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US Alliance Corporation

Consolidated Financial Statements
December 31, 2023 and 2022
(With Independent Auditor's Report Thereon)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of US Alliance Corporation
Topeka, Kansas

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of US Alliance Corporation (the "Company") as of December 31, 2023, the related consolidated statement of comprehensive income (loss), changes in shareholders' equity, and cash flows for the year ended December 31, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

(Continued)

Valuation of Level 3 Investments – Refer to Notes 1 and 4 to the Financial Statements

Investments in certain fixed maturity securities and other invested assets classified as available-for-sale are reported in the financial statements. These investments are classified under Level 3 in the fair value hierarchy and their fair values are based on unobservable inputs that reflect management's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities. Management utilized a third-party pricing service in developing their fair value estimates. These Level 3 investments had an estimated fair value of \$19,949,203, as of December 31, 2023. We considered the fair value of Level 3 fixed maturity securities and other invested assets as a critical audit matter because of the unobservable inputs used by management to estimate fair value and the high degree of measurement uncertainty. Auditing these inputs required especially subjective judgment and the audit effort was extensive, including the use of our fair value specialist to assist in fully evaluating the inputs.

How the Critical Audit Matter Was Addressed in the Audit:

Our audit procedures related to the valuation of Level 3 fixed maturity securities and other invested assets determined using discounted cash flow techniques included, among others, the following:

- We tested the accuracy and completeness of relevant security attributes, including structure, maturity dates and interest rates, used in the determination of Level 3 fair values.
- With the involvement of our fair value specialists, we developed independent fair value estimates for a sample of securities and compared our estimates to the Company's estimates and evaluated differences. We developed our estimate by evaluating the observable and unobservable inputs used by management or developing independent inputs.

Valuation of Reserves for Deposit Type Contracts and Policyholder Benefit Liabilities and Amortization of Deferred Acquisition Costs – Refer to Note 1 to the Financial Statements

The Company's management sets assumptions in (1) recording the reserves for deposit type contracts and policyholder benefit liabilities and (2) determining amortization of deferred acquisition costs. The most significant assumptions include mortality and morbidity. These assumptions are determined based upon published mortality tables, adjusted for changes in experience. We considered auditing these assumptions as a critical audit matter because of the inherent uncertainty of these significant assumptions and auditing the development of these assumptions involved especially subjective auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit:

Our audit procedures related to management's judgments regarding the assumptions used in the development of the reserves for deposit type contracts and policyholder benefit liabilities and the amortization of deferred acquisition costs included the following, among others:

- We tested the underlying data used in the development of the assumptions as well as in the determination of the reserves for deposit type contracts and policyholder benefit liabilities and the amortization of deferred acquisition costs.
- We evaluated management's selected actuarial assumptions, including testing the accuracy and completeness of the supporting experience studies.
- With the assistance of our actuarial specialists, we evaluated management's judgments regarding the assumptions used in the development of reserves for deposit type contracts and policyholder benefit liabilities and the amortization of deferred acquisition costs.
- We evaluated whether the assumptions used were consistent with evidence obtained in other areas of the audit.

CROWE LLP
Crowe LLP

We have served as the Company's auditor since 2023.

Dallas, Texas
April 1, 2024



Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Shareholders of US Alliance Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of US Alliance Corporation and Subsidiaries (the Company) as of December 31, 2022, and the related consolidated statement of comprehensive loss, changes in shareholders' equity, and cash flows for the year ended December 31, 2022, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

We have served as the Company's auditor from 2016 to 2023.

Kerber, Eck, + Braeckel LLP

Springfield, Illinois
February 21, 2023

US Alliance Corporation
Consolidated Balance Sheets

	December 31, 2023	December 31, 2022
Assets		
Investments:		
Available for sale fixed maturity securities (amortized cost: \$78,653,792 and \$70,615,724 as of December 31, 2023 and December 31, 2022, respectively)	\$ 74,509,520	\$ 65,316,077
Equity securities, at fair value	3,585,885	7,395,044
Limited partnership interests	389,827	-
Mortgage loans on real estate (net of allowance for credit losses of \$21,644 as of December 31, 2023)	19,617,253	23,790,073
Other invested assets	2,239,683	1,760,777
Policy loans	26,132	34,980
Real estate, net of depreciation	1,686,668	1,373,716
Total investments	102,054,968	99,670,667
Cash and cash equivalents	8,982,138	4,091,507
Investment income due and accrued	1,878,620	2,086,365
Reinsurance related assets	1,039,274	125,549
Deferred acquisition costs, net	4,751,497	5,629,002
Value of business acquired, net	2,425,973	2,518,393
Property, equipment and software, net	138,256	132,475
Goodwill	277,542	277,542
Federal and state income tax receivable	146,831	144,295
Deferred tax asset, net of valuation allowance	3,888,907	3,294,522
Other assets	500,630	472,275
Total assets	\$ 126,084,636	\$ 118,442,592
Liabilities and Shareholders' Equity		
Liabilities:		
Policy liabilities		
Deposit-type contracts	\$ 78,063,888	\$ 79,035,350
Policyholder benefit reserves	34,233,185	29,411,984
Dividend accumulation	114,842	121,687
Advance premiums	151,711	168,782
Total policy liabilities	112,563,626	108,737,803
Accounts payable and accrued expenses	2,053,363	593,100
Federal Home Loan Bank advance	1,000,000	1,000,000
Other liabilities	136,570	42,295
Total liabilities	115,753,559	110,373,198
Shareholders' Equity:		
Common stock, \$0.10 par value. Authorized 20,000,000 shares; issued and outstanding 7,748,922 and 7,746,922 shares as of December 31, 2023 and December 31, 2022	774,893	774,693
Additional paid-in capital	22,964,490	22,955,458
Accumulated deficit	(10,491,934)	(11,819,637)
Accumulated other comprehensive loss	(2,916,372)	(3,841,120)
Total shareholders' equity	10,331,077	8,069,394
Total liabilities and shareholders' equity	\$ 126,084,636	\$ 118,442,592

See Notes to Consolidated Financial Statements.

US Alliance Corporation
Consolidated Statements of Comprehensive Income (Loss)

	Years Ended December 31,	
	2023	2022
Income:		
Premium income	\$ 13,131,574	\$ 12,815,238
Net investment income	6,412,669	4,798,199
Net investment gains (losses)	1,016,561	(1,925,086)
Other income	353,254	317,502
Total income	20,914,058	16,005,853
Expenses:		
Death claims	3,432,119	2,994,386
Policyholder benefits	6,342,303	6,553,901
Increase in policyholder reserves	4,589,538	4,207,703
Commissions, net of deferrals	837,560	777,162
Amortization of deferred acquisition costs	1,407,503	1,205,554
Amortization of value of business acquired	92,420	92,420
Salaries & benefits	1,627,644	1,465,259
Other operating expenses	1,959,242	2,014,953
Total expense	20,288,329	19,311,338
Net income (loss)	\$ 625,729	\$ (3,305,485)
Federal income tax benefit	852,347	149,000
Total federal income tax benefit	852,347	149,000
Net Income (loss)	\$ 1,478,076	\$ (3,156,485)
Net income (loss) per common share, basic and diluted	\$ 0.19	\$ (0.41)
Unrealized net holding gains (losses) arising during the period, net of tax of (expense) benefit of \$(257,962) and \$1,679,938 in 2023 and 2022, respectively	924,225	(6,385,127)
Reclassification adjustment for losses included in net income (loss)	523	22,277
Other comprehensive income (loss)	924,748	(6,362,850)
Comprehensive income (loss)	\$ 2,402,824	\$ (9,519,335)

See Notes to Consolidated Financial Statements.

US Alliance Corporation
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2023 and 2022

	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance, December 31, 2021	7,745,404	\$ 774,541	\$ 22,948,637	\$ 2,521,730	\$ (8,663,152)	\$ 17,581,756
Common stock issued, \$7 per share	1,518	152	10,474	-	-	10,626
Costs associated with common stock issued	-	-	(3,653)	-	-	(3,653)
Other comprehensive loss	-	-	-	(6,362,850)	-	(6,362,850)
Net loss	-	-	-	-	(3,156,485)	(3,156,485)
Balance, December 31, 2022	7,746,922	\$ 774,693	\$ 22,955,458	\$ (3,841,120)	\$ (11,819,637)	\$ 8,069,394
Common stock issued, \$7 per share	2,000	200	13,800	-	-	14,000
Costs associated with common stock issued	-	-	(4,768)	-	-	(4,768)
Other comprehensive income	-	-	-	924,748	-	924,748
Cumulative effect of changes in accounting principal	-	-	-	-	(150,373)	(150,373)
Net income	-	-	-	-	1,478,076	1,478,076
Balance, December 31, 2023	7,748,922	\$ 774,893	\$ 22,964,490	\$ (2,916,372)	\$ (10,491,934)	\$ 10,331,077

See Notes to Consolidated Financial Statements.

