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US Alliance Corporation

Consolidated Financial Statements

December 31, 2022 and 2021

(With Independent Auditor's Report Thereon)

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To the Board of Directors and
Shareholders of US Alliance Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of US Alliance Corporation and Subsidiaries (the Company) as of December 31, 2022 and 2021, and the related consolidated statements of comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2022, and the related notes (collectively referred to as the 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 2021, and the results of its operations and its cash flows for each of the years in the two-year period 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 audits. 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 audits 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 audits, 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 audits 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 consolidated financial statements. Our audits 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 audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2016.

/s/ Kerber, Eck & Braeckel LLP
Springfield, Illinois
February 21, 2023

US Alliance Corporation
Consolidated Balance Sheets

	December 31, 2022	December 31, 2021
Assets		
Investments:		
Available for sale fixed maturity securities (amortized cost: \$70,615,724 and \$35,256,039 as of December 31, 2022 and December 31, 2021, respectively)	\$ 65,316,077	\$ 37,942,657
Equity securities, at fair value	7,395,044	9,157,193
Mortgage loans on real estate	23,790,073	3,653,142
Funds withheld under coinsurance agreement, at fair value	-	49,018,974
Other invested assets	1,760,777	-
Policy loans	34,980	173,341
Real estate, net of depreciation	1,373,716	1,403,137
Total investments	99,670,667	101,348,444
Cash and cash equivalents	4,091,507	7,955,348
Investment income due and accrued	2,086,365	698,504
Reinsurance related assets	125,549	3,438
Deferred acquisition costs, net	5,629,002	6,354,875
Value of business acquired, net	2,518,393	2,610,813
Property, equipment and software, net	132,475	92,785
Goodwill	277,542	277,542
Deferred tax asset, net of valuation allowance	3,294,522	1,560,767
Other assets	472,275	582,318
Total assets	\$ 118,298,297	\$ 121,484,834
Liabilities and Shareholders' Equity		
Liabilities:		
Policy liabilities		
Deposit-type contracts	\$ 79,035,350	\$ 75,567,873
Policyholder benefit reserves	29,411,984	25,204,578
Dividend accumulation	121,687	118,262
Advance premiums	168,782	136,229
Total policy liabilities	108,737,803	101,026,942
Accounts payable and accrued expenses	448,805	689,065
Federal Home Loan Bank advance	1,000,000	2,000,000
Other liabilities	42,295	187,071
Total liabilities	110,228,903	103,903,078
Shareholders' Equity:		
Common stock, \$0.10 par value. Authorized 20,000,000 shares; issued and outstanding 7,746,922 and 7,745,404 shares as of December 31, 2022 and December 31, 2021, respectively	774,693	774,541
Additional paid-in capital	22,955,458	22,948,637
Accumulated deficit	(11,819,637)	(8,663,152)
Accumulated other comprehensive income (loss)	(3,841,120)	2,521,730
Total shareholders' equity	8,069,394	17,581,756
Total liabilities and shareholders' equity	\$ 118,298,297	\$ 121,484,834

See Notes to Consolidated Financial Statements.

US Alliance Corporation
Consolidated Statements of Comprehensive Loss

	Years Ended December 31,	
	2022	2021
Income:		
Premium income	\$ 12,815,238	\$ 11,792,063
Net investment income	4,798,199	5,336,048
Net investment gains (losses)	(1,925,086)	142,280
Other income	317,502	318,854
Total income	16,005,853	17,589,245
Expenses:		
Death claims	2,994,386	2,314,682
Policyholder benefits	6,553,901	6,238,032
Increase in policyholder reserves	4,207,703	4,063,488
Commissions, net of deferrals	777,162	772,053
Amortization of deferred acquisition costs	1,205,554	1,210,345
Amortization of value of business acquired	92,420	92,420
Salaries & benefits	1,465,259	1,350,851
Other operating expenses	2,014,953	1,893,561
Total expense	19,311,338	17,935,432
Net loss	\$ (3,305,485)	\$ (346,187)
Federal income tax benefit	149,000	680,542
Total federal income tax benefit	149,000	680,542
Net Income (loss)	\$ (3,156,485)	\$ 334,355
Net income (loss) per common share, basic and diluted	\$ (0.41)	\$ 0.04
Unrealized net holding losses arising during the period, net of tax	(6,385,127)	(897,217)
Reclassification adjustment for (gains) losses included in net loss	22,277	(145,928)
Other comprehensive loss	(6,362,850)	(1,043,145)
Comprehensive loss	\$ (9,519,335)	\$ (708,790)

See Notes to Consolidated Financial Statements.

