------------------------------------|----------------------------------------|--------------------------------------|-------------------------|
|                                            | <b><u>2021</u></b>      | <b><u>          </u></b>                                                    | <b><u>          </u></b>               | <b><u>          </u></b>             | <b><u>2021</u></b>      |
| Investment securities, available for sale: |                         |                                                                             |                                        |                                      |                         |
| Corporate bonds                            | \$ <u>13,256</u>        | \$ <u>      -</u>                                                           | \$ <u>2,375</u>                        | \$ <u>(5,000)</u>                    | \$ <u>10,631</u>        |
| Derivative liability, net by asset class:  |                         |                                                                             |                                        |                                      |                         |
| Commercial equipment/aircraft              | \$ <u>66,792</u>        | \$ <u>(21,799)</u>                                                          | \$ <u>9,767</u>                        | \$ <u>      -</u>                    | \$ <u>54,760</u>        |
| Passenger vehicle                          | <u>18,475</u>           | <u>(11,710)</u>                                                             | <u>8,506</u>                           | <u>      -</u>                       | <u>15,271</u>           |
| <b>Net derivative liability</b>            | <b><u>\$ 85,267</u></b> | <b><u>\$ (33,509)</u></b>                                                   | <b><u>\$ 18,273</u></b>                | <b><u>\$      -</u></b>              | <b><u>\$ 70,031</u></b> |

There were no transfers between levels during the years ended December 31, 2022 and 2021.

**7. Assets Held for Sale**

As of December 31, 2022 and 2021, 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 purchased 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 property is expected to be sold in 2023.

In 2022, the Company took title of a property and reclassified it from mortgage receivables (Note 5) to real estate held for sale. During the years ended December 31, 2022 and 2021, the Company did not capitalize any costs. This property is expected to be sold in 2023.

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At December 31, 2022 and 2021, 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>2022</u>      | <u>2021</u>      |
|-----------------------------------|------------------|------------------|
| <b>Assets held for sale</b>       |                  |                  |
| Property and equipment            | \$ 23,980        | \$ 23,222        |
| <b>Total assets held for sale</b> | <u>\$ 23,980</u> | <u>\$ 23,222</u> |

Income and expenses for the real estate properties held for sale for the years ended December 31, 2022, and December 31, 2021, are as follows:

|                                                       | <u>December 31, 2022</u> | <u>December 31, 2021</u> |
|-------------------------------------------------------|--------------------------|--------------------------|
| <b>Income related to assets held for sale</b>         |                          |                          |
| Rental income                                         | \$ 938                   | \$ 3,054                 |
| <b>Total income related to assets held for sale</b>   | <u>\$ 938</u>            | <u>\$ 3,054</u>          |
| <b>Expenses related to assets held for sale</b>       |                          |                          |
| Operating and general expenses                        | \$ 1,392                 | \$ 1,815                 |
| <b>Total expenses related to assets held for sale</b> | <u>\$ 1,392</u>          | <u>\$ 1,815</u>          |

**8. Property and Equipment, Net**

At December 31, 2022 and 2021, property and equipment, net consisted of the following:

|                                                 | <u>2022</u>   | <u>2021</u>   |
|-------------------------------------------------|---------------|---------------|
| Office furniture and equipment                  | \$ 15         | \$ 11         |
| Computer equipment                              | 159           | 116           |
| Internally developed software                   | <u>413</u>    | <u>206</u>    |
|                                                 | 587           | 333           |
| Less, accumulated depreciation and amortization | <u>261</u>    | <u>158</u>    |
| <b>Total property and equipment, net</b>        | <u>\$ 326</u> | <u>\$ 175</u> |

Depreciation and amortization expense for property and equipment were \$103 and \$94 for the years ended December 31, 2022 and 2021, respectively

During the years ended December 31, 2022 and December 31, 2021 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

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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.

The Debentures accrue cash distributions and bear interest at a rate equal to the 3-month Libor plus 4.0% per annum. Interest is paid quarterly in arrears. Interest expense was \$895 and \$653 for the years ended December 31, 2022 and December 31, 2021, 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, 2022 and 2021, 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, 2022 and 2021:

|                                     | <u>2022</u>            | <u>2021</u>             | <u>Useful<br/>Life in Years</u> |
|-------------------------------------|------------------------|-------------------------|---------------------------------|
| <b>Intangible assets:</b>           |                        |                         |                                 |
| 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>8,791</u>           | <u>5,494</u>            |                                 |
| <b>Total intangible assets, net</b> | <b><u>\$ 9,784</u></b> | <b><u>\$ 13,081</u></b> |                                 |

No impairment and no impairment loss was recorded in the years ended December 31, 2022 and 2021.

