

ALPS Corporation and Subsidiaries

Consolidated Financial Statements with Required Supplementary Information

*Years ended December 31, 2023 and 2022
with Report of Independent Auditors*

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Years ended December 31, 2023 and 2022

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Report of Independent Auditors

Board of Directors
ALPS Corporation and Subsidiaries

Opinion

We have audited the consolidated financial statements of ALPS Corporation and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as 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 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 Consolidated 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.

Adoption of New Accounting Standard

As discussed in Note B to the consolidated financial statements, effective January 1, 2023, the Company adopted Financial Accounting Standards Board Accounting Standards Update 2016-13 and subsequent amendments, *Financial Instruments—Credit Losses (Topic 326)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated 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 for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated 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 disclosures about short-duration insurance contracts, including incurred and cumulative paid losses and allocated loss adjustment expenses, net of reinsurance and average annual percentage payout of incurred losses by age, net of reinsurance, on pages 42 - 44 be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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 sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Williston, Vermont
May 21, 2024
VT firm registration: 092-0000267

ALPS Corporation and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Investments:		
Fixed maturities available-for-sale, at fair value (net of allowance for credit loss - \$196,914 and \$211,459) (amortized cost - \$144,472,681 and \$128,058,197)	\$ 138,018,553	\$ 117,256,616
Equity securities, at fair value	12,312,284	10,989,356
Common stock of affiliate	453,279	820,611
Alternative investment	<u>2,960,957</u>	<u>2,290,656</u>
Total investments	153,745,073	131,357,239
Cash and cash equivalents	7,682,216	11,385,801
Accrued interest receivable	1,507,490	1,206,089
Accounts receivable	532,187	494,626
Premiums receivable	2,847,732	2,596,239
Reinsurance recoverable	66,696,024	68,191,277
Net deferred tax asset	4,642,507	5,220,581
Right-of-use asset, net	857,755	1,217,891
Property and equipment, net	2,620,678	2,366,570
Other assets	1,844,004	1,539,112
Income tax receivable	<u>831,084</u>	<u>19,080</u>
Total assets	<u>\$ 243,806,750</u>	<u>\$ 225,594,505</u>
Liabilities and stockholders' equity		
Liabilities and stockholders' equity		
Losses and loss adjustment expense reserves	\$ 137,260,008	\$ 130,949,305
Unearned premiums	32,897,676	31,888,867
Reinsurance payable, funds held under reinsurance treaties	7,097,018	7,431,043
Accounts payable and accrued expenses	5,773,636	4,374,136
Lease liability	<u>857,755</u>	<u>1,218,248</u>
Total liabilities	183,886,093	175,861,599
Stockholders' Equity:		
Common stock - Class A	3,522	3,522
Common stock - Class C	241	241
Additional paid-in capital	23,111,019	23,111,019
Retained earnings	73,438,340	65,507,498
Treasury stock	(31,689,266)	(30,356,125)
Accumulated other comprehensive loss, net of tax of \$1,314,015 and \$2,268,332	<u>(4,943,199)</u>	<u>(8,533,249)</u>
Total stockholders' equity	<u>59,920,657</u>	<u>49,732,906</u>
Total liabilities and stockholders' equity	<u>\$ 243,806,750</u>	<u>\$ 225,594,505</u>

See accompanying notes to consolidated financial statements.

ALPS Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenues		
Premiums earned	\$ 58,434,032	\$ 56,064,770
Premiums ceded	<u>(16,232,482)</u>	<u>(16,600,841)</u>
Net premiums earned	42,201,550	39,463,929
Investment income, net	6,183,844	4,784,750
Net realized capital losses on available-for-sale securities	(897,744)	(3,255,840)
Net gains (losses) recognized on equity securities	968,410	(2,191,272)
Other revenue	<u>1,325,336</u>	<u>1,361,227</u>
Total revenues	<u>49,781,396</u>	<u>40,162,794</u>
Expenses		
Losses and loss adjustment expenses	28,447,107	37,967,293
Reinsurance recoveries	<u>(5,687,212)</u>	<u>(15,574,556)</u>
Net losses and loss adjustment expenses	22,759,895	22,392,737
Operating expenses	<u>16,957,945</u>	<u>13,298,460</u>
Total expenses	<u>39,717,840</u>	<u>35,691,197</u>
Income before provision for income taxes	<u>10,063,556</u>	<u>4,471,597</u>
Provision for income taxes		
Current	2,297,498	1,997,662
Deferred provision	<u>(331,837)</u>	<u>(1,129,978)</u>
Total provision for income taxes	<u>1,965,661</u>	<u>867,684</u>
Net income	<u>8,097,895</u>	<u>3,603,913</u>
Other comprehensive income (loss), net of tax		
Net unrealized gains (losses) during the period on available-for-sale securities, net of tax of \$724,439 and \$(4,258,253), respectively	2,725,270	(16,019,142)
Credit (income) loss expense included in net investment income, net of tax of \$3,054 and \$0, respectively	(11,491)	-
Reclassification adjustment for net realized loss on available-for-sale securities, net of tax of \$188,526 and \$683,726, respectively	<u>709,218</u>	<u>2,572,114</u>
Total other comprehensive income (loss)	<u>3,422,997</u>	<u>(13,447,028)</u>
Total comprehensive income (loss)	<u>\$ 11,520,892</u>	<u>\$ (9,843,115)</u>

See accompanying notes to consolidated financial statements.

ALPS Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2023 and 2022

	Class A Common Stock		Class C Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost		Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			Shares	Amount		
Balance at December 31, 2021	3,522	\$ 3,522	241	\$ 241	\$ 23,111,019	\$ 61,903,585	2,155	\$ (29,609,751)	\$ 4,913,779	\$ 60,322,395
Stock redemption	-	-	-	-	-	-	23	(846,411)	-	(846,411)
Stock issuance for share repurchase program	-	-	-	-	-	-	(3)	100,037	-	100,037
Comprehensive loss, net of tax	-	-	-	-	-	-	-	-	(13,447,028)	(13,447,028)
Net income	-	-	-	-	-	3,603,913	-	-	-	3,603,913
Balance at December 31, 2022	3,522	3,522	241	241	23,111,019	65,507,498	2,175	(30,356,125)	(8,533,249)	49,732,906
Stock redemption	-	-	-	-	-	-	105	(3,284,096)	-	(3,284,096)
Stock issuance for share repurchase program	-	-	-	-	-	-	(62)	1,950,955	-	1,950,955
Comprehensive income, net of tax	-	-	-	-	-	-	-	-	3,422,997	3,422,997
CECL Adoption	-	-	-	-	-	(167,053)	-	-	167,053	-
Net income	-	-	-	-	-	8,097,895	-	-	-	8,097,895
Balance at December 31, 2023	<u>3,522</u>	<u>\$ 3,522</u>	<u>241</u>	<u>\$ 241</u>	<u>\$ 23,111,019</u>	<u>\$ 73,438,340</u>	<u>2,218</u>	<u>\$ (31,689,266)</u>	<u>\$ (4,943,199)</u>	<u>\$ 59,920,657</u>

See accompanying notes to consolidated financial statements.

ALPS Corporation and Subsidiaries
Consolidated Statements of of Cash Flows

Years ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Net income	\$ 8,097,895	\$ 3,603,913
Adjustments to reconcile net income to net cash provided by operating activities:		
Credit (income) loss expense	(14,545)	-
Depreciation and amortization	816,552	568,965
Bond amortization or accretion	175,600	304,221
Deferred tax provision	(331,837)	(1,129,978)
Noncash operating lease expense	391,251	379,210
Net realized capital loss on available-for-sale securities	897,744	3,255,840
Net (gain) loss recognized on equity securities	(968,410)	2,191,272
Changes in operating assets and liabilities:		
Accrued interest receivable	(301,401)	(103,887)
Accounts receivable	(37,561)	(21,975)
Premiums receivable	(251,493)	130,475
Reinsurance recoverable	1,495,253	(5,083,938)
Other assets	(304,892)	(108,890)
Income tax receivable	(812,004)	(19,080)
Losses and loss adjustment expense reserves	6,310,703	10,362,578
Unearned premiums	1,008,809	1,382,832
Reinsurance payable, funds held under reinsurance treaties	(334,025)	(48,729)
Accounts payable and accrued expenses	1,399,500	(2,490,476)
Lease liability	(391,251)	(379,210)
Income tax payable, net	-	(494,002)
Net cash provided by operating activities	16,845,888	12,299,141
Cash flows from investing activities		
Purchase of alternative investments	-	(1,009,188)
Purchase of fixed maturities	(39,248,048)	(40,479,260)
Purchase of equity securities	(9,501,424)	(13,391,508)
Purchase of other invested assets	(525,767)	(402,292)
Purchase of property and equipment	(1,101,776)	-
Proceeds from sales, maturities and repayments of fixed maturities	21,799,000	33,028,111
Proceeds from sale of equity securities	9,369,704	13,207,998
Proceeds from sale of alternative investments	-	1,500,000
Net cash used in investing activities	(19,208,311)	(7,546,139)