US Alliance Corporation
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2022 and 2021

	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance, December 31, 2020	7,741,487	\$ 774,150	\$ 23,063,273	\$ 3,564,875	\$ (8,997,507)	\$ 18,404,791
Common stock issued, \$7 per share	3,917	391	27,028	-	-	27,419
Costs associated with common stock issued	-	-	(141,664)	-	-	(141,664)
Other comprehensive loss	-	-	-	(1,043,145)	-	(1,043,145)
Net income	-	-	-	-	334,355	334,355
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

See Notes to Consolidated Financial Statements.

US Alliance Corporation
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2022	2021
Cash Flows from operating activities:		
Net income (loss)	\$ (3,156,485)	\$ 334,355
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	46,133	35,676
Net (gains) losses realized on the sale of securities	108,643	(229,992)
Unrealized (gains) losses on equity securities	1,638,847	(20,814)
Change in fair value of embedded derivative	177,596	108,526
(Accretion) amortization of investment securities, net	(55,431)	182,183
Deferred acquisition costs capitalized	(479,681)	(453,040)
Deferred acquisition costs amortized	1,205,554	1,210,345
Value of business acquired amortized	92,420	92,420
Interest credited on deposit type contracts	1,597,392	1,606,340
(Increase) decrease in operating assets:		
Change in funds withheld	(656,085)	(2,492,319)
Investment income due and accrued	(176,441)	(275,468)
Reinsurance related assets	720,784	(27,284)
Deferred tax assets, net of valuation allowance	(53,817)	(1,208,417)
Other assets	328,735	1,060,110
Increase (decrease) in operating liabilities:		
Policyowner benefit reserves	4,207,406	4,046,010
Dividend Accumulation	3,425	2,135
Advance premiums	32,553	34,051
Other liabilities	(144,776)	171,602
Accounts payable and accrued expenses	(648,869)	(764,546)
Net cash provided by operating activities	4,787,903	3,411,873
Cash Flows from investing activities:		
Purchase of fixed income investments	(10,865,054)	(2,751,482)
Purchase of equity investments	(1,415,492)	(1,252,485)
Purchase of mortgage investments	(8,295,919)	(2,591,328)
Purchase of other invested assets	(156,009)	-
Proceeds from fixed income sales and repayments	4,962,353	1,989,975
Proceeds from equity sales	1,167,810	675,534
Proceeds from mortgage repayments	3,748,177	2,104,322
Transfers from (to) funds withheld	967,462	200,000
Interest on policy loans	683	-
Increase (decrease) in policy loans	137,678	(9,616)
Purchase of property, equipment and software	(56,401)	(78,037)
Net cash used in investing activities	(9,804,712)	(1,713,117)
Cash Flows from financing activities:		
Receipts on deposit-type contracts	5,389,262	3,987,535
Withdrawals on deposit-type contracts	(3,243,267)	(1,937,457)
Repayment of FHLB advance	(1,000,000)	-
Proceeds received from issuance of common stock, net of costs of issuance	6,973	(114,245)
Net cash provided by financing activities	1,152,968	1,935,833
Net increase (decrease) in cash and cash equivalents	(3,863,841)	3,634,589
Cash and Cash Equivalents:		
Beginning	7,955,348	4,320,759
Ending	<u>\$ 4,091,507</u>	<u>\$ 7,955,348</u>

See Notes to Consolidated Financial Statements.

US Alliance Corporation
Supplemental Cash Flow Information

	Years Ended December 31,	
	2022	2021
Supplemental Disclosure of Non-Cash Information		
Funds withheld assumed deposits on deposit-type contracts	\$ 639,610	\$ 1,371,325
Funds withheld assumed withdrawals on deposit-type contracts	(915,520)	(1,542,077)
Commissions and expense allowances deducted from funds withheld	(908,074)	(942,548)
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 five 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"). US Alliance Life and Security Company - Montana (USALSC-Montana), was acquired December 14, 2018. Both DCLIC and USALSC-Montana are wholly-owned subsidiaries 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. DCLIC received a Certificate of Authority from the North Dakota Insurance Department ("NDID") effective January 24, 2012.