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Amortization of intangible assets was \$3,297 for both years ended December 31, 2022 and 2021, and is included in other operating and general expenses in the Company's consolidated statements of income and comprehensive income.

Amortization expense for the next five years is as follows:

| <u>Year</u>  | <u>Expense</u>         |
|--------------|------------------------|
| 2023         | \$ 1,319               |
| 2024         | 330                    |
| 2025         | 330                    |
| 2026         | 330                    |
| 2027         | 330                    |
| Thereafter   | <u>770</u>             |
| <b>Total</b> | <b><u>\$ 3,409</u></b> |

**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 90 day Libor plus 1.5%. 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 and \$46 for the years ended December 31, 2022 and 2021. There was no amount outstanding on the line of credit as of December 31, 2022 and 2021.

**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:

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|                                                                     | <u>December 31, 2022</u> | <u>December 31, 2021</u> |
|---------------------------------------------------------------------|--------------------------|--------------------------|
| Gross unpaid losses and loss adjustment expenses, beginning of year | \$ 4,543                 | \$ 3,422                 |
| Less, reinsurance recoverable                                       | <u>738</u>               | <u>997</u>               |
| Net balance, beginning of year                                      | <u>3,805</u>             | <u>2,425</u>             |
| Changes to loss provision:                                          |                          |                          |
| Provision                                                           | 4,593                    | 1,535                    |
| Recovery on real estate                                             | <u>-</u>                 | <u>(179)</u>             |
| Gross change to loss provision                                      | 4,593                    | 1,356                    |
| Less, recoverable                                                   | <u>55</u>                | <u>(180)</u>             |
| Net change to loss provision                                        | <u>4,538</u>             | <u>1,536</u>             |
| Less, paid claims and loss adjustment expenses:                     |                          |                          |
| Gross paid                                                          | (2,469)                  | (664)                    |
| Recovery on real estate                                             | <u>-</u>                 | <u>179</u>               |
| Gross paid claims and loss adjustment expenses                      | (2,469)                  | (485)                    |
| Less, recoverable on paid                                           | <u>(80)</u>              | <u>(79)</u>              |
| Net paid claims and loss adjustment expenses                        | <u>(2,389)</u>           | <u>(406)</u>             |
| Less, impairment reclassification                                   | <u>-</u>                 | <u>(250)</u>             |
| Foreign exchange (gain)/loss                                        | (160)                    | -                        |
| Gross unpaid losses and loss adjustment expenses, end of year       | 6,507                    | 4,543                    |
| Less, reinsurance recoverable                                       | <u>713</u>               | <u>738</u>               |
| <b>Net balance, end of year</b>                                     | <b><u>\$ 5,794</u></b>   | <b><u>\$ 3,805</u></b>   |

The net incurred and paid losses and loss expenses development by accident year for each of the years ending December 31, 2013 through 2022, and the total of incurred but not reported (“IBNR”) and case reserves, as at each of the years ended December 31, 2013 through 2022 are presented in the tables below.



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

| Accident<br>Year | UNAUDITED |      |      |      |       |         |         |         |         |                | December 31, 2022    |
|------------------|-----------|------|------|------|-------|---------|---------|---------|---------|----------------|----------------------|
|                  | 2013      | 2014 | 2015 | 2016 | 2017  | 2018    | 2019    | 2020    | 2021    | 2022           | Net IBNR<br>Reserves |
| 2013             | \$ -      | \$ - | \$ - | \$ - | \$ -  | \$ -    | \$ -    | \$ -    | \$ -    | \$ -           | \$ -                 |
| 2014             |           | 143  | 143  | 143  | 143   | 143     | 143     | 143     | 143     | 143            | -                    |
| 2015             |           |      | -    | -    | -     | -       | -       | -       | -       | -              | -                    |
| 2016             |           |      |      | -    | -     | -       | -       | -       | -       | -              | -                    |
| 2017             |           |      |      |      | 1,752 | (1,418) | (1,536) | (1,536) | (1,536) | (1,536)        | -                    |
| 2018             |           |      |      |      |       | (994)   | (1,613) | (1,613) | (1,613) | (1,613)        | -                    |
| 2019             |           |      |      |      |       |         | 125     | -       | -       | -              | -                    |
| 2020             |           |      |      |      |       |         |         | 2,627   | 2,173   | 2,173          | -                    |
| 2021             |           |      |      |      |       |         |         |         | 1,990   | 540            | 705                  |
| 2022             |           |      |      |      |       |         |         |         |         | 5,987          | 3,687                |
| <b>Total</b>     |           |      |      |      |       |         |         |         |         | <b>\$5,694</b> | <b>\$ 4,392</b>      |