(Continued)

ALPS Corporation and Subsidiaries

Consolidated Statements of of Cash Flows (Continued)

	<u>2023</u>	<u>2022</u>
Cash flows from financing activities		
Payment of long-term debt	(8,021)	(7,932)
Stock redeemed	(3,284,096)	(846,411)
Issuance of treasury stock	<u>1,950,955</u>	<u>100,037</u>
Net cash used in financing activities	<u>(1,341,162)</u>	<u>(754,306)</u>
Net change in cash and cash equivalents	<u>(3,703,585)</u>	<u>3,998,696</u>
Cash and cash equivalents:		
Beginning of year	<u>11,385,801</u>	<u>7,387,105</u>
End of year	<u>\$ 7,682,216</u>	<u>\$ 11,385,801</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ 299</u>	<u>\$ 348</u>
Cash paid for taxes	<u>\$ 3,100,000</u>	<u>\$ 1,844,000</u>
Supplemental disclosures of noncash transactions		
Accounts payable and accrued expenses - payables for securities	<u>\$ 859,313</u>	<u>\$ (325,000)</u>

See accompanying notes to consolidated financial statements.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Years ended December 31, 2023 and 2022

Note A - Organization

Organization and Nature of Business

ALPS Corporation is a stock corporation and parent holding company organized under Montana law. ALPS Corporation owns 100% of the outstanding shares of each of the following entities: (i) ALPS Property & Casualty Insurance Company (ALPS P&C), a Montana domestic stock insurer that primarily underwrites lawyers' professional liability insurance on a claims-made and reported basis; and (ii) ALPS Insurance Agency, Inc. (AIA), a Montana corporation that provides insurance underwriting, claims adjusting, insurance producer and other insurance-related services.

The accompanying consolidated financial statements include the accounts of ALPS Corporation and its wholly owned subsidiaries (collectively the Company) as of December 31, 2023 and 2022, and the related activities of each entity are included in the consolidated statements of comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended. All significant intercompany accounts and transactions have been eliminated.

ALPS P&C is a Montana corporation, admitted in and regulated by the state of Montana as a casualty insurance company. ALPS P&C issues policies of professional liability insurance, employment practices liability insurance, and cyber risk and security breach liability insurance to attorneys and law firms.

As of December 31, 2023, ALPS P&C operates exclusively as a fully licensed and admitted insurance company in 47 states, the District of Columbia, and the U.S. Virgin Islands.

Note B - Summary of Significant Accounting Policies

Basis of Presentation

The Company's consolidated financial statements have been presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), as codified by the Financial Accounting Standards Board (FASB).

The preparation of financial statements in accordance 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Adoption of Accounting Standard

The Company adopted Accounting Standards Update (ASU) 2016-13 and subsequent amendments, *Financial Instruments – Credit Losses (Topic 326)* (the guidance) on January 1, 2023. The guidance replaces the incurred loss impairment model with an expected loss model, also referred to as the current expected credit loss (CECL) model. The model requires companies to measure expected credit losses on financial assets measured at amortized cost and record an allowance for credit loss against those assets. The guidance also amends the impairment model for available-for-sale fixed maturity securities. Companies are required to measure expected credit losses and record an allowance for credit loss in lieu of a writedown when management does not intend to sell and does not believe that it is more likely than not, they will be required to sell available-for-sale fixed maturity securities before recovery.

The Company adopted the guidance using the modified retrospective approach. As of January 1, 2023, the Company recorded a cumulative effect adjustment, net of tax, to the opening balance of retained earnings of \$167,053.

Risks and uncertainties

Certain risks and uncertainties are inherent to the Company's day-to-day operations and to the process of preparing its consolidated financial statements. The more significant of those risks and uncertainties, as well as the Company's methods for mitigating the risks, are presented below and throughout the notes to the consolidated financial statements.

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, liquidity, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and those changes could materially affect the amounts reported on the consolidated balance sheets.

Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. For example, significant estimates and assumptions are utilized in the valuation of investments, valuation of allowances for deferred income tax assets and doubtful accounts, and determining reasonable reserves for loss and loss adjustment expenses (LAE). It is reasonably possible that actual experience could differ from the estimates and assumptions utilized, which could have a material impact on the consolidated financial statements.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Credit Losses

The Company measures expected credit losses on financial assets held at amortized cost and available-for-sale fixed maturity securities, and records an allowance for credit loss when management determines a credit loss exists. Allowances for credit losses are recorded as contra-assets that reduce the corresponding financial assets on the balance sheets, with the offset recorded as credit loss income (expense) in the consolidated statements of comprehensive income. As the estimate of expected credit losses changes with subsequent evaluations, those increases and decreases are recognized in current operations. The Company writes off uncollectible amounts against the allowance for credit losses when it determines that a financial asset is partially or fully uncollectible.

Prior to the adoption of the credit loss standard on January 1, 2023, financial assets reported at amortized cost were reviewed for impairment using an incurred loss model. Similarly, prior to January 1, 2023, management made a determination as to whether available-for-sale fixed maturity securities were other-than-temporarily impaired. Factors considered in identifying other-than-temporary impairment (OTTI) for available-for-sale fixed maturity securities included: (1) whether the Company intends to sell the investment or whether it is more likely than not that the Company will be required to sell the security prior to an anticipated recovery in value; (2) the likelihood of the recoverability of principal and interest for debt securities (i.e., whether there is a credit loss); (3) the length of time and extent to which the fair value has been less than amortized cost; and (4) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.

Cash and Cash Equivalents

For purposes of the Company's consolidated statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments

The Company's investments in fixed maturity securities have been designated as available-for-sale and are reported at fair value, with the net unrealized appreciation (depreciation) and other-than-temporary impairments determined to be noncredit-related included in other comprehensive income (loss), net of deferred income taxes, and included as a component of accumulated other comprehensive loss in stockholders' equity. Realized gains and losses on sales of fixed maturity securities are determined using the specific identification method and are included as a component of net realized capital losses on available-for-sale securities in the year of sale. Income tax effects are released from accumulated other comprehensive loss, net of tax as individual securities are sold. Equity securities are reported at fair value, with changes in fair value including unrealized appreciation (depreciation) reported as net gains (losses) on equity securities in the consolidated statements of comprehensive income (loss).

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Fair value is based on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company employs a hierarchical disclosure framework, which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investment in limited liability companies are carried at fair value based upon the underlying audited U.S. GAAP equity value, with changes in fair value including unrealized gains and losses reported as net gains (losses) on equity securities in net income. The limited liability company investments are included in the alternative investments category in the consolidated balance sheets. Alternative investments are valued using the net asset value (NAV) as practical expedient.

Common stock of affiliate represents the Company's 33.33% ownership in Lawyers Reinsurance Company (Lawyers Re), a Vermont captive insurance company. The common stock of affiliate is accounted for in accordance with the equity method of accounting under ASC 323. The common stock of affiliate is valued based on the underlying audited U.S. GAAP equity of the investee and has a carrying value of \$453,279 and \$820,611 at December 31, 2023 and 2022, respectively. Any redemption requests by the Company would be subject to the approval of Lawyers Re's Board of Directors and the Vermont Department of Financial Regulation. Changes in the value of common stock of affiliate are reported as a component of net gains (losses) recognized on equity securities in net income.

Investment income is recognized as earned net of related investment expenses. Fixed maturity premiums and discounts are amortized or accreted by the scientific-yield method and are charged or credited to net investment income.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

The Company evaluates available-for-sale fixed maturity securities in an unrealized loss position for expected credit losses on an individual security basis. When the Company intends to sell a security, or when it is more likely than not that it will be required to sell a security before recovery, the Company writes down the amortized cost of the security to its fair value with a charge to income. U.S. Treasury securities and mortgage-backed securities issued by U.S. government sponsored enterprises (GSE) are excluded from the expected credit loss evaluation as these securities are either explicitly or implicitly guaranteed by the U.S. government. For securities that do not meet the criteria above, management evaluates whether the decline in fair value is due to credit factors or non-credit factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, individual security ratings and changes made to those ratings by rating agencies, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, management calculates and records the expected credit loss using a discounted cash flow analysis.