USALSC and DCLIC seek 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, and New Mexico. DCLIC is authorized to operate in the states of North Dakota and South Dakota. USALSC-Montana is authorized to operate in the state of Montana.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note1. 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.

Management has a policy and process in place to identify securities that could potentially have an impairment that is other-than-temporary. The assessment of whether impairments have occurred is based on a case-by-case evaluation of underlying reasons for the decline in fair value. We consider severity of impairment, duration of impairment, forecasted recovery period, industry outlook, financial condition of the issuer, issuer credit ratings and whether we intend to sell a security or it is more likely than not that we would be required to sell a security prior to the recovery of the amortized cost.

The recognition of other-than-temporary impairment losses on debt securities is dependent on the facts and circumstances related to the specific security. If we intend to sell a security or it is more likely than not that we would be required to sell a security prior to recovery of the amortized cost, the difference between amortized cost and fair value is recognized in the income statement as an other-than-temporary impairment. As it relates to debt securities, if we do not expect to recover the amortized basis, do not plan to sell the security and if it is not more likely than not that we would be required to sell a security before the recovery of its amortized cost, the other-than-temporary impairment would be recognized. We would recognize the credit loss portion through earnings in the income statement and the noncredit loss portion in accumulated other comprehensive loss. As of December 31, 2022 and 2021, the Company had no investment securities that were evaluated to be other than temporarily impaired.

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).

A mortgage loan is considered to be impaired when, based on the current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the mortgage agreement.

Valuation allowances on mortgage loans are established based upon inherent losses expected by management to be realized in connection with future dispositions or settlement of mortgage loans, including foreclosures. The Company establishes valuation allowances for estimated impairments on an individual loan basis as of the balance sheet date. Such valuation allowances are based on the excess carrying value of the loan over the present value of expected future cash flows discounted at the loan's original effective interest rate, the value of the loan's collateral if the loan is in the process of foreclosure or is otherwise collateral-dependent, or the loan's market value if the loan is being sold. These evaluations are revised as conditions change and new information becomes available. In addition to historical experience, management considers qualitative factors that include the impact of changing macro-economic conditions, which may not be currently reflected in the loan portfolio performance, and the quality of the loan portfolio.

Any interest accrued or received on the net carrying amount of the impaired loan will be included in investment income or applied to the principal of the loan, depending on the assessment of the collectability of the loan. Mortgage loans deemed to be uncollectible or that have been foreclosed are charged off against the valuation allowances and subsequent recoveries, if any, are credited to the valuation allowances. Changes in valuation allowances are reported in investment related gains (losses), net on the consolidated statements of income (loss). The Company had no valuation allowance against mortgage loans as of December 31, 2022 and 2021.

US Alliance Corporation

Notes to Consolidated Financial Statements

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

The Company evaluates whether a mortgage loan modification represents a troubled debt restructuring. In a troubled debt restructuring, the Company grants concessions related to the borrower's financial difficulties. Generally, the types of concessions include: reduction of the contractual interest rate, extension of the maturity date at an interest rate lower than current market interest rates and/or a reduction of accrued interest. The Company considers the amount, timing and extent of the concession granted in determining any impairment or changes in the specific valuation allowance recorded in connection with the troubled debt restructuring. Through the continuous monitoring process, the Company may have recorded a specific valuation allowance prior to when the mortgage loan is modified in a troubled debt restructuring. Accordingly, the carrying value (after specific valuation allowance) before and after modification through a troubled debt restructuring may not change significantly, or may increase if the expected recovery is higher than the pre-modification recovery assessment.

Funds Withheld under Coinsurance Agreement: Funds withheld under coinsurance agreement represent amounts contractually withheld by American Life and Security Corporation ("ALSC") in accordance with a reinsurance agreement entered into in 2020. For agreements written on a coinsurance funds withheld basis, assets that support the net statutory reserves or as defined by the treaty, are withheld and legally owned by the ceding company. Interest is recorded in net investment income, net of related expenses in the consolidated statements of income (loss). Funds withheld under coinsurance agreement are presented net of the embedded derivative, discussed below.

