First Acceptance™ Corporation

# CONSOLIDATED FINANCIAL STATEMENTS – STATUTORY-BASIS AND SUPPLEMENTARY INFORMATION

First Acceptance Insurance Company, Inc. and
Consolidated Subsidiaries
Years Ended December 31, 2024 and 2023
With Report of Independent Auditors

First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries

Consolidated Financial Statements – Statutory-Basis
and Supplementary Information

Years Ended December 31, 2024 and 2023

## Contents

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries
First Acceptance Insurance Company, Inc. (FAIC)
First Acceptance Insurance Company of Georgia, Inc. (FAIC-GA)
First Acceptance Insurance Company of Tennessee, Inc. (FAIC-TN)

***Opinions***

We have audited the consolidated statutory basis financial statements of First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries (the Company), which comprise the consolidated statutory basis balance sheets as of December 31, 2024 and 2023, and the related consolidated statutory basis statements of income, changes in capital and surplus, and cash flows for the years then ended, and the related notes to the consolidated statutory basis financial statements.

*Unmodified Opinion on Statutory Basis of Accounting*

In our opinion, the accompanying consolidated statutory basis financial statements present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2024 and 2023, and results of its operations and its cash flows for the years then ended in accordance with accounting practices prescribed or permitted by the Texas Department of Insurance (FAIC), the Georgia Department of Insurance (FAIC-GA), and the Tennessee Department of Commerce and Insurance (FAIC-TN) (collectively referred to as the Departments) as described in Note 1.

*Adverse Opinion on Accounting Principles Generally Accepted in the United States of America*

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America section of our report, the consolidated statutory basis financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2024 and 2023, or the results of its operations and its cash flows for the years then ended.

**Basis for Opinions**

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

*Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America*

As described in Note 1 to the consolidated statutory basis financial statements, the consolidated statutory basis financial statements are prepared by the Company in accordance with accounting practices prescribed or permitted by the Departments, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the consolidated statutory basis financial statements of the variances between statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

***Responsibilities of Management for the Consolidated Statutory Basis Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated statutory basis financial statements in conformity with accounting practices prescribed or permitted by the Departments. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated statutory basis financial statements that are free from material misstatement, whether due to fraud or error.

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

***Auditor's Responsibilities for the Audit of the Consolidated Statutory Basis Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated statutory basis financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated statutory basis financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Crowe LLP

Crowe LLP

West Hartford, Connecticut
May 30, 2025

# First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries

## Consolidated Balance Sheets – Statutory-Basis

| | December 31, | |
|---|---|---|
| | **2024** | **2023** |
| **Admitted assets** | | |
| Cash and invested assets: | | |
| Bonds, at adjusted amortized cost (fair value of $298,496,371 and $192,667,468 respectively) | **$ 305,096,682** | $ 200,275,242 |
| Common stocks, at fair value (cost $9,281,063 and $4,927,138, respectively) | **12,021,316** | 7,226,207 |
| Preferred stocks, at fair value (cost $4,379,832 and $3,745,070, respectively) | **3,661,188** | 3,008,276 |
| Cash and short-term investments including cash of $36,716,503 and $25,061,328, respectively | **63,038,034** | 86,274,892 |
| Other invested assets | **7,722,529** | 5,638,875 |
| Total cash and invested assets | **391,539,749** | 302,423,492 |
| | | |
| Interest due and accrued | **2,226,803** | 1,535,050 |
| Agents′ balances in course of collection | **16,571,667** | 13,201,934 |
| Premium installments booked but deferred and not yet due | **143,127,952** | 140,827,927 |
| Reinsurance recoverables | **1,938,413** | – |
| Deferred income tax asset | **9,164,181** | 8,765,112 |
| Electronic data processing equipment | **482,670** | 626,306 |
| Receivable from affiliates | **1,980,014** | 4,045,592 |
| Total admitted assets | **$ 567,031,449** | $ 471,425,413 |
| | | |
| **Liabilities and capital and surplus** | | |
| Liabilities: | | |
| Loss reserves | **$ 186,815,558** | $ 140,281,845 |
| Loss adjustment expense reserves | **30,195,426** | 25,010,693 |
| Unearned premiums | **136,832,001** | 161,984,056 |
| Advance premiums | **447,079** | 426,829 |
| Commissions payable | **5,367,357** | 1,135,683 |
| Deferred ceding commission | **9,312,419** | – |
| Other expenses payable | **8,113,895** | 8,763,698 |
| Taxes, licenses and fees payable | **6,001,221** | 6,005,219 |
| Current federal and foreign taxes payable | **1,611,519** | 923,682 |
| Due to reinsurers | **12,794,605** | – |
| Payable to affiliates | **3,239,273** | 4,190,055 |
| Payable for securities | – | 1,509,723 |
| Total liabilities | **400,730,353** | 350,231,483 |
| | | |
| Capital and surplus: | | |
| Common stock, $2 par value, authorized 3,000,000 shares; issued and outstanding 1,500,000 shares | **3,000,000** | 3,000,000 |
| Paid-in surplus | **149,533,154** | 132,632,418 |
| Unassigned surplus (deficit) | **13,767,942** | (14,438,488) |
| Total capital and surplus | **166,301,096** | 121,193,930 |
| Total liabilities and capital and surplus | **$ 567,031,449** | $ 471,425,413 |