After recording the expected credit loss, any remaining difference between the fair value and amortized cost of the security is recorded as a non-credit loss through other comprehensive income (loss). Changes in the allowance for credit losses are recorded as credit loss income (expense) included as a component of net investment income on the consolidated statement of comprehensive income (loss). The allowance for credit loss on available-for-sale fixed maturity securities as of December 31, 2023 was \$196,914. Credit loss income for 2023 associated with the decrease in the allowance for credit loss totaled \$14,545.

The Company elected not to measure the credit loss allowance for accrued interest receivable on available-for-sale fixed maturity securities and writes off accrued interest reversed against interest income when it is greater than 90-days past due. For the year ended December 31, 2023, \$0 of accrued interest was reversed against interest income. Accrued interest receivable on available-for-sale debt securities in the amount of \$1,507,490 as of December 31, 2023, was excluded from the estimate of credit losses. Accrued interest receivable is included in accrued interest receivable on the balance sheets.

Other Revenue

Other revenue consists primarily of commission income generated by AIA. Commission income relates to commissions earned on insurance policies placed with other carriers, and is recognized in earnings at the time the underlying policy is placed. The Company has concluded that no allowance for cancelled policies or return commissions is necessary at December 31, 2023 and 2022 based upon historic results.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

A summary of contract receivables as of December 31, 2023 and 2022 are as follows:

	2023		2022	
	Opening Balance	Closing Balance	Opening Balance	Closing Balance
Contract receivables	\$ 407,079	\$ 439,205	\$ 429,032	\$ 407,079

Contract receivables are reported as a component of the accounts receivable on the consolidated balance sheet.

Receivables are reported net of an allowance for credit losses. Management monitors the credit quality of its receivables on a quarterly basis through review of aging schedules. The Company measures the allowance for credit loss on a collective basis through review of aging schedules, or on an individual basis when more relevant. An expected credit loss is calculated based on the Company's ongoing review of amounts outstanding, historical loss data including delinquencies and write offs, and is then adjusted for current conditions, and reasonable and supportable forecasts. Changes in the allowance for credit loss on receivables are recorded as credit loss income (expense) on the statements of comprehensive income (loss). There was no allowance for credit loss on receivables as of December 31, 2023.

Deferred Policy Acquisition Costs

Certain costs related to the acquisition of insurance contracts to the extent recoverable have been deferred. Such costs are being amortized as the associated premium revenue is earned. The Company capitalizes only incremental costs directly related to the successful acquisition of new or renewal insurance contracts. Accordingly, acquisition costs consist of commissions and premium taxes of insurance policies that are successfully issued. Unearned ceding commissions and allowances from reinsurers are recorded as a reduction to deferred acquisition costs. Acquisition costs incurred are reported net of ceding commissions and related allowances from reinsurers as underwriting expenses on the consolidated statement of comprehensive income (loss). Deferred acquisition costs, net of unearned ceding commissions are included in other assets.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is provided using straight-line and accelerated methods based upon the assets' useful lives. Costs incurred for normal repairs and maintenance are expensed as incurred.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Income taxes

Deferred income tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. Deferred income tax expenses or credits are based on the changes in the asset or liability from period to period. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company has not established any liabilities for uncertain tax positions taken or positions expected to be taken on income tax returns. The Company would establish such liabilities when such positions are judged to not meet the more-likely-than-not threshold based on the technical merits of the positions. Estimated interest and penalties related to uncertain tax positions would be included as a component of income tax expense.

With few exceptions, the Company is no longer subject to examinations by federal tax authorities before 2018, and by Montana, Virginia and Ohio state tax authorities before 2015.

Receivables

The Company grants credit to customers and agents as part of the normal course of business. Management determines the allowance for doubtful customer accounts based on specific customer balances and industry and economic conditions. Premiums that are financed are charged an interest rate of up to 8.99% annually. Management has determined that no provision for uncollectible premiums receivable is necessary at December 31, 2023 or 2022.

Premiums receivable are reported net of an allowance for credit losses. The Company measures expected credit losses on premiums receivable on a collective basis through review of aging schedules, or on an individual basis when more relevant. An expected credit loss is calculated based on the Company's ongoing review of amounts outstanding, historical loss data including delinquencies and write offs, and is then adjusted for current conditions, and reasonable and supportable forecasts. Credit risk is partially mitigated by the Company's ability to cancel the policy if the policyholder does not pay the premium.

Advertising costs

Advertising costs are expensed when incurred, and for 2023 and 2022 were \$657,688 and \$693,155, respectively.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Reinsurance

Reinsurance contracts do not relieve the Company from its obligations to insureds. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Management believes that any liability arising from this contingency would not be material to the Company's financial position.

Ceded reinsurance premiums and commissions are netted against earned premium and related expense, respectively. Amounts recoverable from reinsurers on paid losses and LAE, amounts recoverable on unpaid losses and LAE and ceded unearned premiums are aggregated and reported as a reinsurance recoverable asset on the consolidated balance sheet.

The Company measures expected credit losses on reinsurance recoverables on a collective basis based on A.M. Best credit ratings, or on an individual basis when more relevant. Management first considers the impact of any collateral or credit enhancements related to specific reinsurance recoverables. An expected credit loss is calculated by applying a historical default rate to the receivable, adjusted for current conditions, and reasonable and supportable forecasts. For non-rated reinsurers or reinsurers in default or liquidation, the credit loss evaluation is a case-by-case analysis that includes the credit quality of the reinsurer, credit and collateral analysis, and other considerations. Changes in the allowance for credit loss on reinsurance recoverables are recorded as credit loss income (expense) on the statements of comprehensive income (loss). There was no allowance for credit loss on reinsurance recoverables as of December 31, 2023.

Premiums Earned and Related Costs

Premiums are recognized as revenue on a daily pro rata basis over the policy period. Unearned premiums are established to cover the unexpired portion of policies written and are computed on a pro rata basis. Advanced premiums are deferred and included as a component of unearned premium until the effective date of the policy, at which time they are recognized as revenue on a pro rata basis over the term of the policy. The cost of reinsurance ceded is recognized ratably over the term of the underlying direct policies and are netted against earned premium. Ceded premium related to the unexpired portion of underlying reinsurance are reported as a component of the reinsurance recoverable on the consolidated balance sheet.

The Company's claims-made lawyers professional liability policies include a provision for extended reporting coverage, whereby the costs related to the extended reporting period will be waived for the insured policyholder when termination of coverage relates to death, disability, or permanent or total retirement from professional practice within the definition of the policy. The liability for this extended reporting coverage is included as a component of unearned premiums and totaled \$1,800,000 as of December 31, 2023 and 2022.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

A premium deficiency reserve is recognized when the anticipated losses, loss adjustment expenses, commissions and other acquisition costs, and maintenance costs exceed the recorded unearned premium reserve, and any future installment premiums on existing policies. If a premium deficiency exists, a premium deficiency reserve is recognized by recording an additional liability for the deficiency, with a corresponding charge to operations. The Company does consider anticipated investment income when determining if a premium deficiency exists. During 2023 and 2022, the Company did not recognize a premium deficiency reserve.

Leases

The Company determines if an arrangement is a lease or contains a lease at inception of a contract and classifies each lease as an operating or finance lease. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. The Company records a right-of-use (ROU) asset for the right to use an underlying asset for the lease term and a lease liability, on a discounted basis, for the obligation to make lease payments arising from the lease. The Company has elected the risk free rate as the discount rate for all its underlying leased assets. The Company utilizes a lease term that includes only options to renew that the Company is reasonably certain to exercise. ROU assets are subject to review for impairment. No impairments have been recorded. The Company does not have any lease commitments that have not yet commenced as of December 31, 2023 and 2022.

For operating leases, lease expense relating to fixed payments is recognized on a straight-line basis over the lease term and lease expense relating to variable payments is expensed as incurred. For finance leases, the amortization of the ROU Asset is recognized over the shorter of the lease term or the useful life of the underlying assets and interest expense is recorded using the effective interest method. Lease expense and interest expense on finance leases are included as a component of operating expenses. The Company has elected as an accounting policy not to record ROU assets and lease liabilities that arise from short-term leases for any class of underlying asset.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Loss and loss adjustment expense reserves

Estimated liabilities for unpaid loss and LAE are based on individual case estimates of the ultimate cost of reported loss and LAE and estimates of incurred but not reported losses (IBNR). LAE include costs associated directly with specific claims and internal costs relating to claim settlement and administration. Such liabilities are necessarily based on assumptions and estimates. Reserves for IBNR losses and LAE are calculated based upon loss projections utilizing certain actuarial assumptions and the Company's historical experience. Methods utilized by the consulting actuary include the paid and incurred loss development methods, the modified expected loss method, the reported and paid Bornhuetter-Ferguson methods, the base limit times Increased Limit Factors (ILF) method, and the average value method utilizing the Company's historical data. IBNR reserves are derived from the difference between the projected ultimate losses and loss expenses incurred and the sum of case-basis losses and loss expense reserves, and inception-to-date paid losses and loss expenses. An estimate of ultimate losses is projected at each reporting date. Management believes that its aggregate liability for unpaid loss and loss adjustment expenses at year end represents its best estimate of the amount necessary to cover the ultimate costs of losses based upon an analysis prepared by an independent consulting actuary. As adjustments to these estimates are determined, such adjustments are reflected in current operations.