Under the terms of the 2020 ALSC Agreement the Company may assume custody of the assets in the funds withheld account once the Company attains its "Qualified Institutional Buyer" designation (as that term is defined in Rule 144A under the Securities Act of 1933, as amended). The Company attained this designation in the fourth quarter of 2022. The Company recorded the funds withheld assets at fair value on the date of transfer, which eliminated the embedded derivative component associated with the unrealized gains and losses within the funds withheld account.

Additionally, after the transfer of the funds withheld assets, ALSC continued to manage currency risk within the coinsured liability portfolio using derivative instruments. In accordance with the coinsurance agreement, ALSC allocates a proportion of the derivative activity it manages to the Company, which is settled quarterly as part of the reinsurance settlement. As the derivative allocation is not clearly and closely related to the host contract, the Company recognizes an embedded derivative equal to the fair value of the derivative allocation.

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 Company has two different embedded derivatives, the first of which existed prior to the transfer of the funds withheld account, which is reported on the consolidated balance sheets in funds withheld under coinsurance agreement, with changes in fair value recognized in the consolidated statements of comprehensive income (loss) in net investment gains (losses). The second embedded derivative recognized after the funds withheld transfer is reported within reinsurance related assets on the balance sheet and within net investment gains (losses) on the statement of comprehensive income (loss).

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, 2022. 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. Therefore, the Company regularly evaluates the financial condition of its reinsurers including their activities with respect to claim settlement practices and commutations, and establishes allowances for uncollectible reinsurance recoverable as appropriate. There were no allowances as of December 31, 2022 and 2021.

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, 2022 and 2021, respectively.

	Year ended December 31, 2022	Year ended December 31, 2021
Balance at beginning of period	\$ 6,354,875	\$ 7,105,890
Capitalization of commissions, sales and issue expenses	479,681	459,330
Amortization net of interest	(1,205,554)	(1,210,345)
Balance at end of period	<u>\$ 5,629,002</u>	<u>\$ 6,354,875</u>

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, 2022 and 2021 are represented below.

	Year Ended December 31, 2022	Year Ended December 31, 2021
Computer	\$ 32,182	\$ 32,182
Furniture and equipment	158,374	101,973
Accumulated depreciation	(58,081)	(41,370)
Balance at end of period	<u>\$ 132,475</u>	<u>\$ 92,785</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, 2022 and 2021. 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, 2019 through 2022.

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, 2022 and 2021.

	Year ended December 31, 2022	Year ended December 31, 2021
Balance at beginning of period	\$ 75,410,339	\$ 71,843,283
Deposits received	5,948,185	5,345,302
Interest credited	1,590,654	1,601,155
Withdrawals	(4,068,636)	(3,379,401)
Balance at end of period	\$ 78,880,542	\$ 75,410,339

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, 2022 and 2021.

	Year ended December 31, 2022	Year ended December 31, 2021
Balance at beginning of period	\$ 157,534	\$ 238,924
Deposits received	80,687	13,558
Interest credited	6,738	5,185
Withdrawals	(90,151)	(100,133)
Balance at end of period	<u>\$ 154,808</u>	<u>\$ 157,534</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, 2022 and 2021 is \$131,489 and \$115,524 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, 2022 and 2021 the company had 7,746,922 and 7,745,404 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, 2022 and 2021 were 7,746,318 and 7,743,273 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, 2022 and 2021.

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 of Kansas, North Dakota, and Montana 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 and DCLIC. 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:

Leases

In February 2016, the FASB issued updated guidance to require lessees to recognize a right-to-use asset and a lease liability for leases with terms of more than 12 months. The updated guidance retains the two classifications of a lease as either an operating or finance lease (previously referred to as a capital lease). Both lease classifications require the lessee to record the right-to-use asset and the lease liability based upon the present value of cash flows. Finance leases will reflect the financial arrangement by recognizing interest expense on the lease liability separately from the amortization expense of the right-to-use asset. Operating leases will recognize lease expense (with no separate recognition of interest expense) on a straight-line basis over the term of the lease. The accounting by lessors is not significantly changed by the updated guidance. The updated guidance requires expanded qualitative and quantitative disclosures, including additional information about the amounts recorded in the financial statements.