*See accompanying notes.*

First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries

Consolidated Statements of Income – Statutory-Basis

| | Year Ended December 31, 2024 | Year Ended December 31, 2023 |
|---|---|---|
| Net premiums written | **$ 466,654,409** | $ 456,585,984 |
| Decrease (increase) in unearned premiums | **25,152,055** | (59,641,427) |
| Premiums earned | **491,806,464** | 396,944,557 |
| | | |
| Losses incurred | **309,184,946** | 234,406,294 |
| Loss adjustment expenses incurred | **52,542,453** | 41,955,771 |
| Other underwriting expenses incurred | **147,074,321** | 137,239,714 |
| Underwriting loss | **(16,995,256)** | (16,657,222) |
| | | |
| Net investment income | **14,312,312** | 7,214,150 |
| Net realized capital gains | **581,988** | 500,392 |
| Finance and service charge income | **34,049,633** | 25,054,908 |
| Income before federal income taxes | **31,948,677** | 16,112,228 |
| Federal income taxes | **6,390,461** | 1,221,219 |
| Net income | **$ 25,558,216** | $ 14,891,009 |

*See accompanying notes.*

# First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries

## Consolidated Statements of Changes in Capital and Surplus – Statutory-Basis

| | **Common Stock** | **Paid-In Surplus** | **Unassigned Deficit** | **Total Capital and Surplus** |
|---|---|---|---|---|
| Balances at January 1, 2023 | $ 3,000,000 | $ 95,910,046 | $ (37,094,949) | $ 61,815,097 |
| Net income | – | – | 14,891,009 | 14,891,009 |
| Change in net unrealized capital gain | – | – | 2,073,989 | 2,073,989 |
| Decrease in non-admitted assets | – | – | 8,375,619 | 8,375,619 |
| Change in net deferred income tax | – | – | (2,684,156) | (2,684,156) |
| Capital contributions | – | 36,423,000 | – | 36,423,000 |
| Capital contributions (non-cash stock compensation) | – | 299,372 | – | 299,372 |
| Balances at December 31, 2023 | 3,000,000 | 132,632,418 | (14,438,488) | 121,193,930 |
| Net income | – | – | **25,558,216** | **25,558,216** |
| Change in net unrealized capital gain | – | – | **757,659** | **757,659** |
| Decrease in non-admitted assets | – | – | **2,415,472** | **2,415,472** |
| Change in net deferred income tax | – | – | **(524,917)** | **(524,917)** |
| Capital contributions | **–** | **16,000,000** | **–** | **16,000,000** |
| Capital contributions (non-cash stock compensation | – | **900,736** | **–** | **900,736** |
| Balances at December 31, 2024 | **$ 3,000,000** | **$149,533,154** | **$ 13,767,942** | **$ 166,301,096** |