The Company has recorded a reserve credit against unpaid losses and LAE for unsecured high deductibles in the amount of \$1,673,459 and \$1,433,314 for the years ended December 31, 2023 and 2022, respectively.

Management monitors the credit quality of its high deductible receivables on an annual basis through review of internal risk rating analysis that evaluates the credit quality of the customer, collateral obtained, and other considerations. The Company measures expected credit losses on high deductible receivables on a collective basis based on the percent covered by credit enhancements, or on an individual basis when more relevant. An expected credit loss is calculated by applying a historical loss rate adjusted for current conditions and reasonable and supportable forecasts. Changes in the allowance for credit losses on high deductible receivables are recorded as credit loss income (expense) on the statements of comprehensive income (loss). There was no allowance for credit loss on high deductible receivables as of December 31, 2023.

Reinsurance receivable amounts are comprised of estimated amounts of unpaid losses and LAE, which are expected to be recoverable from the Company's reinsurers pursuant to certain reinsurance agreements and are included as a component of the reinsurance recoverable. Such amounts have been estimated using actuarial assumptions consistent with those used to estimate the related liability for unpaid loss and LAE. Management believes that reinsurance receivables represent its best estimate of such amounts; however, as changes in the estimated ultimate liability for loss and LAE are determined, the estimated ultimate amount receivable from the reinsurance companies will also change.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

External factors

ALPS P&C is regulated by the state of Montana, as well as states in which it does business. Such regulations, among other things, limit the amount of dividends and impose restrictions on the amount and types of investments. The Company is required to seek state approval for rates for policies written in each respective state. Certain states may impose requirements on the coverage provided and restrictions on the amount of rate increases the Company seeks on policies written in that state.

Risk-based capital

The National Association of Insurance Commissioners (NAIC) has developed risk-based capital (RBC) standards for property and casualty insurers that relate an insurer's reported statutory capital and surplus to the risks inherent in its overall operations. The RBC formula uses the statutory annual statement to calculate the minimum indicated capital level to protect the Company from the various risks that it faces. The NAIC model law calls for various levels of regulatory action based on the magnitude of an indicated RBC deficiency, if any. The Company continues to monitor internal capital levels at ALPS P&C to ensure that they are in excess of the minimum capital requirements for all RBC action levels. Management believes that the capital levels at ALPS P&C are sufficient to support the level of risk inherent in its operations.

Concentrations of geographic and credit risk

The Company's total gross written premium of \$59,518,637 for the year ended December 31, 2023, included \$10,317,477 for insureds in Virginia; \$4,423,135 for insureds in West Virginia; \$3,942,128 for insureds in Washington; \$3,297,148 for insureds in Montana; \$3,469,453 for insureds in Georgia; \$2,960,157 for insureds in Idaho; \$2,605,559 for insureds in Nevada; \$2,387,183 for insureds in South Carolina; \$2,324,166 for insureds in Alaska; and \$2,321,273 for insureds in Colorado.

The Company maintains its cash and short-term investments with high-quality financial institutions. Interest-bearing and non-interest-bearing accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. From time to time, the Company maintains cash in accounts in excess of FDIC-insured limits. The Company has not experienced any losses in such accounts.

At December 31, 2023 and 2022, the Company's investment portfolio was composed of securities of the United States government and agencies, state and municipal governments, corporate securities and mortgage-backed securities, the vast majority of which are investment grade. This portfolio is widely diversified among various issuers and industries and is not dependent on the economic stability of one issuer or industry.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note C - Property and Equipment

Property and equipment at cost and related accumulated depreciation on December 31, 2023 and 2022, are as follows:

	2023	2022
Office furniture and equipment	\$ 350,699	\$ 298,824
IT equipment and software	7,208,337	6,163,702
	7,559,036	6,462,526
Less accumulated depreciation	(4,938,358)	(4,095,956)
Property and equipment, net	\$ 2,620,678	\$ 2,366,570

Depreciation expense was \$816,552 and \$568,965 in 2023 and 2022, respectively.

Note D - Investments

The amortized cost, gross unrealized gains, gross unrealized losses, allowance for credit losses, and estimated fair values of available-for-sale securities at December 31, 2023 and 2022, are as follows:

	December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
Fixed maturity securities:					
U. S. Government agencies	\$ 968,197	\$ 7,183	\$ -	\$ -	\$ 975,380
State, municipal and other governments	90,131,696	714,387	(5,790,603)	(61,699)	84,993,781
Corporate securities	17,292,120	403,443	(621,089)	(135,215)	16,939,259
Commercial mortgage-backed securities	8,877,532	7,397	(529,403)	-	8,355,526
Residential mortgage-backed securities	19,990,184	375,344	(738,924)	-	19,626,604
Other asset-backed securities	7,212,952	50,792	(135,741)	-	7,128,003
Total	\$ 144,472,681	\$ 1,558,546	\$ (7,815,760)	\$ (196,914)	\$ 138,018,553

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note D - Investments (Continued)

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturity securities:				
U. S. Government agencies	\$ 227,459	\$ -	\$ (8,084)	\$ 219,375
State, municipal and other governments	83,159,704	355,649	(8,227,792)	75,287,561
Corporate securities	15,471,685	37,768	(1,210,495)	14,298,958
Commercial mortgage-backed securities	8,536,933	-	(672,190)	7,864,743
Residential mortgage-backed securities	11,890,398	52,113	(848,077)	11,094,434
Other asset-backed securities	7,942,453	7,689	(288,162)	7,661,980
Certificate of deposit	829,565	-	-	829,565
Total	<u>\$ 128,058,197</u>	<u>\$ 453,219</u>	<u>\$ (11,254,800)</u>	<u>\$ 117,256,616</u>

The following table presents changes in the allowance for credit losses on available-for-sale debt securities by major security type as of December 31, 2023:

	Municipal Bonds	Corporate Bonds	Mortgage-Backed Securities	Total
Adjustment for adoption of ASC 326	\$ 71,211	\$ 140,248	\$ -	\$ 211,459
Add/Less: additional increases or decreases to the allowance for credit losses on securities that had an allowance recorded in a previous period	(9,512)	(5,033)	-	(14,545)
Total	<u>\$ 61,699</u>	<u>\$ 135,215</u>	<u>\$ -</u>	<u>\$ 196,914</u>

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note D - Investments (Continued)

As of December 31, 2023 and 2022, 315 and 410 securities, respectively, were in an unrealized loss position. The Company determined that no specific allowance for credit loss is needed for these securities, other than the 2 securities previously disclosed, and believes that the decline in value of these securities is due to interest rate changes and other market conditions. These securities carry investment grade ratings and the issuers continue to make timely principal and interest payments.

At December 31, 2023 and 2022, the unrealized losses on the Company's fixed maturity investments were not the result of any credit-related problems; rather, they were caused by interest rate increases and widening and narrowing of bond pricing spreads. Substantially all of the issuers have investment-grade ratings; therefore, the Company believes each issuer will be able to meet the contractual terms of the obligation. At December 31, 2023 and 2022, the Company did not have the intent to sell and it was unlikely that the Company would be required to sell the investments before the recovery of its amortized cost basis.