US Alliance Corporation
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2023	2022
Cash Flows from operating activities:		
Net income (loss)	\$ 1,478,076	\$ (3,156,485)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,107	46,133
Net (gains) losses realized on the sale of securities and net credit losses recognized in operations	628,872	108,643
Unrealized (gains) losses on equity securities	(1,711,411)	1,638,847
Change in fair value of embedded derivative	65,978	177,596
(Accretion) amortization of investment securities, net	(302,156)	(55,431)
Deferred acquisition costs capitalized	(529,998)	(479,681)
Deferred acquisition costs amortized	1,407,503	1,205,554
Value of business acquired amortized	92,420	92,420
Interest credited on deposit type contracts	1,778,460	1,597,392
(Increase) decrease in operating assets:		
Change in funds withheld	-	(656,085)
Investment income due and accrued	207,745	(176,441)
Reinsurance related assets	(847,747)	720,784
Deferred tax assets, net of valuation allowance	(852,347)	(53,817)
Other assets	(28,355)	328,735
Increase (decrease) in operating liabilities:		
Policyowner benefit reserves	4,597,352	4,207,406
Dividend accumulation	(6,845)	3,425
Advance premiums	(17,071)	32,553
Other liabilities	275	(144,776)
Accounts payable and accrued expenses	1,457,727	(648,869)
Net cash provided by operating activities	7,441,585	4,787,903
Cash Flows from investing activities:		
Purchase of fixed income investments	(12,940,382)	(10,865,054)
Purchase of equity investments	(627,591)	(1,415,492)
Purchase of mortgage investments	(6,615,666)	(8,295,919)
Purchase of other invested assets	(898,961)	(156,009)
Proceeds from fixed income sales and repayments	4,995,304	4,962,353
Proceeds from equity sales	4,763,365	1,167,810
Proceeds from mortgage repayments	11,112,833	3,748,177
Proceeds from other invested assets	547,952	-
Transfers from (to) funds withheld	-	967,462
Interest on policy loans	-	683
Increase in policy loans	8,848	137,678
Assumed reinsurance from Lewer	1,416,508	-
Purchase of property, equipment and software and building improvements	(379,815)	(56,401)
Net cash provided by (used in) investing activities	1,382,395	(9,804,712)
Cash Flows from financing activities:		
Receipts on deposit-type contracts	4,383,636	5,389,262
Withdrawals on deposit-type contracts	(8,326,217)	(3,243,267)
Repayment of FHLB advance	-	(1,000,000)
Proceeds received from issuance of common stock, net of costs of issuance	9,232	6,973
Net cash provided by (used in) financing activities	(3,933,349)	1,152,968
Net increase (decrease) in cash and cash equivalents	4,890,631	(3,863,841)
Cash and Cash Equivalents:		
Beginning	4,091,507	7,955,348
Ending	\$ 8,982,138	\$ 4,091,507

See Notes to Consolidated Financial Statements.

US Alliance Corporation
Supplemental Cash Flow Information

	Years Ended December 31,	
	2023	2022
Supplemental Disclosure of Non-Cash Information		
Deposit-type contract liabilities assumed from Lower	\$ 1,192,659	\$ -
Funds withheld assumed deposits on deposit-type contracts	-	639,610
Funds withheld assumed withdrawals on deposit-type contracts	-	(915,520)
Commissions and expense allowances deducted from funds withheld	-	(908,074)
Assets transferred on settlement of funds withheld	-	45,800,032
Investment income due and accrued transferred on settlement of funds withheld	-	1,211,420
Reinsurance related assets transferred on settlement of funds withheld	-	1,049,088
Investment expenses payable transferred on settlement of funds withheld	-	(408,609)

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 1. Description of Business and Significant Accounting Policies

Description of business: US Alliance Corporation ("USAC") was formed as a Kansas corporation on April 24, 2009 to raise capital to form a new Kansas-based life insurance company. Our offices are located at 1303 SW First American Place, Suite 200, Topeka, Kansas 66604. Our telephone number is 785-228-0200 and our website address is www.usalliancecorporation.com.

USAC has four wholly-owned operating subsidiaries. US Alliance Life and Security Company ("USALSC") was formed June 9, 2011, to serve as our life insurance company. US Alliance Marketing Corporation ("USAMC") was formed April 23, 2012, to serve as a marketing resource. US Alliance Investment Corporation ("USAIC") was formed April 23, 2012 to serve as investment manager for USAC. Dakota Capital Life Insurance Company ("DCLIC"), was acquired on August 1, 2017 when USAC merged with Northern Plains Capital Corporation ("NPCC") and was merged into USALSC on December 31, 2023. US Alliance Life and Security Company - Montana (USALSC-Montana), was acquired December 14, 2018. USALSC-Montana is a wholly-owned subsidiary of USALSC. Unless the context indicates otherwise, references herein to the "Company" refer to USAC and its consolidated subsidiaries.

The Company terminated its initial public offering on February 24, 2013. During the balance of 2013, the Company achieved approval of an array of life insurance and annuity products, began development of various distribution channels and commenced insurance operations and product sales. The Company sold its first insurance product on May 1, 2013. The Company continued to expand its product offerings and distribution channels throughout 2014 and 2015. On February 24, 2015, the Company commenced a warrant exercise offering set to expire on February 24, 2016. On February 24, 2016, the Company extended the offering until February 24, 2017 and made additional shares available for purchase. All outstanding warrants expired on April 1, 2016. The Company further extended this offering to February 24, 2022. During the 4th quarter of 2017, the Company began a private placement offering to accredited investors in the state of North Dakota.

USALSC received a Certificate of Authority from the Kansas Insurance Department ("KID") effective January 2, 2012, and sold its first insurance product on May 1, 2013. In 2023, USALSC re-domesticated to North Dakota with approval of the North Dakota Insurance Department ("NDID").

USALSC seeks opportunities to develop and market additional products.

The Company's business model also anticipates the acquisition by USAC and/or USALSC of other insurance and insurance related companies, including third-party administrators, marketing organizations, and rights to other blocks of insurance business through reinsurance or other transactions.

Basis of presentation: The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted ("GAAP") in the United States of America.

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated from the consolidated financial statements.

Area of Operation: US Alliance Life and Security Company is authorized to operate in the states of Kansas, North Dakota, Missouri, Nebraska, Oklahoma, Wyoming, South Dakota, Montana, Kentucky, Utah, Alabama, Ohio, Mississippi, New Mexico, Texas, Arizona, Nevada, and Idaho. USALSC-Montana is authorized to operate in the state of Montana.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 1. Description of Business and Significant Accounting Policies (Continued)

Investments: Investments in available-for-sale securities are carried in the consolidated financial statements at fair value. Net unrealized holding gains (losses), net of applicable income taxes, on fixed maturity securities are included in accumulated other comprehensive income. Bond premiums and discounts are amortized using the scientific-yield method over the term of the bonds. Net unrealized holding gains (losses) on equity securities are included as a component of net investment gains (losses).

Realized gains and losses on securities sold during the year are determined using the specific identification method and included in investment income as a component of net investment gains (losses). Investment income is recognized as earned.

For available for sale securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before the recovery of its amortized cost basis. If either of the criteria is met, the security's amortized cost basis is written down to fair value through income. For debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a ratings agency, and adverse conditions specifically related to the security. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss).

Mortgage Loans on Real Estate: Mortgage loans on real estate are carried at unpaid principal balances, net of any unamortized premium or discount and valuation allowances. Interest income is accrued on the principal amount of the mortgage loans based on its contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. The Company accrues interest on loans until probable the Company will not receive interest or the loan is 90 days past due. Interest income, amortization of premiums, accretion of discounts and prepayment fees are reported in investment income, net of related expenses in the consolidated statements of comprehensive income (loss).

