

Financial Statements and Report of
Independent Certified Public
Accountants

Awbury Insurance Company

December 31, 2023 and 2022

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Awbury Insurance Company

Opinion

We have audited the financial statements of Awbury Insurance Company (a Delaware corporation) (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are issued .

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free 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 US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Grant Thornton LLP

Hartford, Connecticut
March 1, 2024

Awbury Insurance Company

BALANCE SHEETS

December 31,

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 21,764,548	\$ 20,997,585
Interest receivable (accrued interest from investments)	544	372
Total current assets	21,765,092	20,997,957
Total assets	\$ 21,765,092	\$ 20,997,957
LIABILITIES AND SURPLUS		
Current liabilities		
Taxes, licenses and fees	\$ 56,797	\$ 39,687
Payable to parent, subsidiaries and affiliates	562,721	-
Accrued liabilities	40,375	25,000
Total current liabilities	659,893	64,687
Total liabilities	659,893	64,687
Surplus		
Common capital stock	500,000	500,000
Gross paid in and contributed surplus	20,275,000	20,275,000
Accumulated earnings	330,199	158,270
Total surplus	21,105,199	20,933,270
Total liabilities and surplus	\$ 21,765,092	\$ 20,997,957

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

Awbury Insurance Company
STATEMENTS OF OPERATIONS
Years ended December 31,

	2023	2022
Expenses		
Other underwriting expenses incurred	\$ 1,215	\$ 1,215
General and administrative expenses	575,381	67,698
Total expenses	576,596	68,913
Investment income		
Net interest earned	848,635	305,163
Total investment income	848,635	305,163
Federal income tax expense	100,110	42,335
NET INCOME	\$ 171,929	\$ 193,915

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

Awbury Insurance Company

STATEMENTS OF SHAREHOLDER'S EQUITY

Years ended December 31,

	<u>2023</u>	<u>2022</u>
Common stock		
Balance at beginning and end of year	<u>\$ 500,000</u>	<u>\$ 500,000</u>
Contributed surplus		
Balance at beginning and end of year	<u>20,275,000</u>	<u>20,275,000</u>
Retained earnings		
Balance at beginning of year	158,270	(35,645)
Net income	<u>171,929</u>	<u>193,915</u>
Balance at end of year	<u>330,199</u>	<u>158,270</u>
Policyholders' surplus at end of year	<u>\$ 21,105,199</u>	<u>\$ 20,933,270</u>

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

Awbury Insurance Company
STATEMENTS OF CASH FLOWS
Years ended December 31,

	2023	2022
Cash flows from operating activities:		
Net income	\$ 171,929	\$ 193,915
Adjustments to reconcile net loss to net cash provided by operating activities:		
Interest receivable (accrued interest from investments)	(172)	(371)
Federal income tax recoverable	-	2,648
Taxes, licenses and fees	17,110	39,312
Payable to parent, subsidiaries and affiliates	562,721	(66,357)
Accrued liabilities	15,375	-
Net cash provided by operating activities	766,963	169,147
NET CHANGE DURING THE YEAR	766,963	169,147
Cash and cash equivalents at beginning of the year	20,997,585	20,828,438
Cash and cash equivalents at end of the year	\$ 21,764,548	\$ 20,997,585
Income taxes paid during the year	\$ 83,000	\$ -

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

Awbury Insurance Company
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 1 - NATURE OF THE ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of the Activities

Awbury Insurance Company (“Awbury” or “the Company”) is a wholly-owned subsidiary of Awbury Insurance Holdings LLC, a holding company domiciled in the State of Delaware.

The Company was incorporated on November 5, 2014 and licensed by the State of Delaware Department of Insurance on March 10, 2015. The Company provides insurance solutions to its clients, including payment default insurance and capital relief insurance.

Basis of Presentation

The Company’s financial statement presentation follows the requirements of accounting principles generally accepted in the United States of America (“U.S. GAAP”). The significant accounting policies used in the preparation of these financial statements are summarized below. These accounting policies have been used for all periods presented in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit and highly liquid investments with original maturities of 90 days or less and are principally stated at amortized cost, which approximates fair value. The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments and Investment Income

Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in investment income unless the income or gain (loss) is restricted by donor or law. Realized gains or losses on the sale of investments are determined by use of average costs method.