The Company received proceeds from the sale of fixed maturity securities totaling \$15,154,000 and \$25,583,240 in 2023 and 2022, respectively. Gross realized gains and losses on available-for-sale investments, including other-than-temporary impairments, reflected in the results of operations for the years ended December 31, 2023 and 2022, are as follows:

	2023	2022
Realized:		
Gross realized gains on sales of fixed maturity securities	\$ 79,658	\$ 22,548
Gross realized losses on sales of fixed maturity securities	(977,402)	(3,278,388)
Net realized capital losses on available-for-sale securities	\$ (897,744)	\$ (3,255,840)

Major categories of the Company's net recognized gains (losses) on investments are summarized as follows for the years ended December 31:

	2023	2022
Net change in fair value recognized on alternative investments held at year end	\$ 144,535	\$ (451,322)
Net loss on alternative investments sold during the year	-	(179,199)
Net change in fair value recognized on common stock of affiliate held at year end	(367,332)	(18,410)
Net change in fair value recognized on equity securities held at year end	664,324	(1,473,044)
Net gain (loss) on equity securities sold during the year	526,883	(69,297)
Net gain (loss) recognized on equity securities	\$ 968,410	\$ (2,191,272)

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note D - Investments (Continued)

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2023, are shown below. The bond maturities are calculated based on the scheduled repayment date, with the final installment adjusted for any discount or premium. Mortgage-backed, loan-backed and structured securities are distributed based on the anticipated future prepayment cash flows used to value the security:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 2,684,421	\$ 2,680,138
Due after one year through five years	20,796,796	20,753,731
Due after five years through ten years	23,059,360	22,477,491
Due after ten years through twenty	37,817,206	34,832,325
Thereafter	<u>60,114,898</u>	<u>57,274,868</u>
Total	<u>\$ 144,472,681</u>	<u>\$ 138,018,553</u>

The Company places certain assets in trust for the benefit of its regulators and has other assets restricted as a result of its membership in The Federal Home Loan Bank (FHLB) of Des Moines. The following table discloses the fair value of the Company's restricted asset by category as of December 31, 2023 and 2022:

<u>Restricted Asset Category</u>	<u>Gross Restricted</u>		
	<u>Total from Current Year</u>	<u>Total from Prior Year</u>	<u>Increase/ (Decrease)</u>
Funds on deposit - State of Montana	\$ 2,872,574	\$ 2,837,933	\$ 34,641
Funds on deposit - other states	2,881,993	2,249,353	632,640
First Interstate Banks CD	1,189,574	829,564	360,010
FHLB Capital Stock	<u>94,600</u>	<u>181,600</u>	<u>(87,000)</u>
Total restricted assets	<u>\$ 7,038,741</u>	<u>\$ 6,098,450</u>	<u>\$ 940,291</u>

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note D - Investments (Continued)

Net investment income consists of the following:

	Years Ended December 31	
	2023	2022
Fixed maturities	\$ 5,697,870	\$ 4,628,900
Credit loss income (expense)	14,545	-
Equity securities	444,386	381,619
Short-term investments	248,653	45,730
Other	87,068	41,356
	<u>6,492,522</u>	<u>5,097,605</u>
Investment expense	<u>(308,678)</u>	<u>(312,855)</u>
Net investment income	<u>\$ 6,183,844</u>	<u>\$ 4,784,750</u>

Note E - Losses and Loss Adjustment Expense Reserves

The components of the reinsurance recoverable as of December 31, 2023 and 2022 are as follows:

	2023	2022
Unearned premium ceded	\$ 8,648,316	\$ 8,284,648
Reinsurance receivable on paid losses and LAE	625,980	520,589
Reinsurance recoverable on unpaid losses and LAE	<u>57,421,728</u>	<u>59,386,040</u>
Total reinsurance recoverable	<u>\$ 66,696,024</u>	<u>\$ 68,191,277</u>

The components of the liability for losses and LAE and related reinsurance balances recoverable, are as follows:

	December 31, 2023			December 31, 2022		
	Gross Liability	Reinsurance Recoverable	Net Liability	Gross Liability	Reinsurance Recoverable	Net Liability
Case	\$ 35,744,532	\$ (7,840,973)	\$ 27,903,559	\$ 36,355,037	\$ (11,608,629)	\$ 24,746,408
IBNR	<u>101,515,476</u>	<u>(49,580,755)</u>	<u>51,934,721</u>	<u>94,594,268</u>	<u>(47,777,411)</u>	<u>46,816,857</u>
Total reserves	<u>\$ 137,260,008</u>	<u>\$ (57,421,728)</u>	<u>\$ 79,838,280</u>	<u>\$ 130,949,305</u>	<u>\$ (59,386,040)</u>	<u>\$ 71,563,265</u>

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note E - Losses and Loss Adjustment Expense Reserves (Continued)

The reconciliation of the net incurred and paid losses development tables to the liability for losses and LAE reserves on the balance sheet as of December 31, 2023 is as follows (in thousands):

Net outstanding liabilities:	
Professional liability insurance	\$ <u>77,235</u>
Reinsurance recoverable:	
Professional liability insurance	<u>57,421</u>
Unallocated loss adjustment expenses	<u>2,604</u>
Total gross liability for unpaid losses and loss adjustment expenses	<u>\$ <u>137,260</u></u>

The following is information about incurred and cumulative paid losses and loss adjustment expenses, net of reinsurance, and IBNR liabilities plus expected development on reported claims, net of reinsurance and the cumulative number of reported claims as of December 31, 2023, by category:

Professional liability insurance			Total IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
<u>Accident Year</u>	<u>Incurred</u>	<u>Cumulative Paid</u>	<u>Reported Claims</u>	<u>Reported Claims</u>
2014	\$ 17,183	\$ 17,183	\$ -	554
2015	16,985	16,388	400	539
2016	13,254	12,773	506	648
2017	17,598	15,069	1,842	591
2018	18,789	13,944	4,054	666
2019	26,359	20,330	3,242	664
2020	21,366	14,150	4,651	513
2021	22,958	9,363	9,594	555
2022	24,903	7,506	10,835	543
2023	<u>26,580</u>	<u>2,823</u>	<u>15,353</u>	601
Total	<u>\$ 205,975</u>	<u>\$ 129,529</u>	<u>\$ 50,477</u>	

The Company determines the number of reported claims by tracking claims at the claimant level.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note E - Losses and Loss Adjustment Expense Reserves (Continued)

The following table provides a reconciliation of the beginning and ending reserve balances for losses and loss adjustment expenses (LAE) for 2023 and 2022:

	Year Ended December 31	
	2023	2022
Liability as of January 1, net of reinsurance recoverables of \$59,386,040 and \$53,552,134 in 2023 and 2022, respectively	\$ 71,563,265	\$ 67,034,593
Add provision for losses and LAE applicable to claims reported in:		
Current year	27,259,841	25,546,096
Prior years	(4,499,946)	(3,153,359)
Total incurred losses during the current year	22,759,895	22,392,737
Payments for losses and LAE reported in:		
Current year	(2,897,841)	(3,580,095)
Prior years	(11,587,039)	(14,283,970)
Net paid during the year	(14,484,880)	(17,864,065)
Liability as of December 31, net of reinsurance recoverables of \$57,421,728 and \$59,386,040 in 2023 and 2022, respectively	\$ 79,838,280	\$ 71,563,265

Reserves for incurred losses and LAE attributable to claims reported to the Company in prior years have decreased by \$4,499,946 and \$3,153,359 during 2023 and 2022, respectively. These changes are generally the result of ongoing analysis of claim files. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

Note F - Reinsurance

The Company utilizes reinsurance contracts to reduce its exposure to losses in all aspects of its insurance business. Such reinsurance permits recovery of a portion of losses from reinsurers, although it does not relieve the Company from its primary liability to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial strength of potential reinsurers and continually monitors the financial condition of reinsurers.

On January 1, 2022, The Company renewed its excess of loss treaties and increased its retention to \$500,000 dollars per claim from \$350,000 per claim.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note F - Reinsurance (Continued)

Management monitors the credit quality of its reinsurance recoverables on a quarterly basis through review of A.M. Best credit ratings and credit rating changes. As of December 31, 2023, 97% of the Company's reinsurance paid and unpaid was due from reinsurers rated A or better by A.M. Best and 3% was due from reinsurers that are not rated.

Amounts recoverable from reinsurers are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contracts. Management believes the recoverables are appropriately established. The Company strives to diversify its credit risks related to reinsurance ceded. There were no disputes with reinsurers at December 31, 2023 or 2022. The Company has no uncollectible reinsurance recoverables that were written off during the year.

The Company has unsecured aggregate recoverables for losses, paid and unpaid, LAE, and unearned premium with the following individual reinsurers, authorized or unauthorized at December 31, 2023 and 2022:

	<u>AM Best Rating</u>	<u>2023</u>	<u>2022</u>
Allied World	A	\$ 3,133,465	\$ 2,622,000
Axis Reinsurance Co.	A	19,124,889	18,518,000
China Re	A	1,867,069	2,198,000
Endurance Reinsurance	A	3,348,000	3,428,000
Lloyd's Syndicate Number 1686	A	N/A*	1,749,000
Lloyd's Syndicate Number 2623	A	2,305,391	1,864,000
Lloyd's Syndicate Number 4472	A	4,736,874	4,621,000
Munich Reinsurance America, Inc.	A+	3,970,315	3,788,000
Peak Re	A-	N/A*	3,925,000
Safety National Casualty Corporation	A+	3,743,585	3,596,000
SCOR Reinsurance Co.	A	3,088,589	4,043,000
Transatlantic Reinsurance Co.	A+	2,877,596	4,276,000

*Unsecured reinsurance recoverables are below 3% of policyholders' surplus in 2023.