Any changes in the loan valuation allowances are reported in net realized losses on investments. The Company establishes a valuation allowance to provide for the risk of credit losses inherent in our mortgage loan portfolios. The valuation allowance is maintained at a level believed adequate by management to absorb estimated expected credit losses. The valuation allowances for each of our mortgage loan portfolios are estimated by deriving probability of default and recovery rate assumptions based on the characteristics of the loans in each portfolio, historical economic data and loss information, and current and forecasted economic conditions. Key loan characteristics impacting the estimate for our commercial mortgage loan portfolio include the current state of the borrower's credit quality, which considers factors such as loan-to-value ("LTV") ratios, loan performance, underlying collateral type, delinquency status, time to maturity, and original credit scores.

Our mortgage loans may be subject to loan modifications. Loan modifications may be granted to borrowers experiencing financial difficulty and could include principal forgiveness, interest rate reduction, an other-than-significant delay or a term extension. The Company considers the following factors in determining whether or not a borrower is experiencing financial difficulty: borrower is in default; borrower has declared bankruptcy; there is growing concern about the borrower's ability to continue as a going concern; borrower has insufficient cash flows to service debt; borrower's inability to obtain funds from other sources; and there is a breach of financial covenants by the borrower. A loan modification typically does not result in a change in valuation allowance as it is already incorporated into the allowance methodology. However, if the Company grants a borrower experiencing financial difficulty principal forgiveness, the amount of principal forgiven would be written off, which would reduce the amortized cost of the loan and result in an adjustment to the valuation allowance.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 1. Description of Business and Significant Accounting Policies (Continued)

Other Invested Assets: Other invested assets include collateral loans and private credit investments. The collateral loans and private credit investments are carried at fair value. The inputs used to measure these assets are classified as Level 3 within the fair value hierarchy.

Embedded Derivatives: The Company has entered into coinsurance funds withheld arrangement which contains an embedded derivative. Under ASC 815, the Company assesses whether the embedded derivative is clearly and closely related to the host contract. The Company bifurcates embedded derivatives from the host instrument for measurement purposes when the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and a separate instrument with the same terms would qualify as a derivative instrument. The counterparty to the coinsurance arrangement is also the investment manager and manages foreign currency risk within the coinsured portfolio using derivative instruments. In accordance with the coinsurance agreement, the counterparty allocates a proportion of the derivative activity it manages to the Company, which is settled quarterly as part of the reinsurance settlement.

Policy loans: Policy loans are stated at aggregate unpaid principal balances.

Investment Real Estate: Real estate is stated at cost, less allowances for depreciation and, as appropriate, provisions for possible losses.

Cash and cash equivalents: For purposes of the statement of cash flows, the Company considers demand deposits and highly liquid investments with original maturities of three months or less when purchased to be cash and cash equivalents. The Company maintains its cash balances in one financial institution located in Topeka, Kansas. The FDIC insures aggregate balances, including interest-bearing and noninterest-bearing accounts, of \$250,000 per depositor per insured institution. The Company's financial institution is a member of a network that participates in the Insured Cash Sweep (ICS) program. By participating in ICS, the Company's deposits in excess of the insured limit are apportioned and placed in demand deposit accounts at other financial institutions in amounts under the insured limit. As a result, the Company can access insurance coverage from multiple financial institutions while working directly with one. The Company had no amounts uninsured as of December 31, 2023. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 1. Description of Business and Significant Accounting Policies (Continued)

Reinsurance: In the normal course of business, the Company seeks to limit aggregate and single exposure to losses on risks by purchasing reinsurance. The amounts reported in the consolidated balance sheets as reinsurance recoverable include amounts billed to reinsurers on losses paid as well as estimates of amounts expected to be recovered from reinsurers on insurance liabilities that have not yet been paid. Reinsurance recoverable on unpaid losses are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contracts. Insurance liabilities are reported gross of reinsurance recoverable. Management believes the recoverables are appropriately established. Reinsurance premiums are generally reflected in income in a manner consistent with the recognition of premiums on the reinsured contracts. Reinsurance does not extinguish the Company's primary liability under the policies written. Estimated losses on reinsurance recoverable balances are calculated by quantitative analysis using a rating-based method to estimate expected credit losses for reinsurance recoverable. The analysis is based on industry historical loss experience and forecasted environmental factors management believes to be relevant, which primarily include probability of default, loss given default and exposure at default. There were no allowances as of December 31, 2023 and 2022.

Deferred acquisition costs: The Company capitalizes and amortizes over the life of the premiums produced incremental direct costs that result directly from and are essential to the contract acquisition transaction and would not have been incurred by the Company had the contract acquisition not occurred. An entity may defer incremental direct costs of contract acquisition that are incurred in transactions with independent third parties or employees as well as the portion of employee compensation and other costs directly related to underwriting, policy issuance and processing, medical inspection, and contract selling for successfully negotiated contracts. Additionally, an entity may capitalize as a deferred acquisition cost only those advertising costs meeting the capitalization criteria for direct-response advertising. Acquisition costs are amortized over the premium paying period using the net level premium method. Traditional life insurance products are treated as long duration contracts, which generally remain in force for the lifetime of the insured.

The following table provides information about deferred acquisition costs for the years ended December 31, 2023 and 2022, respectively.

	Year ended December 31, 2023	Year ended December 31, 2022
Balance at beginning of period	\$ 5,629,002	\$ 6,354,875
Capitalization of commissions, sales and issue expenses	529,998	479,681
Amortization net of interest	(1,407,503)	(1,205,554)
Balance at end of period	\$ 4,751,497	\$ 5,629,002

Value of business acquired: Value of business acquired (VOBA) represents the estimated value assigned to purchased companies or insurance in-force of the assumed policy obligations at the date of acquisition of a block of policies. At least annually, a review is performed of the models and the assumptions used to develop expected future profits, based upon management's current view of future events. VOBA is reviewed on an ongoing basis to determine that the unamortized portion does not exceed the expected recoverable amounts. Management's view primarily reflects our experience but can also reflect emerging trends within the industry. Short-term deviations in experience affect the amortization of VOBA in the period, but do not necessarily indicate that a change to the long-term assumptions of future experience is warranted. If it is determined that it is appropriate to change the assumptions related to future experience, then an unlocking adjustment is recognized for the block of business being evaluated. Certain assumptions, such as interest spreads and surrender rates, may be interrelated. As such, unlocking adjustments often reflect revisions to multiple assumptions. The VOBA balance is immediately impacted by any assumption changes, with the change reflected through the statements of comprehensive income as an unlocking adjustment in the amount of VOBA amortized. These adjustments can be positive or negative with adjustments reducing amortization limited to amounts previously deferred plus interest accrued through the date of the adjustment. VOBA is amortized on a straight-line method over 30 years.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 1. Description of Business and Significant Accounting Policies (Continued)

In addition, we may consider refinements in estimates due to improved capabilities resulting from administrative or actuarial system upgrades. We consider such enhancements to determine whether and to what extent they are associated with prior periods or simply improvements in the projection of future expected gross profits due to improved functionality. To the extent they represent such improvements, these items are applied to the appropriate financial statement line items in a manner similar to unlocking adjustments.

Property, equipment and software: Property, equipment and software are stated at cost less accumulated depreciation. Expenditures for additions and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to income currently. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Computer equipment is depreciated over no longer than a 5-year period. Furniture and equipment are depreciated over no longer than a 10-year period. Major categories of depreciable assets and the respective book values as of December 31, 2023 and 2022 are represented below.

	Year Ended December 31, 2023	Year Ended December 31, 2022
Computer	\$ 36,822	\$ 32,182
Furniture and equipment	154,667	158,374
Accumulated depreciation	(53,233)	(58,081)
Balance at end of period	<u>\$ 138,256</u>	<u>\$ 132,475</u>

Goodwill: Goodwill represents the excess of the amounts paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. Goodwill is tested for impairment at least annually in the fourth quarter or more frequently if events or circumstances change that would indicate that a triggering event has occurred. We assess the recoverability of indefinite-lived intangible assets at least annually or whenever events or circumstances suggest that the carrying value of an identifiable indefinite-lived intangible asset may exceed the sum of the future discounted cash flows expected to result from its use and eventual disposition. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

Income taxes: The Company is subject to U.S. federal and state taxes. The provision for income taxes is based on income as reported in the consolidated financial statements. The income tax provision is calculated using the asset and liability method. Deferred income taxes are recorded based on the differences between the financial statement and tax basis of assets and liabilities at the enacted rates expected to apply to taxable income in the years in which the differences are expected to reverse. A valuation allowance is established for the amount of any deferred tax asset that exceeds the amount of the estimated future taxable income needed to utilize the future tax benefits.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 1. Description of Business and Significant Accounting Policies (Continued)

All of the Company's tax returns are subject to U.S. federal, state and local income tax examinations by tax authorities. The Company had no known uncertain tax benefits included in its provision for income taxes as of December 31, 2023 and 2022. The Company's policy is to recognize interest and penalties (if applicable) as an element of the provision for income taxes in the consolidated statements of income.