*See accompanying notes.*

First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries

Consolidated Statements of Cash Flow – Statutory-Basis

| | Year Ended December 31, | |
|---|---|---|
| | **2024** | **2023** |
| **Operating activities** | | |
| Premiums collected, net of reinsurance | **$ 473,799,507** | $ 391,771,642 |
| Losses paid, net of salvage, and subrogation | **(245,116,316)** | (202,361,309) |
| Underwriting and loss adjustment expenses paid | **(209,386,322)** | (147,841,247) |
| Net investment income received | **13,586,911** | 6,282,006 |
| Finance and service charge income received | **34,049,633** | 25,054,908 |
| Federal income taxes paid | **(5,702,624)** | (297,538) |
| Net cash provided by operating activities | **61,230,790** | 72,608,463 |
| | | |
| **Investing activities** | | |
| Acquisition of bonds | **(136,770,713)** | (89,937,499) |
| Acquisition of stocks | **(6,268,092)** | (1,440,565) |
| Acquisition of other invested assets | **(2,109,647)** | (1,296,756) |
| Proceeds from sales of bonds | **200,000** | – |
| Proceeds from maturities and paydowns of bonds | **30,347,169** | 15,204,393 |
| Proceeds from sale of stocks | **1,867,819** | 2,347,763 |
| Redemptions of other invested assets | **252,342** | 3,250,000 |
| Distributions from other invested assets | **–** | 1,193,836 |
| Other | **(8,421)** | (46,312) |
| Net cash used in investing activities | **(112,489,543)** | (70,725,140) |
| | | |
| **Financing and miscellaneous activities** | | |
| Capital and surplus paid in | **16,000,000** | 36,423,000 |
| Net transfers from affiliates | **1,114,791** | 6,648,810 |
| Capital expenditures | **892,051** | 271,444 |
| Other | **10,015,054** | (62,916) |
| Net cash provided by financing and miscellaneous activities | **28,021,896** | 43,280,338 |
| Net (decrease) increase in cash and short-term investments | **(23,236,858)** | 45,163,661 |
| | | |
| Cash and short-term investments: | | |
| Beginning of year | **86,274,892** | 41,111,231 |
| End of year | **$ 63,038,034** | $ 86,274,892 |

*See accompanying notes.*

## 1. Nature of Operations and Significant Accounting Policies

### Principles of Consolidation

The accompanying consolidated statutory-basis financial statements include First Acceptance Insurance Company, Inc. and its wholly-owned insurance company subsidiaries, First Acceptance Insurance Company of Georgia, Inc. and First Acceptance Insurance Company of Tennessee, Inc., and are referred to herein as the "Companies." All significant intercompany balances and transactions have been eliminated in consolidation.

The preparation of the consolidated statutory-basis financial statements requires management to make estimates and assumptions that affect amounts reported in the statutory-basis financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

In connection with the preparation of these consolidated statutory-basis financial statements, the Companies have evaluated subsequent events through May 30, 2025, which is the date the statutory-basis financial statements were available to be issued.

### General

The Companies primarily write private-passenger non-standard automobile insurance in the United States. Prior to December 1, 2023, business was produced primarily through retail outlets leased by Acceptance Insurance Agency of Tennessee, Inc. ("AITN"), an affiliated insurance agency, and operated by AITN employee-agents. AITN was sold effective December 1, 2023 and previously conducted business for the Companies as a managing general agency ("MGA") in Florida and Georgia, as a broker in California, and as a general agency in all other states. Effective December 1, 2023, First Acceptance Insurance Services, Inc ("FAIS") replaced AITN as the MGA in Florida and Georgia. The Companies now offer their products solely through independent agents, including the buyer of AITN.

First Acceptance Insurance Company, Inc. (FAIC), which began operations in October 1995, is a wholly-owned subsidiary of FAC Holdings, Inc. (Holdings), and is a Texas-domiciled property and casualty insurer. On April 30, 2004, Holdings was acquired by First Acceptance Corporation (FAC), which then became FAIC's ultimate parent. FAIC is licensed in 26 states and during 2024 and 2023, wrote direct business in 15 states. In addition, FAIC also assumes private-passenger non-standard automobile insurance premiums from business produced in Texas, written through a fronting arrangement with another insurance company.

In October 2002, FAIC formed First Acceptance Insurance Company of Georgia, Inc. (FAIC-GA), as a wholly-owned subsidiary. FAIC-GA is a Georgia-domiciled property and casualty insurer through which all Georgia private-passenger non-standard automobile insurance is written.

In December 2006, FAIC formed First Acceptance Insurance Company of Tennessee, Inc. (FAIC-TN), as a wholly-owned subsidiary. FAIC-TN is a Tennessee-domiciled property and casualty insurer through which all Tennessee private-passenger non-standard automobile insurance is written.

In June 2002, Holdings contributed all of the common stock of its wholly-owned subsidiary, First Acceptance Services, Inc. (Services), to FAIC as additional paid-in surplus. Services provides claim adjustment services to the Companies at cost. Services is not audited and as a result has a carrying value of zero in the accompanying consolidated statutory-basis financial statements at both December 31, 2024 and 2023.

**Basis of Presentation**

The Companies prepare their consolidated statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance (FAIC), the Georgia Department of Insurance (FAIC-GA), and the Tennessee Department of Commerce and Insurance (FAIC-TN) (the "Insurance Departments") of their respective states of domicile. The respective states of domicile require that insurance companies prepare their consolidated statutory-basis financial statements in accordance with the National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual* subject to any deviations prescribed or permitted by the respective states of domicile insurance commissioners. The Companies have no permitted practices as of or for the years ended December 31, 2024 and 2023, other than the approvals of the Companies' domiciliary states to file audited consolidated statutory-basis financial statements instead of separate audited financial reports.