The Company holds letters of credit in the amount of \$7,449,241 and \$4,164,672 at December 31, 2023 and 2022, respectively, to secure recoverable balances from reinsurers not authorized by the Montana Office of the Commissioner of Securities and Insurance.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note F - Reinsurance (Continued)

A summary of the impact of ceded reinsurance on written, earned and unearned premiums, and losses and LAE incurred for the years ended December 31, 2023 and 2022, is as follows:

	2023	2022
Premiums written:		
Direct	\$ 59,518,637	\$ 57,149,458
Ceded	(16,656,142)	(15,713,407)
Net premiums written	<u>\$ 42,862,495</u>	<u>\$ 41,436,051</u>
Premiums earned:		
Direct	\$ 58,434,032	\$ 56,064,770
Ceded	(16,232,482)	(16,600,841)
Net premiums earned	<u>\$ 42,201,550</u>	<u>\$ 39,463,929</u>
Unearned premiums:		
Direct	\$ 27,702,949	\$ 26,618,344
Advanced	5,194,727	5,270,523
Ceded	(8,668,478)	(8,305,063)
Net unearned premiums	<u>\$ 24,229,198</u>	<u>\$ 23,583,804</u>
Losses and LAE incurred:		
Direct	\$ 28,447,107	\$ 37,967,293
Ceded	(5,687,212)	(15,574,556)
Net losses and LAE incurred	<u>\$ 22,759,895</u>	<u>\$ 22,392,737</u>

Note G - Income Taxes

The Company prepares a consolidated federal income tax return that includes all direct and indirect subsidiaries. The Company's affiliates included in the consolidated federal income tax return allocate income tax expenses in accordance with a consolidated tax allocation agreement. The allocation results in profitable companies recognizing income tax incurred as if the individual company filed a separate return and loss companies recognizing a benefit to the extent their losses contribute to reduce consolidated taxes.

The Company's deferred tax items are measured at an effective tax rate of 21% as of December 31, 2023 and 2022.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note G - Income Taxes (Continued)

The provision for federal income taxes incurred is different from that which would be obtained by applying the federal income tax rate of 21% to income before income taxes. The significant items causing this difference are related to tax-exempt investment income, dividends received deduction, state and foreign income taxes.

The provision for income tax expense included in the consolidated financial statements for the years ended December 31, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Current:		
U.S. federal provision	\$ 2,260,207	\$ 1,982,966
States and foreign	<u>37,291</u>	<u>14,696</u>
Total current tax	2,297,498	1,997,662
Deferred:		
U.S. federal provision	<u>(331,837)</u>	<u>(1,129,978)</u>
Total tax provision	<u>\$ 1,965,661</u>	<u>\$ 867,684</u>

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note G - Income Taxes (Continued)

Deferred income taxes have been established based upon the temporary differences between the financial statement and income tax bases of assets and liabilities. The tax effect of temporary differences that give rise to significant portions of the Company's net deferred income tax asset (liability) for the years ended December 31, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Deferred tax assets:		
Unearned/advanced premium adjustment	\$ 1,019,576	\$ 995,250
Unpaid losses and LAE	1,299,118	1,173,746
Long-term incentive plan payable	348,146	279,974
Other-than-temporary impairments	21,000	21,000
Profit commissions	625,395	673,926
Unrealized losses	1,449,619	2,416,430
Credit losses	41,352	-
Other	<u>56,278</u>	<u>124,119</u>
Total deferred tax assets	<u>4,860,484</u>	<u>5,684,445</u>
Deferred tax liabilities:		
Tax reform - reserves transition effect	(84,123)	(124,785)
Book to tax depreciation	(29,949)	(134,097)
Deferred acquisition costs	(103,905)	(100,578)
Profit commissions	-	(101,785)
Deposit premiums	<u>-</u>	<u>(2,619)</u>
Total deferred tax liabilities	<u>(217,977)</u>	<u>(463,864)</u>
Net deferred tax asset	<u>\$ 4,642,507</u>	<u>\$ 5,220,581</u>

Based upon anticipated future taxable income, the Company's net realized gains, and consideration of all other available evidence, management believes that it is more likely than not that the Company's net deferred income tax asset will be realized.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note H - Fair Value Measurements

Fair values of fixed maturity and equity securities are based on quoted market prices, where available. The Company obtains one price for each security, primarily from a third-party pricing service (pricing service), which generally uses quoted or other observable inputs for the determination of fair value. The pricing service derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or incorporate inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. In addition, the pricing service uses model processes, such as the option-adjusted spread model, to assess interest rate impact and develop prepayment scenarios.

As the Company is responsible for the determination of fair value, it performs a monthly analysis on the prices received from third parties for its externally managed portfolios to determine whether the prices are reasonable estimates of fair value. The analysis includes a comparison of prices received from third parties to prices obtained from other sources. There were no adjustments to quoted market prices obtained from third-party pricing services during 2023 and 2022 that were material to the consolidated financial statements.

The Company's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy that allocates the inputs used to measure fair value into three broad levels. The hierarchy gives the highest priority to fair values determined using unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to fair values determined using unobservable inputs (Level 3). An asset's or liability's classification is determined based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 – Valuations are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset and market-corroborated inputs, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Valuations are derived from techniques that require significant unobservable inputs. The unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note H - Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used by the Company to value assets measured at fair value:

Major Category	Valued At
State and/or U.S. government obligations and common and/or preferred stock and exchange traded funds	Closing price reported in the active market in which the individual security is traded (Level 1); if in an inactive market, based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency; securities that trade infrequently and therefore have little or no price transparency are valued using the investment manager's best estimates (Level 2)
Mutual funds	Net asset value (NAV) of shares which are provided by the administrator of the fund and are actively traded on a public market (Level 1)
Fixed-income securities including corporate, commercial and residential mortgage-backed securities	Closing price reported in the active market in which the bond is traded or based on yields currently available on comparable securities of issuers with similar credit ratings or a discounted cash flows approach that maximized observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks (Level 2)

The distribution of the Company's investments, which are measured at fair value on a recurring basis, in the valuation hierarchy is as follows:

Assets	December 31, 2023			
	Level 1	Level 2	Level 3	Fair Value
Fixed maturities-available for sale:				
U.S. Government agencies	\$ 975,380	\$ -	\$ -	\$ 975,380
State, municipal and other governments	-	84,993,781	-	84,993,781
Corporate securities	-	16,939,259	-	16,939,259
Commercial mortgage-backed securities	-	8,355,526	-	8,355,526
Residential mortgage-backed securities	-	19,626,604	-	19,626,604
Other asset-backed securities	-	7,128,003	-	7,128,003
Total fixed maturity securities	975,380	137,043,173	-	138,018,553
Equity securities, at fair value	12,217,684	94,600	-	12,312,284
Total investments in the fair value hierarchy	<u>\$ 13,193,064</u>	<u>\$ 137,137,773</u>	<u>\$ -</u>	<u>\$ 150,330,837</u>

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note H - Fair Value Measurements (Continued)

Assets	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Fixed maturities-available for sale:				
U.S. Government agencies	\$ 219,375	\$ -	\$ -	\$ 219,375
State, municipal and other governments	-	75,287,561	-	75,287,561
Corporate securities	-	14,298,958	-	14,298,958
Commercial mortgage-backed securities	-	7,864,743	-	7,864,743
Residential mortgage-backed securities	-	11,094,434	-	11,094,434
Other asset-backed securities	-	7,661,980	-	7,661,980
Certificate of deposit	829,565	-	-	829,565
Total fixed maturity securities	1,048,940	116,207,676	-	117,256,616
Equity securities, at fair value	10,807,756	181,600	-	10,989,356
Total investments in the fair value hierarchy	\$ 11,856,696	\$ 116,389,276	\$ -	\$ 128,245,972

In accordance with ASC 820-10, certain investments that are measured at net asset value per share have not been classified in the fair value hierarchy, such investments are carried as alternative investments on the consolidated balance sheet.

The Company holds an investment in the SIT Opportunity Bond Fund, LLC (the SIT Fund), which is a private investment fund that invests in closed-end registered investment companies that have underlying investments in fixed-income securities. The Company redeemed \$1,500,000 of the Company's interest in the SIT Fund in February 2022. The SIT fund is carried at NAV as a practical expedient and has a carrying value of \$2,032,897 and \$1,888,363 at December 31, 2023 and 2022, respectively. The Company is required to provide 30 days of advance notice to the SIT fund manager for all redemption requests. The Company's investment represents a 3.17% and 3.2% ownership interest of the SIT fund as of December 31, 2023 and 2022, respectively.