The tax years which remain subject to examination by taxing authorities are the years ended December 31, 2020 through 2023.

Pre-paid expenses: The Company recognizes pre-paid expenses as the expenses are incurred. Pre-paid expenses consist of systems consulting hours, insurance, and pre-paid benefit expense. Systems consulting hours are charged as they are incurred on projects. Insurance expenses are charged straight line over the life of the contract. Benefit expenses are charged as they are incurred.

Deposit-type contracts: Deposit-type contracts consist of amounts on deposit associated with deferred annuity contracts and premium deposit funds. The deferred annuity contracts credit interest based upon a fixed interest rate set by the Company. The Company has the ability to change this rate annually subject to minimums established by law or administrative regulation.

Liabilities for deferred annuity deposit-type contracts are included without reduction for potential surrender charges. This liability is equal to the accumulated account deposits, plus interest credited, and less policyholder withdrawals. The following table provides information about deferred annuity deposit-type contracts for the years ended December 31, 2023 and 2022.

	Year end December 31, 2023	Year ended December 31, 2022
Balance at beginning of period	\$ 78,880,542	\$ 75,410,339
Acquired from Lower Companies	1,192,659	-
Deposits received	4,373,807	5,948,185
Interest credited	1,775,438	1,590,654
Withdrawals	(8,293,629)	(4,068,636)
Balance at end of period	\$ 77,928,817	\$ 78,880,542

The premium deposit funds credit interest based upon a fixed interest rate set by the Company. The Company has the ability to change this rate subject to minimums established by law or administrative regulation.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 1. Description of Business and Significant Accounting Policies (Continued)

Liabilities for premium deposit fund deposit-type contracts are included without reduction for potential surrender charges. This liability is equal to the accumulated account deposits, plus interest credited, and less withdrawals. The following table provides information about premium deposit fund deposit-type contracts for the years ended December 31, 2023 and 2022.

	Year end December 31, 2023	Year ended December 31, 2022
Balance at beginning of period	\$ 154,808	\$ 157,534
Deposits received	9,829	80,687
Interest credited	3,022	6,738
Withdrawals	(32,588)	(90,151)
Balance at end of period	<u>\$ 135,071</u>	<u>\$ 154,808</u>

Benefit reserves: The Company establishes liabilities for amounts payable under insurance policies, including traditional life insurance and annuities. Generally, amounts are payable over an extended period of time. Liabilities for future policy benefits of traditional life insurance have been computed by a net level premium method based upon estimates at the time of issue for investment yields, mortality and withdrawals. These estimates include provisions for experience less favorable than initially expected. Mortality assumptions are based on industry experience expressed as a percentage of standard mortality tables.

Policy claims: Policy claims are based on reported claims plus estimated incurred but not reported claims developed from trends of historical data applied to current exposure. The Company's current estimate of incurred but not reported claims as of December 31, 2023 and 2022 is \$152,739 and \$131,489 and is included as a part of policyholder benefit reserves.

Revenue recognition and related expenses: Revenues on traditional life insurance products consist of direct premiums reported as earned when due. Premium income includes reinsurance assumed and is reduced by premiums ceded.

Amounts received as payment for annuity contracts without life contingencies are recognized as deposits to policyholder account balances and included in future insurance policy benefits. Revenues from these contracts are comprised of fees earned for contract-holder services, which are recognized over the period of the contracts, and included in revenue. Deposits are shown as a financing activity in the Consolidated Statements of Cash Flows.

Liabilities for future policy benefits are provided and acquisition costs are amortized by associating benefits and expenses with earned premiums to recognize related profits over the life of the contracts.

Leases: The Company, as lessor, has entered into an operating lease agreement for office space. The Company recognizes lease income for operating leases on a straight-line basis over the lease term. At contract inception, the Company defers any initial direct costs and amortizes the costs over the life of the lease on the same basis as lease income.

Common stock and earnings (loss) per share: The par value for common stock is \$0.10 per share with 20,000,000 shares authorized. As of December 31, 2023 and 2022 the company had 7,748,922 and 7,746,922 common shares issued and outstanding, respectively.

Earnings per share attributable to the Company's common stockholders were computed based on the net income (loss) and the weighted average number of shares outstanding during each year. The weighted average number of shares outstanding during the years ended December 31, 2023 and 2022 were 7,747,618 and 7,746,318 shares, respectively. Potential common shares are excluded from the computation when their effect is anti-dilutive. Basic and diluted net gain (loss) per common share is the same for the years ended December 31, 2023 and 2022.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 1. Description of Business and Significant Accounting Policies (Continued)

Comprehensive Income (loss): Comprehensive income (loss) is comprised of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses from marketable fixed maturity securities classified as available for sale, net of applicable taxes.

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

Use of Estimates: The preparation of consolidated financial statements in conformity with US GAAP, generally accepted accounting principles in the United States, 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

- Regulatory Factors: The insurance laws North Dakota, Montana, and our other authorized states give insurance regulators broad regulatory authority, including powers to (i) grant and revoke licenses to transact business; (ii) regulate and supervise trade practices and market conduct, (iii) establish guaranty associations; (iv) license agents; (v) approve policy forms; (vi) approve premium rates for some lines of business; (vii) establish reserve requirements; (viii) prescribe the form and content of required financial statements and reports; (ix) determine the reasonableness and adequacy of statutory capital and surplus; and (x) regulate the type and amount of permitted investments.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act") reshapes financial regulations in the United States by creating new regulators, regulating new markets and firms, and providing new enforcement powers to regulators. Virtually all major areas of the Reform Act continue to be subject to regulatory interpretation and implementation rules requiring rulemaking that may take several years to complete. The ultimate outcome of the regulatory rulemaking proceedings cannot be predicted with certainty. The regulations promulgated could have a material impact on consolidated financial results or financial condition.

- Reinsurance: In order to manage the risk of financial exposure to adverse underwriting results, the Company reinsures a portion of its individual and group life risks with other insurance companies. The Company retains \$35,000 on its Whole Life products and \$25,000 on its term life products. The Company also reinsures 100% of the risk on its individual accidental death benefit rider. The Company retains 25% of the risk for each covered life on its group life product to a maximum of \$100,000 on any individual person. The Company retains 25% of the risk for each covered life on its group accidental death and dismemberment product to a maximum of \$25,000 on any individual person. The Company also has catastrophic reinsurance coverage to protect against three or more group life deaths resulting from a single event. The Company also reinsures 90% of the risk on its group disability products. The Company reinsures 66% of the risk on its critical illness product. Optimum Re Insurance Company (a subsidiary of Optimum Group), General Reinsurance Corporation (a subsidiary of Berkshire Hathaway), Reliance Standard Life Insurance Company (a subsidiary of Tokio Marine Holdings), Hartford Life and Accident Company, and Unified Life Insurance Company provide reinsurance for USALSC. The Company evaluates the financial condition of its reinsurers to minimize its exposure to losses from reinsurer insolvencies. Management believes that any liabilities arising from this contingency would not be material to the Company's financial position.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 1. Description of Business and Significant Accounting Policies (Continued)

- Interest Rate Risk: Interest rate fluctuations could impair an insurance company's ability to pay policyholder benefits with operating and investment cash flows, cash on hand and other cash sources. Annuity products expose the risk that changes in interest rates will reduce any spread, or the difference between the amounts that the insurance company is required to pay under the contracts and the amounts the insurance subsidiary is able to earn on its investments intended to support its obligations under the contracts. Spread is a key component of revenues.

To the extent that interest rates credited are less than those generally available in the marketplace, policyholder lapses, policy loans and surrenders, and withdrawals of life insurance policies and annuity contracts may increase as contract holders seek to purchase products with perceived higher returns. This process may result in cash outflows requiring that an insurance subsidiary sell investments at a time when the prices of those investments are adversely affected by the increase in market interest rates, which may result in realized investment losses.

Increases in market interest rates may also negatively affect profitability in periods of increasing interest rates. The ability to replace invested assets with higher yielding assets needed to fund the higher crediting rates that may be necessary to keep interest sensitive products competitive. The Company therefore may have to accept a lower spread and thus lower profitability or face a decline in sales and greater loss of existing contracts.

Conversely, in a period of prolonged low interest rates it is difficult to invest assets and earn the rate of return necessary to support insurance products.

Policy lapses in excess of those actuarially anticipated would have a negative impact on our financial performance.