Such practices vary from accounting principles generally accepted in the United States of America (GAAP). The more significant variances from GAAP are as follows:

*Current Expected Credit Losses*: Under GAAP, the accounting framework follows a current expected credit loss model for determining credit-related impairments for certain financial instruments 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 considers historical information, current information as well as reasonable and supportable forecasts. The expected credit losses, and subsequent adjustments to such losses, are recorded through an allowance account that is deducted from the amortized cost basis of the financial instrument, with the net carrying value of the financial instrument presented on the consolidated financial statements at the amount expected to be collected. Statutory accounting principles utilize an incurred loss impairment model, which requires recognition of credit losses when known events occur.

*Investments*: Investments in bonds are reported at amortized cost, or fair value, if so designated by the NAIC; for GAAP, such fixed maturity investments are designated at purchase as available-for-sale and reported at fair value with unrealized holding gains and losses reported as a separate component of other comprehensive income, net of the related deferred taxes. Investments in stocks are reported at fair value; under GAAP, such equity investments would be accounted for in accordance with FASB ASC 321, *Investments – Equity Securities*.

The unrealized holding gains and losses on common stocks and preferred stocks are included in unrealized capital gains and losses activity through unassigned deficit as opposed to a separate component of net income under GAAP.

*Subsidiaries:* The accounts and operations of FAIC's non-insurance company subsidiary are not consolidated with the accounts and operations of the Companies as would be required under GAAP.

*Other Invested Assets:* The Companies' share of undistributed earnings and losses of investments in limited partnership interests is included in unrealized capital gains and losses through unassigned deficit as opposed to investment income under GAAP.

*Unearned Premiums:* Certain non-refundable policy fees are recognized as income when collected as opposed to being amortized over the life of the related insurance policies for GAAP.

*Policy Acquisition Costs:* The costs of acquiring and renewing business are expensed when incurred. Under GAAP, premium taxes and other variable underwriting and direct sales costs incurred in connection with writing successful new and renewal business, to the extent deemed recoverable from future unearned premiums and anticipated investment income, are deferred and amortized over the effective period of the related insurance policies.

*Non-admitted Assets:* Certain assets designated as "non-admitted", principally deferred tax assets exceeding certain prescribed limitations, prepaid expenses and security deposits, furniture and equipment, and other assets not specifically identified as an admitted asset within the NAIC *Accounting Practices and Procedures Manual* are excluded from the accompanying statutory balance sheets and are charged directly to unassigned deficit. Under GAAP, such assets are included in the balance sheets and assessed for impairment and allowance for doubtful accounts.

*Reinsurance:* Reserves for losses and loss adjustment expenses ceded to reinsurers have been reported as reductions of the related reserves rather than as assets as is required under GAAP.

*Ceding Commission Income:* Under statutory reporting practices, ceding commission income is earned in the year the related reinsurance premiums are ceded to the extent the Company has incurred acquisition costs either equal to or greater than the ceding commission amounts. Ceding commissions received in excess of the acquisition cost incurred are deferred and earned in proportion to the underlying reinsurance premiums. For GAAP, the ceding commissions are deferred and earned in proportion to the earning of the underlying reinsurance premiums.

*Provision for Reinsurance:* Under GAAP, reinsurance recoverables would be evaluated for collectability with changes in any provision for reinsurance reflected within the income statement. Under NAIC SAP, a provision for unauthorized or uncollectible reinsurance must be established with a corresponding reduction in surplus based upon specific formulas contained within Schedule F of the Annual Statement.

*Ceded Premium:* GAAP requires that the unexpired portion of reinsurance premiums be reported on a gross basis, where as NAIC SAP requires these unexpired premiums be netted against unearned premiums.

*Deferred Income Taxes:* Gross deferred tax assets are first reduced by a statutory valuation allowance to the extent that it is more likely than not that some portion or all of the gross deferred tax assets will not be realized. Adjusted gross deferred tax assets, which are gross deferred tax assets less any statutory valuation allowance, are then admitted in an amount equal to 1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse during a timeframe corresponding with Internal Revenue Service tax loss carryback provisions, not to exceed two years, plus 2) the lesser of the remaining adjusted gross deferred tax assets expected to be realized within the applicable period following the balance sheet date or the applicable percentage of capital and surplus excluding any net deferred tax assets, EDP equipment and operating software and any net positive goodwill, plus 3) the amount of remaining adjusted gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The applicable period following the balance sheet date and the percentage of capital and surplus are a function of certain Risk-Based Capital (RBC) requirements as specified by the NAIC. Any remaining deferred tax assets are non-admitted.

Changes in deferred income taxes are credited or charged directly to unassigned surplus.