The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity as the Company does not have any significant leases as a lessee.

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. reinsurance recoverables and mortgage loans) 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. As an emerging growth company, the Company has elected to defer implementation of this standard to fiscal years beginning after December 15, 2022. The Company will not be able to determine the impact that the updated guidance will have on its results of operations, financial position or liquidity until the updated guidance is adopted in the first quarter of 2023.

US Alliance Corporation

Notes to Consolidated Financial Statements

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

Targeted Improvements to the Accounting for Long-Duration Contracts

In August 2018, the FASB issued ASU 2018-12 “Targeted Improvements to the Accounting for Long-Duration Contracts.” ASU 2018-12 requires periodic reassessment of actuarial and discount rate assumptions used in the valuation of policyholder liabilities and deferred acquisition costs arising from the issuance of long-duration insurance and reinsurance contracts, with the effects of the changes in cash flow assumptions reflected in earnings and the effects of changes in discount rate assumptions reflected in other comprehensive income. Under current accounting guidance, the actuarial and discount rate assumptions are set at the contract inception date and not subsequently changed, except in limited circumstances. ASU 2018-12 also requires new disclosures and is effective for fiscal years beginning after December 15, 2023, with early adoption permitted. We are evaluating the effect this standard will have on our Consolidated Financial Statements.

Income Taxes - Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued updated guidance (Accounting Standards Update 2019-12) for the accounting for income taxes. The updated guidance is intended to simplify the accounting for income taxes by removing several exceptions contained in existing guidance and amending other existing guidance to simplify several other income tax accounting matters. The updated guidance was effective for the quarters ending and after March 31, 2021. The adoption of this guidance did not have a material effect on the Company’s results of operations, financial position or liquidity.

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, 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

	December 31, 2021			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
Fixed maturities:				
US Treasury securities	\$ 303,195	\$ 144,570	\$ -	\$ 447,765
Corporate bonds	19,397,461	2,101,518	(177,700)	21,321,279
Municipal bonds	6,306,387	671,263	(14,292)	6,963,358
Redeemable preferred stock	3,612,625	29,995	(21,094)	3,621,526
Mortgage backed and asset backed securities	5,636,371	22,617	(70,259)	5,588,729
Total available for sale	\$ 35,256,039	\$ 2,969,963	\$ (283,345)	\$ 37,942,657

The amortized cost and fair value of debt securities as of December 31, 2022 and 2021, 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, 2022		As of December 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing in:				
One year or less	\$ 442,846	\$ 450,461	\$ -	\$ -
After one year through five years	17,048,721	17,035,270	1,987,421	2,087,132
After five years through ten years	5,498,364	5,340,498	2,540,089	2,865,020
More than 10 years	21,337,372	17,638,063	21,479,533	23,780,250
Redeemable preferred stocks	3,875,526	3,355,615	3,612,625	3,621,526
Mortgage backed and asset backed securities	22,412,895	21,496,170	5,636,371	5,588,729
Total amortized cost and fair value	\$ 70,615,724	\$ 65,316,077	\$ 35,256,039	\$ 37,942,657

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 2. Investments (continued)

Proceeds from the sale of securities, maturities, and asset paydowns in 2022 and 2021 were \$9,878,340 and \$4,769,831, respectively. Realized gains and losses related to the sale of securities are summarized as follows:

	Year Ended December 31,	
	2022	2021
Gross gains	\$ 24,720	\$ 248,891
Gross losses	(133,363)	(18,899)
Realized gains (losses)	\$ (108,643)	\$ 229,992

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, 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	4,711,895	(587,053)	708,514	(221,174)	5,420,409	(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	\$ 36,541,092	\$ (3,444,132)	\$ 8,167,403	\$ (2,260,334)	\$ 44,708,495	\$ (5,704,466)