Income Tax Status

The Company is taxed as a U.S. Property and Casualty insurance company. Net losses of the Company may be recovered. Federal income taxes have been computed based upon currently taxable income.

Deferred income taxes are provided for differences in the financial statements book value and tax value of assets and liabilities, subject to certain prescribed limits for admitting deferred tax assets.

Concentration of Credit Risk

The Company’s financial instruments that are exposed to concentrations of credit risk consist primarily of cash.

Cash and cash equivalents - The Company places its cash in highly rated financial institutions which are periodically reviewed by management for financial stability. The Company maintains cash accounts which,

Awbury Insurance Company

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022

at times, exceed federally insured limits. The Company has not experienced any losses in such accounts and believes that its cash is not exposed to significant credit risk.

Accounting Pronouncements

Adopted During 2023

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326)*, to update its guidance on recognition and measurement of financial assets and liabilities and replace the incurred loss methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information for credit loss estimates. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2022. The Company adopted the standard effective January 1, 2023. The impact of adopting ASU 2016-13 was not material to the Company’s financial statements.

Liquidity and Availability

The Company’s current assets are primarily what management considers to be available for its general expenditures, liabilities, and other obligations that become due. In addition, the Company invests cash in excess of daily requirements in short-term investments.

NOTE 2 - AFFILIATE TRANSACTIONS AND OTHER RELATED PARTIES

The membership interests of Awbury Insurance Holdings LLC are held by three individuals (the “Members”). The Members also hold 100% of the membership interests of Awbury Technical Solutions LLC (a Connecticut limited liability company), Awbury Group LLC (a Delaware limited liability company), Awbury Brokerage Services LLC (a Connecticut limited liability company), Awbury UK Holdings LLC (a Delaware limited liability company), Awbury Asia Holdings LLC (a Delaware limited liability company) and Awbury Analytics LLC (a Florida limited liability company).

The Company is party to a service agreement (the “service agreement”) with Awbury Technical Solutions LLC (“ATS”). Pursuant to the Service Agreement, ATS provides certain product management, technical underwriting, reinsurance, strategic and operating management, legal, compliance, valuation, finance, human resources, tax, audit services, communications, administrative services, information technology and records services to the Company. Compensation for the services provided to the Company is paid based upon a percentage of ATS’s annual expenses attributable to providing the services to the Company. The costs incurred by ATS with respect to the services it provides are determined in a reasonable and good faith manner.

On October 31, 2023 the Company also entered into an Administrative Services Agreement with Awbury Analytics LLC (“Analytics”). The service agreement with Analytics is substantively identical in all material respects to the Company’s service agreement with ATS. Certain services will be performed for the Company by Analytics. These services will be in addition to, but not duplicative of, the services performed by ATS.

Awbury Insurance Company

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022

Amounts due to affiliates are in respect of amounts payable to ATS. The balances with ATS arise as a result of the Company's operating activities. There are no fixed repayment terms and all amounts are due on demand. The net intercompany payable balance as at December 31, 2023 and 2022 are as follows:

	2023	2022
Amounts owed to:		
Awbury Technical Solutions LLC	\$ 562,721	\$ -
	\$ 562,721	\$ -

NOTE 3 - INTEREST INCOME

Interest income for the years ended December 31, 2023 and 2022 was \$850,135 and \$306,663, respectively.

The Company incurred investment expenses of \$1,500 and \$1,500 for the years ended December 31, 2023 and 2022, respectively.

NOTE 4 - FAIR VALUE MEASUREMENTS

SSAP No. 100R, *Fair Value*, provides guidance for measuring assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability.

The use of different assumptions or valuation methodologies may have a material impact on the estimated fair value amounts.