Deferred taxes do not include amounts for state income taxes. Under GAAP, state income taxes are included in the computation of deferred taxes, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance is established for deferred tax assets not realizable.

*Operating Leases:* An asset for operating lease right of use assets and a liability for operating lease liabilities are not recognized on the consolidated balance sheets - statutory basis as they are under GAAP.

*Statements of Cash Flows:* Cash and short-term investments in the statements of cash flows represent cash balances with initial maturities of three months or less and investments with initial maturities of one year or less. In addition, under statutory basis reporting the use of a direct method cash flow does not require a reconciliation of net income to cash flows from operating activities as required under GAAP.

*Statement of Comprehensive Income:* Comprehensive income and other accumulated income is not determined for statutory reporting purposes.

A reconciliation of the Companies' capital and surplus as shown in the accompanying consolidated statutory financial statements to stockholder's equity on a GAAP basis is shown below.

| | December 31, | |
|---|---|---|
| | **2024** | **2023** |
| Total capital and surplus | **$ 166,301,096** | $ **121,193,930** |
| Non-admitted assets | **5,023,055** | **7,436,019** |
| Deferred acquisition costs | **7,103,490** | **9,445,611** |
| Deferred tax asset | **(1,107,077)** | **(1,631,462)** |
| Adjust bonds to market value | **(6,600,311)** | **(7,608,999)** |
| Deferred policy fees | **(1,103,312)** | **(753,567)** |
| Net operating lease liability | **(221,930)** | **(231,843)** |
| Adjust carrying value of investment in subsidiary to GAAP equity | **(39,926)** | **(3,066)** |
| Other | **321,983** | **—** |
| Stockholders' equity - GAAP | **$ 169,677,069** | $ **127,846,624** |

A reconciliation of the Companies' net income as shown in the accompanying consolidated statutory financial statements to net income on a GAAP basis is shown below.

| | December 31, | |
|---|---|---|
| | **2024** | **2023** |
| Net income | **$ 25,558,216** | $ **14,891,009** |
| Deferred acquisition costs | **(2,342,121)** | **2,388,574** |
| Loss from other invested assets | **226,349** | **1,008,241** |
| Deferred policy fees | **(346,508)** | **(196,942)** |
| Equity in loss of subsidiary | **(36,860)** | **(11,381)** |
| Unrealized gain on common and preferred stocks | **466,264** | **1,145,540** |
| Deferred income tax benefit (expense) | **217,114** | **(3,249,103)** |
| Other | **(54,176)** | **(33,344)** |
| Net income - GAAP | $ **23,688,278** | **$ 15,942,594** |

Other significant accounting policies are as follows:

**Investments**

Bonds, stocks and short-term investments are stated at values prescribed by the NAIC, as follows:

Bonds not backed by other loans are principally stated at amortized cost using the interest method. Certain bonds are carried at fair value in accordance with NAIC designations.

Single class and multi-class mortgage-backed/asset-backed securities not subject to impairment are valued at amortized cost using the interest method including anticipated prepayments. Prepayment assumptions are obtained from dealer surveys or internal estimates and are based on the current interest rate and economic environment. The retrospective adjustment method is used to value all such securities.

Common stocks (investments in mutual funds) and preferred stocks are carried at fair value.

Other-than-temporary impairment (OTTI) is deemed to have occurred if it is determined that the Companies do not expect to recover the entire amortized cost basis of a security. If the Companies intend to sell or have assessed that they do not have the intent and ability to retain a security for a period of time sufficient to recover its amortized cost basis, OTTI is recorded as the difference between amortized cost and fair value and is included in the consolidated statements of income – statutory basis. In situations whereby the Companies have no intent to sell the security and the Companies have the intent and ability to hold, the OTTI is recorded as the difference between the security's amortized cost and the present value of cash flows expected to be collected, discounted at the security's effective interest rate.

Other invested assets consist of an investment in the common stock of a real estate investment trust that is stated at fair value and limited partnership interests that are stated at the Companies' share of the underlying GAAP equity of the partnerships. These investments are all audited annually. The change in the fair value of the real estate investment trust and the Companies' undistributed earnings and losses of investments in limited partnership interests are included in unrealized capital gains and losses.

Short-term investments, which include investments with remaining maturities of one year or less at the time of acquisition and money market mutual funds, are stated at amortized cost.

FAIC's non-insurance company subsidiary, if audited, would be reported at its underlying audited statutory equity. At both December 31, 2024 and 2023, the carrying value of Services is zero since Services has not been audited for these years.

Realized capital gains and losses are determined using the specific identification method. Changes in admitted asset carrying amounts of bonds and stocks are credited or charged directly to unassigned deficit.