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2021						
Available for sale:						
Fixed maturities:						
Corporate bonds	\$ 4,496,456	\$ (177,700)	\$ -	\$ -	\$ 4,496,456	\$ (177,700)
Municipal bonds	927,122	(14,292)	-	-	927,122	(14,292)
Redeemable preferred stock	1,394,650	(21,094)	-	-	1,394,650	(21,094)
Mortgage backed and asset backed securities	4,386,306	(70,259)	-	-	4,386,306	(70,259)
Total fixed maturities	\$ 11,204,534	\$ (283,345)	\$ -	\$ -	\$ 11,204,534	\$ (283,345)

Unrealized losses occur from market price declines that may be due to a number of factors, including economic downturns, changes in interest rates, competitive forces within an industry, issuer specific events, operational difficulties, lawsuits, and market pricing anomalies caused by factors such as temporary lack of liquidity.

The total number of available for sale securities in the investment portfolio in an unrealized loss position as of December 31, 2022 was 230, which represented an unrealized loss of \$5,704,466 of the aggregate carrying value of those securities. The 230 securities breakdown as follows: 131 bonds, 73 mortgage and asset backed securities, 10 term loans, and 16 redeemable preferred stock. The Company determined that no securities were considered to be other-than-temporarily impaired as of December 31, 2022 and 2021.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 2. Investments (continued)

Mortgage Loans on Real Estate

The Company's mortgage loans by property type as of December 31, 2022 and December 31, 2021 are summarized as follows:

	December 31, 2022	December 31, 2021
Commercial mortgage loans by property type		
Condominium	\$ 1,696,975	\$ 1,960,547
Land	1,902,277	-
Multi-property	9,539,738	1,157,950
Multi-family	5,016,424	534,645
Retail/Office	5,634,659	-
Total commercial mortgages	<u>\$ 23,790,073</u>	<u>\$ 3,653,142</u>

The Company's mortgage loans by loan-to-value ratio as of December 31, 2022 and December 31, 2021 are summarized as follows:

	December 31, 2022	December 31, 2021
Loan to value ratio		
Over 70 to 80%	\$ 8,219,763	\$ -
Over 60 to 70%	5,196,975	1,960,547
Over 50 to 60%	4,682,750	-
Over 40 to 50%	3,235,951	339,335
Over 30 to 40%	-	195,310
Over 20 to 30%	1,319,975	-
Over 10 to 20%	1,134,659	1,157,950
Total	<u>\$ 23,790,073</u>	<u>\$ 3,653,142</u>

The Company's mortgage loans by maturity date as of December 31, 2022 and December 31, 2021 are summarized as follows:

	December 31, 2022	December 31, 2021
Maturity Date		
One year or less	\$ 15,354,542	\$ 2,155,857
After one year through five years	8,435,531	1,497,285
Total	<u>\$ 23,790,073</u>	<u>\$ 3,653,142</u>

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, 2022 and 2021 are as follows:

	Years Ended December 31,	
	2022	2021
Fixed maturities	\$ 2,159,129	\$ 1,121,170
Mortgages	758,362	378,035
Equity securities	669,721	617,198
Funds withheld	1,581,453	3,421,796
Other invested assets	47,241	-
Cash and cash equivalents	47,285	1,794
	5,263,191	5,539,993
Less investment expenses	(464,992)	(203,945)
	\$ 4,798,199	\$ 5,336,048

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, 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 derivatives of \$177,596. For the year ended December 31, 2021, net investment gains is comprised of \$20,814 of unrealized gains on our equity portfolio, net realized gains of \$229,992, and a loss on the change in the fair value of our embedded derivative of \$108,526.

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, 2022		December 31, 2021		Balance Reported In
	Derivative		Derivative		
	Asset	Liability	Asset	Liability	
Derivatives:					
Embedded derivatives:					
Funds withheld embedded derivative	\$ -	-	\$ 544,768	\$ -	Funds withheld
Reinsurance contract allocated hedge	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 loss:

	Year Ending December 31, 2022	Year Ending December 31, 2021	Balance Reported In
Derivatives:			
Embedded derivatives:			
Change in funds withheld embedded derivative	\$ (544,768)	\$ (108,526)	Net investment gains (losses)
Change in reinsurance contract allocated hedge	\$ 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 year ended 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, 2022 and 2021:

	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

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Fixed maturities:				
US Treasury securities	\$ 447,765	\$ 447,765	\$ -	\$ -
Corporate bonds	21,321,279	-	21,139,679	181,600
Municipal bonds	6,963,358	-	6,963,358	-
Redeemable preferred stock	3,621,526	-	3,621,526	-
Mortgage backed and asset backed securities	5,588,729	-	5,588,729	-
Total fixed maturities	37,942,657	447,765	37,313,292	181,600
Equities:				
Common stock	7,319,584	7,226,584	93,000	-
Preferred stock	1,837,609	-	1,837,609	-
Total equities	9,157,193	7,226,584	1,930,609	-
Funds withheld embedded derivative	544,768	-	-	544,768
Total	\$ 47,644,618	\$ 7,674,349	\$ 39,243,901	\$ 726,368

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, 2022	Corporate Bonds	Mortgage Backed Securities	Term Loans	Funds Withheld	Hedge Derivative
Fair value, beginning of period	\$ 181,600	\$ -	\$ -	\$ 544,768	\$ -
Acquisition	-	423,965	18,086,124	-	1,045,027
Investment related gains (losses)	-	(27,715)	63,594	(1,090,434)	(320,029)
Settlement	-	-	-	545,666	-
Fair value, end of period	<u>\$ 181,600</u>	<u>\$ 396,250</u>	<u>\$ 18,149,718</u>	<u>\$ -</u>	<u>\$ 724,998</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.

Funds withheld: 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, 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

December 31, 2021

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	\$ 7,955,348	\$ 7,955,348	\$ 7,955,348	\$ -	\$ -
Mortgage loans on real estate	3,653,142	3,653,142	-	-	3,653,142
Investment income due and accrued	698,504	698,504	-	-	698,504
Funds withheld	48,474,206	48,474,206	-	-	48,474,206
Policy loans	173,341	173,341	-	-	173,341
Total Financial Assets (excluding available for sale investments)	\$ 60,954,541	\$ 60,954,541	\$ 7,955,348	\$ -	\$ 52,999,193
Financial Liabilities:					
Federal Home Loan Bank advance	\$ 2,000,000	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Policyholder deposits in deposit-type contracts	75,567,873	78,359,733	-	-	78,359,733
Total Financial Liabilities	\$ 77,567,873	\$ 80,359,733	\$ -	\$ -	\$ 80,359,733

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, DCLIC, 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, 2022 and 2021, respectively, is summarized as follows:

	2022	2021
Loss before total federal income tax	\$ (3,305,485)	\$ (346,187)
Tax rate	21%	21%
Expected income tax benefit	(694,152)	(72,700)
Effect of tax-exempt income	(19,204)	(19,588)
Disallowed deductions	-	1,181
Change in unrealized - valuation allowance and unrealized gains	-	56,601
State income tax, net	66,793	-
Return-to-Provision adjustments	(25,529)	20,471
Prior period adjustments	13,334	107,906
Change in valuation allowance	509,758	(774,413)
Total	<u>\$ (149,000)</u>	<u>\$ (680,542)</u>

For the year ended December 31, 2022, the Company recognized total tax benefit of \$(149,000). This benefit is comprised of current tax benefit of \$(95,183) and a deferred tax benefit of \$(53,817). For the year ended December 31, 2021, the Company recognized a total tax benefit of \$(680,542). This benefit is comprised of current tax expense of \$473,730 and a deferred tax benefit of \$(1,154,272).

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, 2022 and 2021 are summarized as follows:

	2022	2021
Deferred Tax Assets		
Net operating and capital loss carryforwards	\$ 2,364,039	\$ 2,271,246
Unamortized start-up costs	105,502	126,603
Policyowner benefit reserves	2,752,406	2,806,586
Unrealized Losses	1,367,975	-
Tax DAC	824,896	753,983
Deferred tax asset valuation allowance	(1,834,167)	(1,324,409)
	<u>5,580,651</u>	<u>4,634,009</u>
Deferred Tax Liabilities		
GAAP DAC	1,177,664	1,334,524
Fixed assets	29,945	21,703
8 Year Spread	116,715	155,620
Value of business acquired	528,862	548,271
Other GAAP to Tax Differences	432,943	233,953
Unrealized gains	-	779,171
	<u>2,286,129</u>	<u>3,073,241</u>
Net Deferred Tax	<u>\$ 3,294,522</u>	<u>\$ 1,560,767</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 \$9,630,952 and \$9,198,976 as of December 31, 2022 and 2021, 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.