On September 17, 2021, the Company entered into a subscription agreement with Trident Capital IX, L.P., a Cayman Islands exempted Limited Partnership (the "Trident Fund"), wherein the Company agreed to a \$2 million capital commitment to invest in the Fund. This is a private equity fund that is carried at NAV. The Trident Fund had carrying values of \$928,060 and \$402,293, at December 31, 2023 and 2022, respectively. The Company's investment represents approximately 0.04% ownership interest of the Trident Fund as of December 31, 2023 and 2022.

Common stock of affiliate represents the Company's investment in Lawyers Re. The common stock of affiliate is accounted for in accordance with the equity method of accounting under ASC 323, and accordingly have been excluded above. The common stock of affiliate is valued based on the underlying audited U.S. GAAP equity of the investee and has a carrying value of \$453,279 and \$820,611 at December 31, 2023 and 2022, respectively. The Company did not receive any dividends, or purchase or sell any shares of Lawyers Re during the periods ending December 31, 2023 and 2022.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note H - Fair Value Measurements (Continued)

The Company holds an investment in Federal Home Loan Bank (FHLB) of Des Moines associated with its FHLB membership. The stock is puttable by the Company at its fixed par value of \$100 per share. There is no active market for the FHLB stock, rather FHLB redeems all shares at the stated par value. The Company did not redeem any FHLB stock, receive any advances, or pledge any investments to the Federal Home Loan Bank in 2023 or 2022. In evaluating the fair value of FHLB stock the Company considers the credit rating of the FHLB and ability to repurchase shares at par value. Based upon that assessment the Company concluded there is no other than temporary impairment. As such, the fair value and carrying value of FHLB stock continue to be equal to the \$100 par value per share. Fair value and carrying value of the FHLB stock totaled \$94,600 and \$181,600 as of December 31, 2023 and 2022, respectively and have been reflected as a Level 2 estimate in the fair value hierarchy.

Note I - Employee Benefits Plan

The Company sponsors a defined contribution plan known as the ALPS Corporation 401(k) Profit Sharing Plan (the 401(k) Plan). The 401(k) Plan is designed as a type of qualified retirement plan commonly referred to as a 401(k) safe harbor plan. The 401(k) Plan allows participants to make salary deferral contributions to the 401(k) Plan on a pretax basis. The Company also sponsors a Section 125 cafeteria plan (the Cafeteria Plan).

Under the 401(k) Plan, the Company makes a matching contribution to each eligible participant in an amount equal to 100% of a participant's salary reduction contribution up to 6% of a participant's eligible compensation. The Company makes a fixed-dollar contribution in the amount of \$8,100 per full-time employee under the Cafeteria Plan, if the employee participates in the Company sponsored health insurance. If the employee does not purchase insurance through the Company's plan, the Company contributes \$6,000 to the employee's cafeteria plan.

For the plan year 2023, the Company contributed \$419,620 to the 401(k) Plan and \$638,222 to the Cafeteria Plan. For the plan year 2022, the Company contributed \$384,926 to the 401(k) Plan and \$629,910 to the Cafeteria Plan.

Note J - Commitments and Contingencies

The Company previously entered into a written employment agreement with the Executive Board Chair (EBC) that expired on December 31, 2015. The position of the EBC was eliminated effective December 31, 2015. Pursuant to the terms of the expired employment agreement, the Company and the former EBC entered into a long-term consulting agreement during which the former EBC will render consulting services to the Company for a seven and a half-year term ending on June 30, 2023.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note J - Commitments and Contingencies (Continued)

The Company is not aware of any pending or threatened litigation or any unasserted claims or assessments that management considers to be probable of assertion and that, if asserted, would have at least a reasonable possibility of an unfavorable outcome, the risk of which has not been adequately insured against or provision for which has not been adequately reserved.

On September 17, 2021, the Company entered into a subscription agreement with the Trident Fund, wherein the Company agreed to a \$2 million capital commitment to invest in the Trident Fund. As of December 31, 2023 and 2022, the Company contributed \$928,060 and \$402,293, respectively, to the Trident Fund leaving an unfunded capital commitments of \$1,071,940 and \$1,597,707 for the years ending December 31, 2023 and 2022. The Company received a drawdown notice and subsequently contributed \$87,325 in March 2024 and \$133,674 in May 2024. The company has not received any other drawdown notice from the Trident Fund other than those previously described above.

In 2020, the Company entered into a stock redemption agreement with certain officers and directors which grant to those individuals the right to tender to the Company for redemption all shares of Class A Common Stock that are held by such individual. Upon tender, the Company is obligated to redeem the Class A Common Stock at a redemption price equal to the then-existing book value per share as most recently declared by the Company's Board of Directors. The Company is obligated to pay the total redemption price no later than December 31 of the fourth calendar year following the calendar year in which the individual tenders the Class A Common Stock for redemption. There are 367 shares of Class A Common Stock that is subject to the stock redemption agreement. As of December 31, 2023 and 2022, the 367 shares have an aggregate book value of \$11,496,668 and \$13,772,084, respectively. As of December 31, 2023, these individuals have tendered no shares of Class A Common Stock for redemption by the Company. Under the terms of one redemption agreement, the Company has agreed to pay accrued interest on the unpaid redemption price at an adjustable rate equal to the mid-term applicable federal rate, as published by the IRS issued for the calendar month in which the redemption occurs. The interest rate shall be adjusted effective as of the first day of each calendar quarter and the accrued interest shall be paid quarterly within 15 days following the end of each calendar quarter.

Note K - Outstanding Shares

ALPS Corporation is authorized to issue 9,000,000 shares of Class A Common Stock having a \$1.00 par value; 1,000,000 shares of Class B Non-voting Stock having a \$1.00 par value; and 1,000,000 shares of Class C Common Stock having a \$1.00 par value. The Company's restated articles of incorporation provide that no stockholder may own a fractional share of Class A Common Stock if said stockholder does not own at least one whole share of Class A Common Stock.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note K - Outstanding Shares (Continued)

ALPS Corporation had approximately 3,522 Class A Common shares issued as of December 31, 2023 and 2022. Of these shares, 2,218 and 2,175 were held in treasury at December 31, 2023 and 2022, respectively. ALPS Corporation had no Class B nonvoting shares issued and outstanding as of December 31, 2023 and 2022. ALPS Corporation had approximately 241 shares of Class C Common shares issued and outstanding as of December 31, 2023 and 2022.

The Company has entered into a written agreement with one of the Company's reinsurers that owns approximately 58 shares of Class A Common Stock and 241 shares of Class C Common Stock. The third party has the right to put to the Company for cash up to 50% of the aggregate number of common shares held by the third party at a per share exercise price equal to the U.S. GAAP adjusted book value per share as of the most recent calendar quarter. The Company will not be required to make any such repurchases of said shares of common stock if: (i) after giving effect to said repurchase, the repurchase would cause the Company to violate MCA § 35-14-640; or (ii) the Board reasonably and in good faith determines that such repurchases will have a materially adverse impact on the Company. During 2016, the Company entered into an agreement providing the entity a right of first refusal on up to 33% of any reinsurance placed by the Company at open market pricing and terms.

Note L - Lease Commitments

The Company leases office space in the Historic Florence Building. The lease commenced on October 18, 2018, and has an initial term through December 31, 2025. The Company has the option to extend the lease for an additional five years on January 1, 2026, with an annual rent of \$436,300, and extend again for an additional five years on January 1, 2031, with an annual rent of \$449,338 through December 31, 2035.

The Company has valued the Historic Florence Building lease as an operating lease in accordance with ASU No. 2016-02. The Company's valuation of the right-of-use-asset and corresponding lease liability was based on the initial lease term, since it is not reasonably certain that the two renewal options will be exercised. The Company valued the liability and right-of-use asset using a discount rate of 3.13%, and the lease has a remaining useful life of three years and four years at December 31, 2023 and 2022, respectively.