Management regularly reviews the fair value of the Companies' investments. If the fair value of any investment falls below its cost basis, the decline is analyzed to determine whether it is an other-than-temporary decline in fair value. To make this determination for each security, the following are considered:

- The length of time and the extent to which the fair value has been below cost.

- The financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings potential.

- Future discounted cash flows from mortgage-backed securities estimated considering collateral quality, credit enhancements, default rates, loss severities and the securities' relative position within their respective capital structures.

- Management's intent and ability to hold the security long enough for it to recover its value.

Based on that analysis, management makes a judgment as to whether the loss is other-than-temporary. If the loss is other-than-temporary, an impairment charge is recorded within net realized capital gains (losses) in the consolidated statements of income – statutory basis in the period the determination is made. The cost is not adjusted for any subsequent recovery in fair value. The Companies recognized OTTI of $93,257 in 2024. There was no OTTI recorded during 2023.

**Furniture and Equipment and Electronic Data Processing Equipment**

Furniture and equipment are non-admitted and the admitted value of electronic data processing equipment (including operating software) is limited to three percent of capital and surplus. Electronic data processing (EDP) equipment and operating software is depreciated using the straight-line method over the lesser of its useful life or three years. The admitted portion of electronic data processing equipment is reported at cost less accumulated depreciation of $8,649,531.48 and $8,537,027 at December 31, 2024 and 2023, respectively. Nonoperating software is depreciated using the straight-line method over the lesser of its useful life or five years. Non-admitted furniture and equipment is depreciated using the straight-line method over five years.

Depreciation expense charged to income in other underwriting expenses incurred in the consolidated statements of income – statutory-basis in 2024 and 2023, was $1,118,061 and $1,059,297, respectively.

**Premiums**

Premiums are earned pro rata over the terms of the policies. The reserve for unearned premiums is determined on a daily pro rata basis. The Companies use anticipated investment income in their premium deficiency calculations.

**Loss and Loss Adjustment Expense Reserves**

Loss and loss adjustment expense reserves represent management's best estimate of the ultimate net cost of all reported and unreported losses incurred through December 31, 2024 and 2023. The Companies do not discount loss and loss adjustment expense reserves. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes the reserves for losses and loss adjustment expenses are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Salvage and subrogation recoverables are estimated using historical statistics. Recoverable amounts deducted from the liability for losses and loss adjustment expenses were approximately $6,307,010 and $4,641,200 at December 31, 2024 and 2023, respectively.

**Reinsurance**

Ceded premium is expensed over the period that coverage is provided. Losses and loss adjustment expenses are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

**Non-admitted Assets**

Certain assets are designated as "non-admitted" and have been charged to capital and surplus as follows:

| | December 31, | |
|---|---|---|
| | **2024** | **2023** |
| Furniture and equipment | **$ 1,223,809** | $ 1,971,922 |
| Prepaid expenses and security deposits | **3,630,992** | 4,050,023 |
| Deferred income taxes | **91,421** | 1,015,407 |
| Other | **74,329** | 398,674 |
| | **$ 5.020,551** | $ 7,436,026 |

Recent Accounting Pronouncements: Effective January 1, 2025, the National Association of Insurance Commissioners (NAIC) has implemented significant revisions to the classification of bonds for statutory accounting purposes. These changes are part of the principles-based bond definition project, which redefines the criteria for investments to be treated as bonds. Bonds are now classified based on their economic substance rather than their legal form. The new definitions distinguish between issuer credit obligations and asset-backed securities. Issuer credit obligations are bonds for which the primary source of repayment is the general creditworthiness of an operating entity. Asset-backed securities are bonds backed by financial or cash-generating non-financial assets, where repayment primarily relies on the cash flows from the underlying collateral. SSAP No. 26R "Bonds" and SSAP No. 43R "Loan-Backed and Structured Securities" have been updated to reflect these new classifications. Furthermore, SSAP No. 43R has been retitled to SSAP No. 43R – Asset-Back Securities.

Under the new definitions, some securities previously reported as a bond may no longer meet the definition of a bond. These may include debt securities that don't reflect a creditor relationship in substance, don't qualify for bond reporting due to a lack of substantive credit enhancement, or don't qualify for bond reporting due solely to a lack of meaningful cash flows. These securities will now fall under SSAP No. 21, "Other Admitted Assets". All investments held as of January 1, 2025, will need to be evaluated under the revised definitions. This reclassification may affect the reported values and risk-based capital requirements of certain investments. These changes aim to enhance the accuracy and transparency of bond reporting, ensuring that the classification aligns more closely with the economic realities of the investments. The Company is currently evaluating the financial reporting effects of this updated guidance as of the issuance of these statutory basis financial statements.