The Company's valuation techniques are based on observable and unobservable pricing inputs. Observable inputs reflect market data obtained from independent sources based on trades of securities while unobservable inputs reflect the Company's market assumptions. These inputs comprise of the following fair value hierarchy:

- Level 1 - Observable inputs in the form of quoted prices for identical instruments in active markets;
- Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be derived from observable market data for substantially the full term of the assets or liabilities; and
- Level 3 - One or more unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets and liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using internal models, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Awbury Insurance Company

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022

The book values and estimated fair values of the Company's financial instruments are as follows:

	<u>December 31, 2023</u>		<u>December 31, 2022</u>	
	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Carrying Value</u>	<u>Estimated Fair Value</u>
Assets				
Cash and cash equivalents	\$ 21,764,548	\$ 21,764,548	\$ 20,997,585	\$ 20,997,585

Cash and Cash Equivalents - The carrying value of cash and cash equivalents are presented at cost, which approximates fair value.

Available for Sale Securities - Available for sale securities are reported at fair value. The Company obtains fair value measurements from independent pricing sources, which base their fair value measurements upon observable inputs such as reported trades of comparable securities, broker quotes, the U.S. Treasury yield curve, benchmark interest rates, credit information and the securities' terms and conditions.

Private Investments - Private investments are reported at fair value which approximates cost.

NOTE 5 - TAXATION

The income tax expense for the years ended December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Current year tax expense	\$ 100,110	\$ 49,612
Net operating loss benefit	-	(7,277)
	<u>\$ 100,110</u>	<u>\$ 42,335</u>

The tax asset/liability balances as of December 31, 2023 and 2022, are made up of the following:

	<u>2023</u>	<u>2022</u>
Opening tax (payable)/receivable	\$ (39,687)	\$ 2,647
Utilization prior year NOL	-	7,278
Payment of estimated taxes	83,000	-
Current year tax expense	<u>(100,110)</u>	<u>(49,612)</u>
	<u>\$ (56,797)</u>	<u>\$ (39,687)</u>

The effect of a change in tax laws or rates on deferred taxes assets and liabilities is recognized in income in the period in which such change is enacted.

NOTE 6 - MANAGEMENT SERVICE CONTRACTS, COST SHARING ARRANGEMENTS

The Company is party to a service agreement with Awbury Technical Solutions LLC ("ATS"). Pursuant to the Service Agreement, ATS provides certain product management, technical underwriting, reinsurance, strategic and operating management, legal, compliance, valuation, finance, human resources, tax, audit services, communications, administrative services, information technology and records services to the Company.

Awbury Insurance Company

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2023 and 2022

On October 31, 2023 the Company also entered into an Administrative Services Agreement with Awbury Analytics LLC (“Analytics”). The service agreement with Analytics is substantively identical in all material respects to the Company’s service agreement with ATS. Certain services will be performed for the Company by Analytics. These services will be in addition to, but not duplicative of, the services performed by ATS.

Compensation for the services provided to the Company is paid based upon the cost plus a percentage (i.e., 10%) of ATS’s annual expenses attributable to providing the services to the Company. The costs incurred by ATS with respect to services are determined in a reasonable and good faith manner.

NOTE 7 - SHAREHOLDER’S EQUITY, SHAREHOLDER’S DIVIDEND RESTRICTIONS AND QUASI-REORGANIZATIONS

The Company has 100 shares of common stock authorized, issued, and outstanding with no par value. The Company was incorporated on November 5, 2014 with a capital contribution of \$750,000. On April 22, 2015, the shareholder of the Company contributed an additional \$250,000 of paid in capital. On November 9, 2015, a further \$25,000 was contributed to capital. In September 2020, a further capital contribution of \$19,750,000 was made. The Company currently has \$500,000 in share capital and \$20,275,000 in paid in and contributed surplus.

Under Delaware law, the Company may pay cash dividends only from earned surplus determined on a statutory basis unless otherwise approved by the Department. Further, the Company is limited in the amount it may pay in dividends during any twelve-month period, without prior approval from the Department, to the greater of i) 10% of the prior year’s statutory surplus as of December 31 or ii) 100% of net income excluding capital gains as of December 31 of the prior year.

The Company has calculated its risk based capital (“RBC”) in accordance with the National Association of Insurance Commissioners’ Model Rule and the RBC rules as adopted by its state of domicile.

NOTE 8 - SUBSEQUENT EVENTS

The Company evaluated subsequent events through March 1, 2024, when the financial statements were available to be issued.