The Company entered a five-year equipment lease in 2018 that expired in October 2023. The Company entered a five-year equipment lease in 2023 that is considered a financing lease under ASC Topic 842. The lease liability and right-of-use-asset was valued using a discount rate of 3.13%, and the lease has a remaining useful life of five year years at December 31, 2023.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note L - Lease Commitments (Continued)

The Company has the following right-of-use-assets and lease liabilities at December 31:

	<u>2023</u>	<u>2022</u>
Operating lease assets	\$ 820,195	\$ 1,211,446
Financing lease assets	<u>37,560</u>	<u>6,445</u>
Total leased assets	<u>\$ 857,755</u>	<u>\$ 1,217,891</u>
	<u>2023</u>	<u>2022</u>
Current:		
Operating	\$ 403,675	\$ 391,251
Financing	7,451	6,802
Long-term:		
Operating	416,520	820,195
Financing	<u>30,109</u>	<u>-</u>
Total lease liability	<u>\$ 857,755</u>	<u>\$ 1,218,248</u>

Maturities of the lease liabilities at December 31, 2023, are as follows:

	<u>Operating</u>	<u>Financing</u>	<u>Total</u>
Years ending December 31:			
2024	\$ 423,588	\$ 8,520	\$ 432,108
2025	423,588	8,520	432,108
2026	-	8,520	8,520
2027	-	8,520	8,520
Thereafter	<u>-</u>	<u>5,972</u>	<u>5,972</u>
Total future lease payments	847,176	40,052	887,228
Lease interest	<u>(26,981)</u>	<u>(2,492)</u>	<u>(29,473)</u>
Present value of lease liabilities	<u>\$ 820,195</u>	<u>\$ 37,560</u>	<u>\$ 857,755</u>

The Company incurred the following lease costs for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 423,588	\$ 423,588
Financing lease cost:		
Amortization of leased assets	8,021	7,923
Interest on lease liabilities	<u>299</u>	<u>348</u>
Total lease cost	<u>\$ 431,908</u>	<u>\$ 431,859</u>

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note L - Lease Commitments (Continued)

The Company incurred the following capital lease cash flows for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ (423,588)	\$ (423,588)
Operating cash flows from financing leases	(299)	(348)
Financing cash flows from financing leases	(8,021)	(7,923)

Note M - Long-Term Incentive Plan

In 2013, the Board of Directors created the Long-Term Surrogate Equity Incentive Plan (LTIP), which replaced all of the Company's then-existing equity-related incentive plans, including stock options and stock appreciation. The LTIP consists of annual grants that provide participants the right to share in the incremental growth in the book value per share of the Company's Class A Common Stock over the five years following the issuance of each LTIP Grant.

In 2023 and 2022, the Company recorded \$1,000,445 and \$(1,012,499), respectively, in expense (benefit) based on the incremental growth in book value per share growth. In 2023 and 2022, the Company paid vested grants of \$675,817 and \$1,138,153, respectively.

Note N - Dividend Restrictions

Dividends from ALPS P&C are declared by its Board of Directors. Under insurance regulations of the state of Montana, dividends are classified into two types: ordinary and extraordinary. Ordinary dividends require 15-day advance notice to the Montana Commissioner of Securities and Insurance prior to payment. Extraordinary dividends, those which in total exceed 10% of the current year-end policyholder's statutory surplus, require approval from the Montana Commissioner of Securities and Insurance 30 days prior to payment. For the years ended December 31, 2023 and 2022, dividends in excess of \$5,903,791 and \$4,879,730, respectively, would be considered extraordinary.

Ordinary dividends in the amount of \$2,300,000 and \$3,500,000 were declared and paid by ALPS P&C to ALPS Corporation in 2023 and 2022, respectively. The company paid no extraordinary dividends during 2023 or 2022.

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note O - Statutory Information

The financial statements of ALPS P&C differ from related statutory-basis financial statements principally as follows: (a) the bond portfolio is classified as available-for-sale (carried at fair value) rather than generally being carried at amortized cost; (b) acquisition costs of acquiring new business are deferred and amortized over the life of the policies rather than charged to operations as incurred; (c) certain deferred income tax assets, agents' balances, receivables from affiliates over 90 days old, and certain other assets designated as nonadmitted assets for statutory purposes are reported as assets rather than being charged to surplus; (d) reinsurance reserve credits are reported as assets rather than being offset against the related reserve amounts, and an allowance is established for uncollectible amounts through a charge through earnings rather than through statutory formula-driven methods; and (e) investments in subsidiary companies are consolidated with the accounts and operations of the Company rather than carried at the subsidiary's underlying net assets, with changes credited or charged directly to unassigned surplus. A reconciliation of ALPS P&C's net income and capital and surplus amounts presented in accordance with U.S. GAAP and presented in accordance with statutory accounting practices is as follows as of and for the years ended December 31:

	Net Income		Capital and Surplus	
	2023	2022	2023	2022
Amounts stated in conformity with U.S. GAAP	\$ 8,465,236	\$ 3,822,765	\$ 56,675,427	\$ 47,122,238
Other investment adjustments	(173,841)	5,455,573	6,285,187	10,441,695
Deferred policy acquisition costs	(62,508)	(198,800)	(2,307,844)	(2,215,141)
Nonadmitted assets	-	-	(256,061)	(132,815)
Provision for reinsurance	-	-	-	(4,351,136)
Deferred income taxes	(339,529)	(1,556,437)	(1,358,804)	(2,067,532)
Amounts stated in conformity with statutory accounting practices	<u>\$ 7,889,358</u>	<u>\$ 7,523,101</u>	<u>\$ 59,037,905</u>	<u>\$ 48,797,309</u>

ALPS Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note P - Stock Redemption and Purchase Program

Since 2014, the Company has maintained a Stock Redemption and Purchase Program (the Program) because there is no public market or exchange for the Company's outstanding Class A Common Stock. The Program does not involve the Company's issuance of additional or new classes of securities. Instead, the Company maintains the Program to facilitate the sale and purchase of Class A Common Stock. The Program provides a corporate redemption option in order to accommodate those stockholders who desire to sell some or all of their Class A Common Stock. The Program also facilitates the independent purchasing of Class A Common Stock by those interested parties who desire to own additional Class A Common Stock. For the years ended December 31, 2023 and 2022, the Company redeemed 105 shares and 23 shares of Class A Common Stock, respectively, at the aggregate redemption price of \$3,284,096 and \$846,411, respectively. For the years ended December 31, 2023 and 2022, existing stockholders purchased 62 and 3 shares of Class A Common Stock at the aggregate purchase price of \$1,950,955 and \$100,037, respectively. The Program allows for the Company's officers, directors and employees (Affiliates) to purchase and sell shares of Class A Common Stock. Affiliates did not sell any shares of Class A Common Stock in 2023 or 2022.

Note Q - Subsequent Event

All of the effects of subsequent events that provide additional evidence about conditions that existed at the consolidated balance sheet date, including the estimates inherent in the process of preparing the consolidated financial statements, are recognized in the consolidated financial statements. The Company does not recognize subsequent events that provide evidence about conditions that did not exist at the consolidated balance sheet date but arose after, but before the consolidated financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the consolidated financial statements from being misleading.

Subsequent events have been evaluated through May 21, 2024, which is the date the consolidated financial statements were available to be issued.

Required Supplementary Information

ALPS Corporation and Subsidiaries

Incurred and Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance (Unaudited)

The following is information about incurred and paid loss development, net of reinsurance and by significant category for the years ended December 31:

Professional liability insurance

Accident Year	Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2014	\$ 19,361	\$ 21,276	\$ 21,202	\$ 21,202	\$ 21,202	\$ 19,348	\$ 18,290	\$ 17,590	\$ 17,183	\$ 17,183
2015		19,774	20,235	20,235	20,235	19,856	18,919	17,969	16,985	16,985
2016			18,924	18,924	18,924	19,239	16,864	15,364	13,614	13,254
2017				19,849	19,865	19,998	19,998	19,800	19,798	17,598
2018					21,383	21,511	21,547	20,375	20,389	18,789
2019						23,949	24,949	26,299	26,359	26,359
2020							21,271	21,271	21,366	21,366
2021								22,665	22,958	22,958
2022									24,903	24,903
2023										<u>26,580</u>
Total										205,975

ALPS Corporation and Subsidiaries

Incurred and Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance (Unaudited)
(Continued)

Professional liability insurance

Accident Year	Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2014	\$ 2,375	\$ 8,485	\$ 12,312	\$ 14,703	\$ 16,100	\$ 17,099	\$ 17,240	\$ 17,255	\$ 17,181	\$ 17,183
2015		3,530	9,895	13,098	15,056	15,840	15,960	16,359	16,379	16,388
2016			1,990	6,439	8,808	10,664	11,745	12,199	12,694	12,773
2017				2,890	8,153	10,921	13,098	14,282	14,732	15,069
2018					3,572	8,546	11,372	12,672	13,466	13,944
2019						3,998	11,618	15,720	18,830	20,330
2020							2,579	7,455	12,456	14,150
2021								2,129	6,493	9,363
2022									3,503	7,506
2023										<u>2,823</u>
Total										129,529
All outstanding liabilities before 2014, net of reinsurance										<u>789</u>
Liabilities for losses and loss adjustment expenses, net of reinsurance										<u>\$ 77,235</u>

ALPS Corporation and Subsidiaries

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance (Unaudited)

The following is the average annual percentage payout of incurred claims by age net of reinsurance as of December 31, 2023:

Years	Average Annual Percentage Payout of Incurred Claims by Age									
	1	2	3	4	5	6	7	8	9	10
Professional liability insurance	14.6 %	27.8 %	17.7 %	11.2 %	6.3 %	3.0 %	2.2 %	0.3 %	(0.2)%	- %