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

| Accident<br>Year | UNAUDITED |      |      |      |      |         |         |         |         |                 |
|------------------|-----------|------|------|------|------|---------|---------|---------|---------|-----------------|
|                  | 2013      | 2014 | 2015 | 2016 | 2017 | 2018    | 2019    | 2020    | 2021    | 2022            |
| 2013             | \$ -      | \$ - | \$ - | \$ - | \$ - | \$ -    | \$ -    | \$ -    | \$ -    | \$ -            |
| 2014             |           | 143  | 143  | 143  | 143  | 143     | 143     | 143     | 143     | 143             |
| 2015             |           |      | -    | -    | -    | -       | -       | -       | -       | -               |
| 2016             |           |      |      | -    | -    | -       | -       | -       | -       | -               |
| 2017             |           |      |      |      | -    | (1,768) | (1,536) | (1,536) | (1,536) | (1,536)         |
| 2018             |           |      |      |      |      | (3,119) | (1,613) | (1,613) | (1,613) | (1,613)         |
| 2019             |           |      |      |      |      |         | -       | -       | -       | -               |
| 2020             |           |      |      |      |      |         |         | (48)    | 523     | 2,173           |
| 2021             |           |      |      |      |      |         |         |         | (165)   | (165)           |
| 2022             |           |      |      |      |      |         |         |         |         | 738             |
| <b>Total</b>     |           |      |      |      |      |         |         |         |         | <b>\$ (260)</b> |

Less: foreign exchange gain (160)

**Ended December 31, 2022 net loss and LAE reserve \$5,794**

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.

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The above tables include the Company's residual value insurance business (accounted for as insurance only) as well as the Quota Share Reinsurance business discussed in Note 1. The dealer open lot physical damage program inceptioned on May 1, 2022 and had net incurred loss and loss expenses of \$548 and net paid loss and loss expenses of \$263. The non-standard private passenger automobile liability program inceptioned on October 1, 2022 and had incurred loss and loss expenses of \$2,561 and net paid loss and loss expenses of \$475.

**13. Derivatives**

Although the Company and its insurance subsidiary are licensed as property and casualty insurers by the Bermuda and Connecticut insurance regulators, respectively, certain of its products, in accordance with U.S. GAAP, are recorded as derivatives. 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 \$32,182 and \$27,392, for the years ended December 31, 2022 and December 31, 2021, respectively. The components of net realized and unrealized gains on derivatives are as follows:

|                                                         | <u>December 31, 2022</u> | <u>December 31, 2021</u> |
|---------------------------------------------------------|--------------------------|--------------------------|
| Derivative fee revenue                                  | \$ 24,513                | \$ 26,803                |
| Fair value adjustment gains                             | <u>8,489</u>             | <u>6,706</u>             |
| Net realized/unrealized gains included in earnings      | 33,002                   | 33,509                   |
| Cost to acquire derivatives                             | (725)                    | (932)                    |
| Losses paid                                             | <u>(95)</u>              | <u>(5,185)</u>           |
| <b>Net realized and unrealized gains on derivatives</b> | <b><u>\$ 32,182</u></b>  | <b><u>\$ 27,392</u></b>  |

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During 2022 and 2021, the Company recorded no loss provisions related to its insured aircraft portfolio and had recorded a recovery of approximately \$1,241 during 2021 which is included in the fair value adjustment gains above.

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, 2022 and 2021, respectively. The components of the Company's derivative liabilities are as follows at December 31:

|                                     | <u>2022</u>             | <u>2021</u>             |
|-------------------------------------|-------------------------|-------------------------|
| <b>Derivative Liabilities</b>       |                         |                         |
| Unearned derivative fee revenue     | \$ 50,138               | \$ 59,709               |
| Accumulated fair value losses       | <u>1,833</u>            | <u>10,322</u>           |
| <b>Total derivative liabilities</b> | <b><u>\$ 51,971</u></b> | <b><u>\$ 70,031</u></b> |

**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> |
|------------------------------------------------|-----------------------|-------------------|
| <b>December 31, 2022</b>                       |                       |                   |
| <b>Assets</b>                                  |                       |                   |
| 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             |
| <b>Liabilities</b>                             |                       |                   |
| Derivative liabilities                         | \$ 51,971             | \$ 51,971         |
|                                                | <u>Carrying Value</u> | <u>Fair Value</u> |
| <b>December 31, 2021</b>                       |                       |                   |
| <b>Assets</b>                                  |                       |                   |
| Cash and cash equivalents                      | \$ 34,511             | \$ 34,511         |
| Restricted cash and cash equivalents           | 105                   | 105               |
| Fixed maturity investments, available-for-sale | 142,450               | 142,450           |
| Restricted investment securities               | 4,418                 | 4,418             |
| <b>Liabilities</b>                             |                       |                   |
| Derivative liabilities                         | \$ 70,031             | \$ 70,031         |

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**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 expires in December 2023. 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 has 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.