Profitability could be reduced if lapse and surrender rates exceed the assumptions upon which the insurance policies were priced. Policy sales costs are deferred and recognized over the life of a policy. Excess policy lapses, however, cause the immediate expensing or amortizing of deferred policy sales costs.

- Investment Risk: Our invested assets are subject to customary risks of defaults and changes in market values. Factors that may affect the overall default rate on, and market value of, the invested assets include interest rate levels, financial market performance, and general economic conditions.

- Assumptions Risk: In the life insurance business, assumptions as to expected mortality, lapse rates and other factors in developing the pricing and other terms of life insurance products are made. These assumptions are based on industry experience and are reviewed and revised regularly by an outside actuary to reflect actual experience on a current basis. However, variation of actual experience from that assumed in developing such terms may affect a product's profitability or sales volume and in turn adversely impact our revenues.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 1. Description of Business and Significant Accounting Policies (Continued)

Reclassifications: Certain reclassifications of a minor nature have been made to prior-year balances to conform to current-year presentation with no net impact to net loss/income or equity.

New accounting standards:*Measurement of Credit Losses on Financial Instruments*

In June 2016, the FASB issued updated guidance for the accounting for credit losses for financial instruments. The updated guidance applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost (e.g. mortgage loans and reinsurance recoverables) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

The updated guidance also amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists.

The updated guidance was effective for reporting periods beginning after December 15, 2019. Early adoption was permitted for reporting periods beginning after December 15, 2018. The Company qualified as an emerging growth company prior to December 31, 2022 and as such, had elected to defer implementation of this standard to fiscal years beginning after December 15, 2022. The adoption of this guidance is reflected in the Consolidated Statements of Changes in Shareholders Equity and was not material. The following table shows the adjustment to shareholders equity as a result of this change:

Beginning accumulated deficit	\$ (11,819,637)
Cumulative adjustment for change in accounting principle	(150,373)
Adjusted beginning accumulated deficit	\$ (11,970,010)

Targeted Improvements to the Accounting for Long-Duration Contracts

In August 2018, the FASB issued ASU 2018-12 Financial Services-Insurance (Topic 944) - Targeted Improvements to the Accounting for Long-Duration Contracts. This update is aimed at improving the Codification related to long-duration contracts which will improve the timeliness of recognizing changes in the liability for future policy benefits, simplify accounting for certain market-based options, simplify the amortization of deferred acquisition costs, and improve the effectiveness of required disclosures. These updates were originally required to be applied retrospectively to the earliest period presented in the financial statements for periods beginning after December 15, 2020. The FASB recently delayed the effective date of ASU 2018-12 to periods beginning after December 15, 2024 for smaller reporting companies, with early adoption permitted. The Company is currently evaluating the impact of this guidance on the Company's financial condition and results of operations.

In December 2022, the FASB issued amendments (Accounting Standards Update 2022-5) to Accounting Standards Update 2018-12 (Targeted Improvements for Long-Duration Contracts) that originally required an insurance entity to apply a retrospective transition method as of the beginning of the earliest period presented or the beginning of the prior fiscal year if early adoption was elected. This updated guidance reduces implementation costs and complexity associated with the adoption of targeted improvements in accounting for long-duration contracts that have been derecognized in accordance with Accounting Standards Update 2018-12 before the delayed effective date. Without the amendments in this Update, an insurance entity would be required to reclassify a portion of gains or losses previously recognized in the sale or disposal of insurance contracts or legal entities because of the adoption of a new accounting standard. Because there is no effect on an insurance entity's future cash flows, this reclassification may not be useful to users of financial information. The amendments in this guidance are effective for fiscal years beginning after December 15, 2024, with early adoption permitted. We are evaluating the effect this standard will have on our Consolidated Financial Statements.

Improvements to Income Tax Disclosures

In December 2023, the FASB issued Accounting Standards Update 2023-09 Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASU 2023-09"). ASU 2023-09 is intended to improve the effectiveness of income tax disclosures by requiring, among other things, the disclosure on an annual basis of: (i) specific categories in the rate reconciliation; and (ii) additional information for reconciling items that meet a quantitative threshold. In addition, ASU 2023-09 requires disclosure (on an annual basis) of the following information about income taxes paid: (i) the amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes; and (ii) the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received). ASU 2023-09 is effective for annual periods beginning January 1, 2026 (this is public company date, you are an SRC), to be applied prospectively with an option for retrospective application (with early adoption permitted). The adoption of ASU 2023-09 will modify our disclosures but will not have an impact on our financial position or results of operations.

All other new accounting standards and updates of existing standards issued through the date of this filing were considered by management and did not relate to accounting policies and procedures pertinent or material to the Company at this time.

US Alliance Corporation
Notes to Consolidated Financial Statements
Note 2. Investments
Fixed Maturity

The amortized cost and fair value of available for sale investments as of December 31 is as follows:

	December 31, 2023			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
Fixed maturities:				
US Treasury securities	\$ 790,976	\$ -	\$ (66,308)	\$ 724,668
Corporate bonds	20,234,444	95,085	(2,516,167)	17,813,362
Municipal bonds	6,207,596	4,044	(575,547)	5,636,093
Redeemable preferred stock	3,622,572	1,699	(318,702)	3,305,569
Term loans	17,177,179	162,011	(286,770)	17,052,420
Mortgage backed and asset backed securities	30,621,025	520,599	(1,164,216)	29,977,408
Total available for sale	\$ 78,653,792	\$ 783,438	\$ (4,927,710)	\$ 74,509,520

	December 31, 2022			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
Fixed maturities:				
US Treasury securities	\$ 993,805	\$ 36,313	\$ (5,031)	\$ 1,025,087
Corporate bonds	19,018,738	722	(3,150,382)	15,869,078
Municipal bonds	6,228,636	-	(808,227)	5,420,409
Redeemable preferred stock	3,875,526	-	(519,911)	3,355,615
Term loans	18,086,124	209,989	(146,395)	18,149,718
Mortgage backed and asset backed securities	22,412,895	157,795	(1,074,520)	21,496,170
Total available for sale	\$ 70,615,724	\$ 404,819	\$ (5,704,466)	\$ 65,316,077

The amortized cost and fair value of debt securities as of December 31, 2023 and 2022, by contractual maturity, is as follows. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	As of December 31, 2023		As of December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing in:				
One year or less	\$ 152,840	\$ 147,835	\$ 442,846	\$ 450,461
After one year through five years	16,397,124	16,461,777	17,048,721	17,035,270
After five years through ten years	6,371,607	6,112,389	5,498,364	5,340,498
More than 10 years	21,488,624	18,504,542	21,337,372	17,638,063
Redeemable preferred stocks	3,622,572	3,305,569	3,875,526	3,355,615
Mortgage backed and asset backed securities	30,621,025	29,977,408	22,412,895	21,496,170
Total amortized cost and fair value	\$ 78,653,792	\$ 74,509,520	\$ 70,615,724	\$ 65,316,077

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 2. Investments (continued)

Proceeds from the sale of securities, maturities, and asset paydowns in 2023 and 2022 were \$21,419,454 and \$9,878,340, respectively. With the implementation of CECL, changes in the allowance for credit losses is included in net gains (losses). Realized gains and losses related to the sale of securities and net credit losses recognized in income are summarized as follows:

	Years Ended December 31,	
	2023	2022
Gross gains	\$ 14,399	\$ 24,720
Gross losses	(772,000)	(133,363)
Realized gains (losses)	\$ (757,601)	\$ (108,643)
Mortgage loans on real estate	128,729	-
Decrease in allowance for credit losses	\$ 128,729	\$ -

Gross unrealized losses by duration are summarized as follows:

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2023						
Available for sale:						
Fixed maturities:						
US Treasury securities	\$ 724,668	\$ (66,308)	\$ -	\$ -	\$ 724,668	\$ (66,308)
Corporate bonds	262,673	(863)	15,653,914	(2,515,304)	15,916,587	(2,516,167)
Municipal bonds	523,744	(4,792)	4,825,568	(570,755)	5,349,312	(575,547)
Redeemable preferred stock	-	-	3,182,131	(318,702)	3,182,131	(318,702)
Term loans	3,739,859	(174,955)	3,534,621	(111,815)	7,274,480	(286,770)
Mortgage backed and asset backed securities	9,549,515	(219,946)	6,228,220	(944,270)	15,777,735	(1,164,216)
Total fixed maturities	\$ 14,800,459	\$ (466,864)	\$ 33,424,454	\$ (4,460,846)	\$ 48,224,913	\$ (4,927,710)
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2022						
Available for sale:						
Fixed maturities:						
US Treasury securities	\$ 398,375	\$ (5,031)	\$ -	\$ -	\$ 398,375	\$ (5,031)
Corporate bonds	12,378,486	(1,883,706)	3,206,913	(1,266,676)	15,585,399	(3,150,382)
Municipal bonds	4,711,896	(587,053)	708,514	(221,174)	5,420,410	(808,227)
Redeemable preferred stock	2,384,771	(363,193)	970,844	(156,718)	3,355,615	(519,911)
Term loans	6,309,005	(146,395)	-	-	6,309,005	(146,395)
Mortgage backed and asset backed securities	10,358,560	(458,754)	3,281,132	(615,766)	13,639,692	(1,074,520)
Total fixed maturities	\$ 36,541,093	\$ (3,444,132)	\$ 8,167,402	\$ (2,260,334)	\$ 44,708,495	\$ (5,704,466)

Unrealized losses occur from market price declines due to changes in interest rates. The total number of available for sale fixed maturity securities in the investment portfolio in an unrealized loss position as of December 31, 2023 was 217, which represented an unrealized loss of \$4,927,710 of the aggregate carrying value of those securities. The 217 securities breakdown as follows: 128 bonds, 70 mortgage and asset backed securities, 10 term loans, and 9 redeemable preferred stock. Management does not intend to sell and it is likely that management will not be required to sell before their anticipated recovery.

US Alliance Corporation**Notes to Consolidated Financial Statements****Note 2. Investments (continued)****Mortgage Loans on Real Estate**

The Company has invested in various mortgage loans through participation agreements with the original issuing entity. The Company's mortgage loans by property type as of December 31, 2023 and December 31, 2022 are summarized as follows:

	December 31, 2023	December 31, 2022
Commercial mortgage loans by property type		
Condominium	\$ 377,621	\$ 1,696,975
Land	-	1,902,277
Multi-property	8,923,604	9,539,738
Multi-family	2,855,008	5,016,424
Industrial	1,000,000	-
Retail/Office	6,482,664	5,634,659
Total commercial mortgages	\$ 19,638,897	\$ 23,790,073
Allowance for credit losses	(21,644)	-
Carrying value	\$ 19,617,253	\$ 23,790,073

The Company's mortgage loans by loan-to-value ratio as of December 31, 2023 and December 31, 2022 are summarized as follows:

	December 31, 2023	December 31, 2022
Loan to value ratio		
Over 70 to 80%	\$ 7,123,604	\$ 8,219,763
Over 60 to 70%	3,137,953	5,196,975
Over 50 to 60%	2,322,273	4,682,750
Over 40 to 50%	2,327,436	3,235,951
Over 30 to 40%	377,621	-
Over 20 to 30%	2,689,619	1,319,975
Over 10 to 20%	1,660,391	1,134,659
Total	\$ 19,638,897	\$ 23,790,073
Allowance for credit losses	(21,644)	-
Carrying value	\$ 19,617,253	\$ 23,790,073

The Company's mortgage loans by maturity date as of December 31, 2023 and December 31, 2022 are summarized as follows:

	December 31, 2023	December 31, 2022
Maturity Date		
One year or less	\$ 14,599,568	\$ 15,354,542
After one year through five years	5,039,329	8,435,531
Total	\$ 19,638,897	\$ 23,790,073
Allowance for credit losses	(21,644)	-
Carrying value	\$ 19,617,253	\$ 23,790,073

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 2. Investments (continued)

The Company individually evaluates its commercial mortgage loan portfolio for the establishment of a specific loan loss allowance. A mortgage loan requires a specific allowance when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. If the Company determines that the value of any specific mortgage loan requires an allowance, the carrying amount of the mortgage loan will be reduced to its fair value, based upon the present value of expected future cash flows from the loan discounted at the loan's effective interest rate, or the fair value of the underlying collateral less estimated costs to sell. The Company had no mortgage loans that were on non-accrued status as of December 31, 2023 and December 31, 2022. There were no mortgage loans delinquent on payments due to the Company as of December 31, 2023 and December 31, 2022.

The Company analyzes our commercial mortgage loan portfolio for the need of a general loan allowance for expected credit losses on all other loans on a quantitative and qualitative basis by grouping assets with similar risk characteristics when there is not a specific expectation of a loss for an individual loan. The amount of the general loan allowance is based upon management's evaluation of the collectability of the loan portfolio, historical loss experience, delinquencies, credit concentrations, underwriting standards and national and local economic conditions. The Company does not measure a credit loss allowance on accrued interest receivable as we write off any uncollectible accrued interest receivable balance to net investment income in a timely manner. The Company did not charge off any uncollectible accrued interest receivable on our commercial mortgage loan portfolio during the years ended December 31, 2023 and December 31, 2022.

The Company's commercial mortgage loans are pooled by risk rating and property collateral type and an estimated loss ratio is applied against each risk pool. The loss ratios are generally based upon historical loss experience for each risk pool and are adjusted for current and forecasted economic factors management believes to be relevant and supportable. Economic factors are forecasted for two years with immediate reversion to historical experience.

The following table presents a roll-forward of our specific and general valuation allowances for our commercial mortgage loan portfolio:

	Year Ended December 31, 2023	
	Specific Allowance	General Allowance
Beginning allowance balance	\$ -	\$ -
Cumulative adjustment for changes in accounting principals	-	150,373
Charge-offs	-	-
Recoveries	-	-
Change in provision for credit losses	-	(128,729)
Ending Allowance	\$ -	\$ 21,644

The specific allowance represents the total credit loss allowances on loans which are individually evaluated for impairment. The general allowance is for the group of loans discussed above which are collectively evaluated for impairment. The change in provision for credit losses is recorded in net investment gains (losses).

Charge-offs include allowances that have been established on loans that were satisfied either by taking ownership of the collateral or by some other means such as discounted pay-off or loan sale. When ownership of the property is taken it is recorded at the lower of the loan's carrying value or the property's fair value (based on appraised values) less estimated costs to sell. The real estate owned is recorded as a component of other investments and the loan is recorded as fully paid, with any allowance for credit loss that has been established charged off. Fair value of the real estate is determined by third party appraisal. Recoveries are situations where the Company has received a payment from the borrower in an amount greater than the carrying value of the loan (principal outstanding less specific allowance). The Company did not own any real estate related to our mortgage participations during the years ended December 31, 2023 and 2022.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 2. Investments (continued)

Investment Income, Net of Expenses

The components of net investment income for the years ended December 31, 2023 and 2022 are as follows:

	Years Ended December 31,	
	2023	2022
Fixed maturities	\$ 4,712,515	\$ 2,159,129
Mortgages	1,678,623	758,362
Equity securities	686,999	669,721
Funds withheld	-	1,581,453
Other invested assets	218,784	47,241
Cash and cash equivalents	129,188	47,285
	7,426,109	5,263,191
Less investment expenses	(1,013,440)	(464,992)
	\$ 6,412,669	\$ 4,798,199

Net Investment Gains (losses)

Accounting standards require that the unrealized gains and losses on equity securities be reported as income on the consolidated statements of comprehensive income (loss). For the year ended December 31, 2023, net investment gains is comprised of \$1,711,411 of unrealized gains on our equity portfolio, net realized losses of \$757,601, a gain on the reduction in allowance for credit losses of \$128,729, and a loss on the change in the fair value of our embedded derivatives of \$65,978. For the year ended December 31, 2022, net investment losses is comprised of \$1,638,847 of unrealized losses on our equity portfolio, net realized losses of \$108,643, and a loss on the change in the fair value of our embedded derivative of \$177,596.

Note 3. Derivative Instruments

Accounting for Derivative Instruments

See Note 1 for a detailed description of the accounting treatment for derivative instruments, including embedded derivatives.

Types of Derivatives used by the Company

The Company's derivatives consist of embedded derivatives on funds withheld on coinsurance assets which was eliminated in October 2022 and a reinsurance contract allocated hedge which was acquired in October 2022.