Note 6. Reinsurance

A summary of significant reinsurance amounts affecting the accompanying consolidated financial statements as of December 31, 2022 and 2021 and for the years ended December 31, 2022 and 2021 is listed in the following table.

	December 31, 2022	December 31, 2021
Balance Sheet		
Benefits and claim reserves ceded	\$ 87,411	\$ 86,777
Amounts due (to) from ceding company	39,817	(235,629)
Benefits and claim reserves assumed	53,519,377	53,774,832

	Years ended	
	December 31, 2022	December 31, 2021
Statements of Comprehensive Loss		
Ceded premium	\$ 1,214,932	\$ 1,075,837
Assumed premium	4,400,339	4,301,496
Allowances on ceded premium	22,936	23,649
Allowances paid on assumed premium	515,429	554,388
Assumed benefits and policyholder reserve increases	5,566,574	5,291,774

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. Lease Commitments

Total rent expense was \$0 and \$7,546 for the years ended December 31, 2022 and 2021, respectively. The Company terminated its lease on its former Topeka headquarters effective December 31, 2020 and has no future rent obligations for this location. The Company maintained an office in Bismarck, ND with a lease that expired on September 30, 2021.

Note 8. 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 \$26,373 and \$25,813 for years ended December 31, 2022 and 2021, respectively.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 9. 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, 2022, the Company had outstanding advances of \$1,000,000.

As of December 31, 2022, USALSC had pledged \$1,867,278 of mortgage backed securities and US treasuries to FHLB in support of its outstanding advance.

Note 10. Restricted Funds

As required by Kansas law, US Alliance Life and Security Company maintains a trust account at Capitol Federal Savings Bank which is jointly owned by the Kansas Insurance Department. The life insurance company is required by the State of Kansas to hold \$400,000 of asset book value in this account. The Company placed additional assets into this trust account in 2015 and 2022 to meet the minimum deposit requirements for additional states. These assets were held in bonds and other invested assets with a statement value of \$1,500,000 and \$625,000 as of December 31, 2022 and 2021, respectively. Additionally, the Company has a special deposit with the State of Missouri with asset book value of \$300,000. Dakota Capital Life Insurance Company has \$1,030,000 of funds on deposit jointly owned with the North Dakota Insurance Department at the Bank of North Dakota. 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 11. 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 Kansas Insurance Department. Dakota Capital Life Insurance 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 11. 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, Dakota Capital Life Insurance Company, and US Alliance Life and Security Company - Montana for the years ended December 31, 2022 and 2021.

	Statutory Capital and Surplus as of	
	December 31, 2022	December 31, 2021
US Alliance Life and Security Company	\$ 5,617,538	\$ 7,377,352
Dakota Capital Life Insurance Company	3,840,701	3,946,357
US Alliance Life and Security Company - Montana	1,840,134	1,709,322
	Statutory Net Income (loss) for the years ended December 31,	
	2022	2021
US Alliance Life and Security Company	\$ (2,229,098)	\$ 792,748
Dakota Capital Life Insurance Company	(219,601)	73,953
US Alliance Life and Security Company - Montana	133,180	(1,179)

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 Kansas 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 Dakota Capital Life Insurance Company and US Alliance Life and Security Company – Montana is subject to similar limitations. No dividends were paid in 2022 or 2021.

Note 12. 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, 2022 no requests of capital have been made.

Note 13. 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. On December 5, 2022, the Company obtained board approval to contribute capital in the amount of \$700,000 to US Alliance Life and Security Company, if needed. On February 21, 2022, the decision was made to contribute capital to US Alliance Life and Security Company in the amount of \$700,000. This contribution, pending Kansas Insurance Department approval, will increase US Alliance Life and Security Company surplus by \$700,000.

The Company has evaluated subsequent events through February 21, 2023, the date on which the consolidated financial statements were issued.