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

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

Maturity of the lease liability on the Company's operating lease as of December 31, 2022 is \$725, which is comprised of total future minimum lease payments in 2023 of \$728, net of interest expense of \$3.

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**16. Stockholder Equity**

**Dividends Paid to Shareholders**

There were no dividends declared or paid in 2022 and 2021.

**Accumulated Other Comprehensive Loss**

Balances of related after-tax components comprising other comprehensive loss included in stockholder equity at December 31, 2022 and 2021 are as follows:

|                                     | <b>Unrealized<br/>Losses<br/>On Debt Securities</b> | <b>Accumulated<br/>Other Comprehensive<br/>Income/Loss</b> |
|-------------------------------------|-----------------------------------------------------|------------------------------------------------------------|
| <b>Balance at December 31, 2020</b> | <b>\$ 325</b>                                       | <b>\$ 325</b>                                              |
| Gross change for 2021               | (1,129)                                             | (1,129)                                                    |
| Deferred taxes change for 2021      | 237                                                 | 237                                                        |
| Net change for 2021                 | <u>(892)</u>                                        | <u>(892)</u>                                               |
| <b>Balance at December 31, 2021</b> | <b>(567)</b>                                        | <b>(567)</b>                                               |
| 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>                                            |
| <b>Balance at December 31, 2022</b> | <b><u>\$ (12,713)</u></b>                           | <b><u>\$ (12,713)</u></b>                                  |

**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 Connecticut State Insurance Department (“CID”) and the statutory requirements of the Bermuda Monetary Authority (“BMA”). 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.

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The Company is a Bermuda regulated Class 3A and C insurer 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 \$20,052, and \$18,288, for December 31, 2022, and December 31, 2021, respectively, and eliminate in consolidation.

As of December 31, 2022 and 2021, 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 15% 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, Connecticut. Under these regulations, there are certain limits on dividend payments and intercompany transactions. The maximum amount of dividends that can be paid to shareholders without prior approval of the Connecticut Insurance Commissioner is subject to restrictions relating to statutory surplus and net income and further restricted to an insurance company’s earned surplus. The maximum dividend is limited to the greater of (1) 10% of statutory surplus or (2) net income. No dividends were paid or declared during the years ended December 31, 2022 and 2021.

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, 2022 and 2021, the insurance subsidiary’s capital exceeded these minimum RBC requirements.

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

| <b>(in millions)</b>                           | <b><u>Statutory Gross<br/>Written Premiums</u></b> | <b><u>Statutory<br/>Capital<br/>and<br/>Surplus</u></b> | <b><u>Statutory<br/>Net<br/>Income</u></b> |
|------------------------------------------------|----------------------------------------------------|---------------------------------------------------------|--------------------------------------------|
| <b>December 31, 2022</b>                       |                                                    |                                                         |                                            |
| 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                                        |
| <b>December 31, 2021</b>                       |                                                    |                                                         |                                            |
| R.V.I. Guaranty Co., Ltd. (Bermuda)            | \$ 27.2                                            | \$128.4                                                 | \$ 11.6                                    |
| R.V.I. America Insurance Company (Connecticut) | 22.4                                               | 82.9                                                    | 2.7                                        |

**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

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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.

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, 2022 and December 31, 2021, 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, 2022</u> | <u>December 31, 2021</u> |
|----------------------|--------------------------|--------------------------|
| Current tax expense  | \$ 3,043                 | \$ 2,465                 |
| Deferred tax expense | <u>1,083</u>             | <u>69</u>                |
| <b>Total</b>         | <b><u>\$ 4,126</u></b>   | <b><u>\$ 2,534</u></b>   |

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

|                                                           | <u>December 31, 2022</u> | <u>December 31, 2021</u> |
|-----------------------------------------------------------|--------------------------|--------------------------|
| U.S. statutory tax                                        | 21.0%                    | 21.0%                    |
| Non-taxable investment income                             | -                        | (0.1)                    |
| Tax rate differential on tax net operating loss carryback | -                        | (3.7)                    |
| Other – net                                               | <u>-</u>                 | <u>-</u>                 |
| <b>Effective income tax rate</b>                          | <b><u>21.0%</u></b>      | <b><u>17.2%</u></b>      |

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.