**2. Investments**

The book/adjusted carrying value and the fair value of investments in bonds are summarized as follows:

| **December 31, 2024** | **Book/Adjusted Carrying Value** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
|---|---|---|---|---|
| U.S. government and agencies | **$ 33,550,443** | **$ 75,766** | **$ (127,367)** | **$ 33,498,842** |
| Political subdivisions | **3,009,784** | **4,229** | **(64,752)** | **2,949,261** |
| Revenue and assessment | **20,165,017** | **32,711** | **(193,692)** | **20,004,036** |
| Collateralized mortgage obligations | **75,344,773** | **771,740** | **(6,993,260)** | **69,123,252** |
| Corporate bonds | **117,102,267** | **516,691** | **(811,209)** | **116,807,749** |
| Asset-Backed Securities | **55,924,399** | **279,510** | **(90,678)** | **56,113,231** |
| | **$ 305,096,682** | **$ 1,680,647** | **$ (8,280,958)** | **$298,496,371** |

The book/adjusted carrying value and the fair value of investments in bonds are summarized as follows:

| December 31, 2023 | Book/Adjusted Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. government and agencies | $ 18,803,162 | $ 90,454 | $ (51,942) | $ 18,841,674 |
| Political subdivisions | 3,047,388 | 7,986 | (124,370) | 2,931,003 |
| Revenue and assessment | 18,890,672 | 83,322 | (180,060) | 18,793,934 |
| Collateralized mortgage obligations | 45,960,609 | 472,025 | (7,176,892) | 39,255,740 |
| Corporate bonds | 78,374,647 | 575,228 | (1,249,459) | 77,700,415 |
| Asset-Backed Securities | 35,198,766 | 167,912 | (221,976) | 35,144,702 |
| | $ 200,275,242 | $ 1,396,925 | $ (9,004,699) | $192,667,468 |

The book/adjusted carrying values in the tables above includes gross unrealized losses of $249,607 and $330,003 at December 31, 2024 and 2023, respectively, associated with certain collateralized mortgage investments that are being carried at fair value as opposed to amortized cost.

Fair values of bonds are based on quoted market prices by the NAIC Valuation of Securities Manual prepared by the Securities Valuation Office (SVO) or in the absence of SVO published unit prices or when amortized cost is used by the SVO as unit price, quoted market prices by other third-party organizations, where available. Gross unrealized losses shown in the foregoing table are believed to be temporary. The fair value and gross unrealized losses of bonds by length of time that individual bonds have been in a continuous unrealized loss position follows:

| | Less than 12 months | | 12 months or longer | | |
|---|---|---|---|---|---|
| **December 31, 2024** | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** | **Total Gross Losses** |
| U.S. government and agencies | **$14,852,366** | **$ (121,314)** | **$ 1,009,508** | **$ (6,053)** | **$ (127,367)** |
| Political subdivisions | **431,680** | **(10,233)** | **2,000,036** | **(54,520)** | **(64,753)** |
| Revenue and assessment | **5,559,421** | **(75,723)** | **7,623,244** | **(117,968)** | **(193,691)** |
| Collateralized mortgage obligations | **21,245,719** | **(400,228)** | **32,750,048** | **(6,593,032)** | **(6,993,260)** |
| Corporate bonds | **30,212,818** | **(188,980)** | **26,458,708** | **(622,229)** | **(811,209)** |
| Asset-backed securities | **10,648,304** | **(53,892)** | **3,039,140** | **(36,786)** | **(90,678)** |
| | **$82,950,308** | **$ (850,370)** | **$72,880,683** | **$(7,430,588)** | **$ (8,280,958)** |

The fair value and gross unrealized losses of bonds by length of time that individual bonds have been in a continuous unrealized loss position follows:

| | Less than 12 months | | 12 months or longer | | |
|---|---|---|---|---|---|
| **December 31, 2023** | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** | **Total Gross Losses** |
| U.S. government and agencies | $ 2,00,193 | $ (14,235) | $ 4,659,363 | $ (37,708) | $ (51,942) |
| Political subdivisions | — | — | 2,414,905 | (124,370) | (124,370) |
| Revenue and assessment | 6,107,859 | (58,833) | 3,667,527 | (121,227) | (180,060) |
| Collateralized mortgage obligations | 1,320,858 | (19,554) | 36,847,757 | (7,157,339) | (7,176,892) |
| Corporate bonds | 7,137,926 | (28,802) | 32,984,280 | (1,220,657) | (1,249,459) |
| Asset-backed securities | 8,129,734 | (56,840) | 5,072,771 | (165,136) | (221,976) |
| | $24,696,570 | $ (178,263) | $85,646,604 | $(8,826,436) | $ (9,004,669) |