Summary of Derivative Positions

The fair value of the Company's derivative financial instruments on the consolidated balance sheets is as follows:

	December 31, 2023		December 31, 2022		Balance Reported In
	Derivative		Derivative		
	Asset	Liability	Asset	Liability	
Derivatives:					
Embedded derivatives:					
Reinsurance contract allocated hedge	\$ 673,681	-	\$ 724,998	\$ -	Reinsurance related assets

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 3. Derivative Instruments (continued)

The following table shows the change in the fair value of the derivative financial instruments in the consolidated statements of comprehensive income (loss):

	Year Ending December 31, 2023	Year Ending December 31, 2022	Balance Reported In
Derivatives:			
Embedded derivatives:			
Change in funds withheld embedded derivative	\$ -	\$ (544,768)	Net investment gains (losses)
Change in reinsurance contract allocated hedge	\$ (65,978)	\$ 367,172	Net investment gains (losses)

Note 4. Fair Value Measurements

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. The Company uses a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement rate.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable for the asset or liability and reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Investments, available for sale: Fair values of available for sale fixed maturity securities are provided by a third party pricing service. The pricing service uses a variety of sources to determine fair value of securities. The Company's fixed maturity securities are highly liquid, which allows for a high percentage of the portfolio to be priced through pricing sources.

Equity securities: Fair values for equity securities are also provided by a third party pricing service and are derived from active trading on national market exchanges.

Embedded derivative: The fair value of embedded derivatives associated with the reinsurance treaty is determined upon a total return swap technique with reference to the fair value of the investments held by the ceding company that support the Company's funds withheld asset with an adjustment for a credit valuation adjustment. Additionally, the fair value of the reinsurance related assets represents the Company's allocation of the fair value of the corresponding derivative instruments used in the hedge. The fair value of the underlying assets for both embedded derivatives are generally based upon market observable inputs with industry standard valuation techniques. The valuation also requires certain significant inputs, which are generally not observable and accordingly, the valuation is considered Level 3 in the fair value hierarchy. The Company's utilization of a credit-valuation adjustment did not have a material effect on the change in fair value of the embedded derivatives for the years ended December 31, 2023 and December 31, 2022.

US Alliance Corporation
Notes to Consolidated Financial Statements
Note 4. Fair Value Measurements (continued)

The table below presents the amounts of assets measured at fair value on a recurring basis as of December 31, 2023 and 2022:

	December 31, 2023			
	Total	Level 1	Level 2	Level 3
Fixed maturities:				
US Treasury securities	\$ 724,668	\$ 724,668	\$ -	\$ -
Corporate bonds	17,813,362	-	17,643,762	169,600
Municipal bonds	5,636,093	-	5,636,093	-
Redeemable preferred stock	3,305,569	-	3,305,569	-
Term loans	17,052,420	-	-	17,052,420
Mortgage backed and asset backed securities	29,977,408	-	29,489,908	487,500
Total fixed maturities	74,509,520	724,668	56,075,332	17,709,520
Equities:				
Common stock	2,116,356	2,017,756	98,600	-
Preferred stock	1,469,529	-	1,469,529	-
Total equities	3,585,885	2,017,756	1,568,129	-
Other invested assets	2,239,683	-	-	2,239,683
Reinsurance contract allocated hedge	673,681	-	-	673,681
Limited partnership interests	389,827	-	-	389,827
Total	\$ 81,398,596	\$ 2,742,424	\$ 57,643,461	\$ 21,012,711

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Fixed maturities:				
US Treasury securities	\$ 1,025,087	\$ 1,025,087	\$ -	\$ -
Corporate bonds	15,869,078	-	15,687,478	181,600
Municipal bonds	5,420,409	-	5,420,409	-
Redeemable preferred stock	3,355,615	-	3,355,615	-
Term loans	18,149,718	-	-	18,149,718
Mortgage backed and asset backed securities	21,496,170	-	21,099,920	396,250
Total fixed maturities	65,316,077	1,025,087	45,563,422	18,727,568
Equities:				
Common stock	6,024,224	5,929,624	94,600	-
Preferred stock	1,370,820	-	1,370,820	-
Total equities	7,395,044	5,929,624	1,465,420	-
Other invested assets	1,760,777	-	-	1,760,777
Reinsurance contract allocated hedge	724,998	-	-	724,998
Total	\$ 75,196,896	\$ 6,954,711	\$ 47,028,842	\$ 21,213,343

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements (continued)

The reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows:

For the Year Ended December 31, 2023	Corporate Bonds	Mortgage Backed Securities	Term Loans	Other Invested Assets
Fair value, beginning of period	\$ 181,600	\$ 396,250	\$ 18,149,718	\$ 1,760,777
Principal payment	(12,000)	-	(2,278,802)	(547,952)
Acquisition	-	-	1,233,677	898,961
Investment related gains (losses)	-	91,250	(52,173)	127,897
Fair value, end of period	<u>\$ 169,600</u>	<u>\$ 487,500</u>	<u>\$ 17,052,420</u>	<u>\$ 2,239,683</u>

The Company discloses the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed on the previous page. The estimated fair value approximates carrying value for accrued interest. The methodologies for other financial assets and financial liabilities are discussed below:

Cash and cash equivalents: The carrying amounts approximate fair value because of the short maturity of these instruments.

Investment income due and accrued: The carrying amounts approximate fair value because of the short maturity of these instruments.

Mortgage loans on real estate: Mortgage loans are carried at their unpaid principal value as that is considered the fair market values for these loans. The fair values of mortgage loans on real estate are calculated using discounted expected cash flows using competitive market interest rates currently being offered for similar loans. The inputs utilized to determine fair value of all mortgage loans are unobservable market data (competitive market interest rates); therefore, fair value of mortgage loans falls into Level 3 in the fair value hierarchy.

Limited partnership interests: Limited partnership interests are carried at net asset value which approximates fair value.

Reinsurance contract allocated hedge: The carrying value of funds withheld at interest approximates fair value as funds are specifically identified in the agreement. The fair value of the specified funds is based on the fair value of the underlying assets that are held by the ceding company. The ceding company uses a variety of sources and pricing methodologies, which are not transparent to the Company and may include significant unobservable inputs to value the securities held in distinct portfolios, therefore the valuation of these funds withheld assets are considered Level 3 in the fair value hierarchy.

Policy loans: Policy loans are stated at unpaid principal balances. As these loans are fully collateralized by the cash surrender value of the underlying insurance policies, the carrying value of the policy loans approximates their fair value.

Federal Home Loan Bank Advances: FHLB advances are stated at the outstanding principal balances and the carrying value approximates fair value.

Policyholder deposits in deposit-type contracts: The fair value for policyholder deposits deposit-type insurance contracts (accumulation annuities) is calculated using a discounted cash flow approach. Cash flows are projected using actuarial assumptions and discounted to the valuation date using risk-free rates adjusted for credit risk and the nonperformance risk of the liabilities.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements (continued)

The estimated fair values of the Company's financial assets and liabilities at December 31 are as follows:

December 31, 2023					
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	\$ 8,982,138	\$ 8,982,138	\$ 8,982,138	\$ -	\$ -
Mortgage loans on real estate	19,617,253	19,617,253	-	-	19,617,253
Limited partnership interests	389,827	389,827	-	-	389,827
Investment income due and accrued	1,878,620	1,878,620	-	-	1,878,620
Reinsurance contract allocated hedge	673,681	673,681	-	-	673,681
Policy loans	26,132	26,132	-	-	26,132
Total Financial Assets (excluding available for sale investments)	\$ 31,567,651	\$ 31,567,651	\$ 8,982,138	\$ -	\$ 22,585,513
Financial Liabilities:					
Federal Home Loan Bank advance	\$ 1,000,000	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Policyholder deposits in deposit-type contracts	78,063,888	67,401,118	-	-	67,401,118
Total Financial Liabilities	\$ 79,063,888	\$ 68,401,118	\$ -	\$ -	\$ 68,401,118

December 31, 2022					
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	\$ 4,091,507	\$ 4,091,507	\$ 4,091,507	\$ -	\$ -
Mortgage loans on real estate	23,790,073	23,790,073	-	-	23,790,073
Investment income due and accrued	2,086,365	2,086,365	-	-	2,086,365
Reinsurance contract allocated hedge	724,998	724,998	-	-	724,998
Policy loans	34,980	34,980	-	-	34,980
Total Financial Assets (excluding available for sale investments)	\$ 30,727,923	\$ 30,727,923	\$ 4,091,507	\$ -	\$ 26,636,416
Financial Liabilities:					
Federal Home Loan Bank advance	\$ 1,000,000	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Policyholder deposits in deposit-type contracts	79,035,350	67,741,524	-	-	67,741,524
Total Financial Liabilities	\$ 80,035,350	\$ 68,741,524	\$ -	\$ -	\$ 68,741,524

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 5. Income Tax Provision

USAC files federal income tax returns based on the type of return. USAC files a consolidated corporate federal income tax return with USAMC and USAIC. USASLC, and USALSC-MT file a consolidated life insurance federal income tax return. Certain items included in income reported for financial statement purposes are not included in taxable income for the current period, resulting in deferred income taxes.