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Net deferred tax assets as of December 31, 2022 and 2021 are comprised of the following:

|                                              | <u>2022</u>            | <u>2021</u>            |
|----------------------------------------------|------------------------|------------------------|
| <b>Assets:</b>                               |                        |                        |
| Unearned premiums and derivative fee revenue | \$ 3,276               | \$ 3,053               |
| Unpaid losses and loss adjustment expenses   | 212                    | 24                     |
| Derivative components                        | 120                    | 1,883                  |
| Leasing commissions                          | 61                     | 76                     |
| Deferred compensation                        | 425                    | 200                    |
| Accrued rent receivable                      | 94                     | 106                    |
| Unrealized losses on investments             | 3,379                  | 151                    |
| Other                                        | <u>68</u>              | <u>160</u>             |
| <b>Total deferred tax assets</b>             | <b><u>7,635</u></b>    | <b><u>5,653</u></b>    |
| <b>Liabilities:</b>                          |                        |                        |
| Intangible assets                            | 2,055                  | 2,747                  |
| Deferred policy acquisition costs            | 945                    | 407                    |
| Other                                        | <u>24</u>              | <u>33</u>              |
| Total deferred tax liabilities               | <u>3,024</u>           | <u>3,187</u>           |
| <b>Net deferred tax assets</b>               | <b><u>\$ 4,611</u></b> | <b><u>\$ 2,466</u></b> |

The Company is under examination by the IRS as noted above and remains subject to examination for tax years 2019 through 2022.

**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. During 2022, the Company ceded \$217 of premium. The Company did not cede premium during 2021.

In 2022, the Company entered into Quota Share Reinsurance agreements as described in Note 1.



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The following table illustrates the effect of reinsurance on the insurance contracts for years ended December 31, 2022, and December 31, 2021, respectively

|                                                       | <u>December 31, 2022</u> | <u>December 31, 2021</u> |
|-------------------------------------------------------|--------------------------|--------------------------|
| <b>Premiums written</b>                               |                          |                          |
| Direct                                                | \$ 9,604                 | \$ 4,205                 |
| Assumed                                               | 18,627                   | 8,884                    |
| Ceded                                                 | <u>(217)</u>             | <u>-</u>                 |
| <b>Net premiums written</b>                           | <b><u>\$ 28,014</u></b>  | <b><u>\$ 13,089</u></b>  |
| <b>Premiums earned</b>                                |                          |                          |
| Direct                                                | \$ 2,555                 | \$ 1,579                 |
| Assumed                                               | 10,634                   | 4,820                    |
| Ceded                                                 | <u>(58)</u>              | <u>-</u>                 |
| <b>Net premiums earned</b>                            | <b><u>\$ 13,131</u></b>  | <b><u>\$ 6,399</u></b>   |
| <b>Loss and loss adjustment provision changes</b>     |                          |                          |
| Direct                                                | \$ 3,165                 | \$ 651                   |
| Assumed                                               | 1,428                    | 705                      |
| Ceded                                                 | <u>(55)</u>              | <u>180</u>               |
| <b>Net loss and loss adjustment provision changes</b> | <b><u>\$ 4,538</u></b>   | <b><u>\$ 1,536</u></b>   |
| <b>Unearned premiums</b>                              |                          |                          |
| Direct                                                | \$ 15,235                | \$ 8,185                 |
| Assumed                                               | 12,781                   | 4,788                    |
| Ceded                                                 | <u>(159)</u>             | <u>-</u>                 |
| <b>Net unearned premiums</b>                          | <b><u>\$ 27,857</u></b>  | <b><u>\$ 12,973</u></b>  |

**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 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.

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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, 2022 and 2021 were \$1,205 and \$600, respectively. The unvested liability was \$4,217 and \$2,400 as of December 31, 2022 and 2021, 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 \$446, and \$388, were made during December 31, 2022 and December 31, 2021, 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 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, 2022 and 2021, the Company's five largest clients comprised approximately 61% and 73% of gross written premiums, respectively. None of the five clients had the

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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, 2022 and 2021 amounted to \$713 and \$740 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, 2022 or 2021.

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 90 day Libor plus 1.5%. 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 and \$46 for the periods ended December 31, 2022 and 2021.

**24. Subsequent Events**

The Company’s management has performed subsequent events procedures through March 6, 2023 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.