A reconciliation of federal income tax expense computed by applying the federal income tax rate of 21% to income before federal income tax expense for the years ended December 31, 2023 and 2022, respectively, is summarized as follows:

	2023	2022
Income (loss) before total federal income tax	625,729	(3,305,485)
Tax rate	21%	21%
Expected income tax expense (benefit)	131,403	(694,152)
Effect of tax-exempt income	(28,448)	(19,204)
Other	6,908	-
State income tax, net	25,749	66,793
Return-to-Provision adjustments	(89,557)	(25,529)
Prior period adjustments	2,741	13,334
Change in valuation allowance	(901,143)	509,758
Total	<u>(852,347)</u>	<u>(149,000)</u>

For the year ended December 31, 2023, the Company recognized total tax benefit of \$(852,347). This benefit is comprised of current tax expense of \$0 and a deferred tax benefit of \$(852,347). For the year ended December 31, 2022, the Company recognized a total tax benefit of \$(149,000).

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 2023 and 2022 are summarized as follows:

	12/31/2023	12/31/2022
Deferred Tax Assets		
Net operating and capital loss carryforwards	2,055,140	2,364,039
Unamortized start-up costs	84,402	105,502
Policyowner benefit reserves	2,353,584	2,752,406
Unrealized Losses	887,427	1,367,975
Tax DAC	903,654	824,896
Deferred tax asset valuation allowance	(341,684)	(1,834,167)
	5,942,523	5,580,651
Deferred Tax Liabilities		
GAAP DAC	993,388	1,177,664
Fixed assets	89,760	29,945
8 Year Spread	77,810	116,715
Value of business acquired	509,454	528,862
Other GAAP to Tax Differences	383,203	432,943
Unrealized gains	-	-
	2,053,616	2,286,129
Net Deferred Tax	<u>3,888,907</u>	<u>3,294,522</u>

US Alliance Corporation**Notes to Consolidated Financial Statements****Note 5. Income Tax Provision (continued)**

The Company has federal net operating loss ("NOL") and capital loss carryforwards of \$7,425,956 and \$9,630,952 as of December 31, 2023 and 2022, respectively. The federal NOLs generated in the years ended December 31, 2009 through 2017 will begin to expire in 2027 for federal income tax purposes. NOLs originating before January 1, 2018 are eligible to offset taxable income, if not otherwise limited under Internal Revenue Code ("IRC") section 382 limitations. NOLs generated after December 31, 2017, have an indefinite carryforward period and are subject to 80% deduction limitations based upon pre-NOL taxable income.

At December 31, 2023 the Company changed its tax reserve discounting methodology relating to the cash surrender value of life insurance policies. As a result of this change in method, the Company recognized an additional deferred tax benefit.

Note 6. Reinsurance

A summary of significant reinsurance amounts affecting the accompanying consolidated financial statements as of December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 is listed in the following table.

	December 31, 2023	December 31, 2022
Balance Sheet		
Benefits and claim reserves ceded	\$ 103,944	\$ 87,411
Amounts due (to) from ceding company	69,004	39,817
Benefits and claim reserves assumed	50,673,773	53,519,377
	Years Ended	
	December 31, 2023	December 31, 2022
Statements of Comprehensive Income (Loss)		
Ceded premium	\$ 1,400,079	\$ 1,214,932
Assumed premium	4,543,477	4,400,339
Allowances on ceded premium	36,985	22,936
Allowances paid on assumed premium	514,036	515,429
Assumed benefits and policyholder reserve increases	5,234,519	5,566,574

The company currently reinsures business in excess of its retention with General Re Life Corporation, Reliance Standard Life Insurance Company, Unified Life Insurance Company, Hartford Life and Accident Company, and Optimum Re Insurance Company. The Company also currently assumes business under agreements with Unified Life Insurance Company and American Life and Security Corporation.

Note 7. Related Party Transactions

Brier Development Company, Inc. is owned solely by Jack Brier, President and CEO of the Company. Brier Development Company, Inc. owns 20,000 shares of stock in USAC which are in escrow until 5 years after the termination of the public offering. The Company makes reimbursements to Brier Development Company, Inc. on behalf of Jack H. Brier for single coverage for long-term care, Medicare coverage, and an allowance for vehicle expenses. Reimbursements for these items were \$26,773 and \$26,373 for years ended December 31, 2023 and 2022, respectively.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 8. Federal Home Loan Bank Advances

One of the Company's subsidiaries, USALSC, is a member of the Federal Home Loan Bank of Topeka (FHLB), which provides access to collateralized borrowings. Any borrowings from FHLB requires the purchase of FHLB common stock in an amount equal to 4.5% of the borrowing. On October 31, 2019, USALSC received an advance of \$ 1,000,000 based on USALSC purchasing \$ 45,000 of FHLB common stock. This regular fixed convertible advance has a 10 year term with an FHLB option to convert to an adjustable rate on the 5th anniversary. The interest rate at issue was 1.66%. On April 23, 2020 and June 22, 2020 the company took two additional advances with two year terms. The interest rate at issue was 0.37% and 0.28% respectively. As of December 31, 2023, the Company had outstanding advances of \$1,000,000.

As of December 31, 2023, USALSC had pledged \$1,629,734 of mortgage backed securities and US treasuries to FHLB in support of its outstanding advance.

Note 9. Restricted Funds

As required by North Dakota law, US Alliance Life and Security Company maintains a trust account at the Bank of North Dakota which is jointly owned by the North Dakota Insurance Department. These assets were held in bonds and other invested assets with a statement value of \$1,500,000 as of December 31, 2023. At December 31, 2022, the Company had a joint account with the Kansas Insurance Department for \$1,500,000. This account was closed when the Bank of North Dakota account was opened in 2023. Additionally, the USALSC has special deposits with the States of Missouri, New Mexico, and Nevada. US Alliance Life and Security Company – Montana has \$825,000 of funds on deposit jointly owned by the Montana Department of Insurance at Capitol Federal Savings Bank.

Note 10. Statutory Net Income and Surplus

US Alliance Life and Security Company is required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the North Dakota Insurance Department. US Alliance Life and Security Company - Montana is required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the Montana Insurance Department. Statutory practices primarily differ from GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions as well as valuing investments and certain assets and accounting for deferred taxes on a different basis.

US Alliance Corporation**Notes to Consolidated Financial Statements****Note 10. Statutory Net Income and Surplus (continued)**

The following table summarizes the statutory net income (loss) and statutory capital and surplus of US Alliance Life and Security Company and US Alliance Life and Security Company - Montana for the years ended December 31, 2023 and 2022.

	Statutory Capital and Surplus as of	
	December 31, 2023	December 31, 2022
US Alliance Life and Security Company	\$ 7,686,967	\$ 6,539,207
US Alliance Life and Security Company - Montana	1,874,667	1,840,134
	Statutory Net Income (loss) for the years ended December 31,	
	2023	2022
US Alliance Life and Security Company	\$ 563,244	\$ (2,046,924)
US Alliance Life and Security Company - Montana	33,599	133,180

The payment of dividends to US Alliance Corporation by US Alliance Life and Security Company is subject to limitations imposed by applicable insurance laws. For example, “extraordinary” dividends may not be paid without permission of the North Dakota Insurance Department. An “extraordinary” dividend is defined, in general, as any dividend or distribution of cash or other property whose fair market value, compared with that of other dividends or distributions made within the preceding 12 months, exceeds the greater of (i) 10% of the policyholders’ surplus (total statutory capital stock and surplus) as of December 31 of the preceding year or (ii) the statutory net gain from operations excluding realized gains on investments) of the insurer for the 12 month period ending December 31 of the preceding year.

The payment of dividends to US Alliance Life and Security Company by US Alliance Life and Security Company – Montana is subject to similar limitations. No dividends were paid in 2023 or 2022.

Note 11. Commitments

The Company entered into a subscription agreement with Mutual Capital Investment Fund, LP on November 11, 2022. The agreement set forth a capital commitment of \$2,000,000. As of December 31, 2023, the Company had funded \$389,827 of this commitment.

Note 12. Subsequent Events

All of the effects of subsequent events that provide additional evidence about conditions that existed at the 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 balance sheet date but arose after, but before the consolidated financial statements are issued. In some cases, unrecognized subsequent events are disclosed to keep the consolidated financial statements from being misleading.