A summary of the book/adjusted carrying value and fair value of the Companies' investments in bonds at December 31, 2024, by contractual maturity, is as follows:

| | Book/Adjusted Carrying Value | Fair Value |
|---|---|---|
| One year or less | $ 27,559,258 | **$ 27,442,427** |
| After one through five | 174,919,265 | **174,695,431** |
| After five through ten | 24,895,755 | **24,876,657** |
| After ten | 2,570,057 | **2,541,035** |
| No single maturity date | 75,152,347 | **68,940,821** |
| | $ 305,096,682 | **$ 298,496,371** |

The expected maturities of the investments in the foregoing table may differ from the contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Fair value is the price that would be received upon the sale of an investment in an orderly transaction between market participants at the measurement date. Fair value measurements are generally based upon observable and unobservable inputs. Observable inputs are based on market data from independent sources, while unobservable inputs reflect the Companies' view of market assumptions in the absence of observable market information. Fair values are classified and disclosed in one of the following categories:

Level 1 – Quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Quoted market prices for similar assets or liabilities in active markets; quoted prices by independent pricing services for identical or similar assets or liabilities in markets that are not active; and valuations, using models or other valuation techniques, that use observable market data. All significant inputs are observable, or derived from observable information in the marketplace, or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 – Instruments that use non-binding broker quotes, observable information from limited private transactions or model driven valuations that do not have observable market data.

NAV – Calculated net asset value ("NAV") based on an ownership interest to which a proportionate share of net assets is attributed.

Fair values were determined by management after taking into consideration available sources of data. All of the portfolio valuations classified as Level 1 or Level 2 in the following tables are priced exclusively by utilizing the services of a single independent pricing service using observable market data. The Level 3 classified security in the table below represents the Companies' investment in the common stock of a real estate investment trust for which fair value has been determined based upon observable information from a limited private transaction. Securities in the "NAV" category are limited partnerships for which fair value is estimated based on the Companies' ownership interests in partners' capital (based on the underlying GAAP equity of the partnerships).

The following is a summary of the fair value and admitted value of all investments by type of financial instrument.

| **December 31, 2024** | **Fair Value** | **Admitted Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Proportionate Share of Net Assets (NAV)** |
|---|---|---|---|---|---|---|
| Common stock | $ 12,021,316 | $ 12,021,316 | $ 12,021,316 | $ — | $ — | $ — |
| Preferred stock | 3,661,188 | 3,661,188 | 3,661,188 | — | — | — |
| Other investments | 7.722.529 | 7,722,529 | — | — | 1,989,259 | 5,733,270 |
| Total recurring fair value measurements | 23,405,033 | 23,405,033 | 15,682,504 | — | 1,989,259 | 5,733,270 |
| Bonds | 298,496,371 | 305,096,682 | 33,734,791 | 264,761,580 | — | — |
| Cash and short-term investments | 63,038,034 | 63,038,034 | 63,038,034 | — | — | — |
| Total non-recurring fair value measurements | 361,534,405 | 368,134,716 | 96,772,825 | 264,761,580 | — | — |
| Total at fair value | $ 384,939,438 | $ 391,539,749 | $ 112,455,329 | $ 264,761,580 | $ 1,989,259 | $ 5,733,270 |

| December 31, 2023 | Fair Value | Admitted Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Proportionate Share of Net Assets (NAV) |
|---|---|---|---|---|---|---|
| Common stock | $ 7,226,207 | $ 7,226,207 | $ 7,226,207 | $ — | $ — | $ — |
| Preferred stock | 3,008,276 | 3,008,276 | 3,008,276 | — | — | — |
| Other investments | 5,638,847 | 5,638,847 | — | — | 1,089,259 | 4,549,588 |
| Total recurring fair value measurements | 15,873,330 | 15,873,330 | 10,234,483 | — | 1,089,259 | 4,549,588 |
| Bonds | 192,667,468 | 200,275,242 | 19,073,843 | 173,593,625 | — | — |
| Cash and short-term investments | 86,274,892 | 86,274,892 | 86,274,892 | — | — | — |
| Total non-recurring fair value measurements | 278,942,360 | 286,550,134 | 105,348,735 | 173,593,625 | — | — |
| Total at fair value | $ 294,815,690 | $302,423,464 | $ 115,583,218 | $ 173,593,625 | $ 1,089,259 | $ 4,549,588 |

The following is a summary of bonds that have been designated by the NAIC to be stated at fair value with the resulting unrealized loss charged against unassigned deficit.

| | December 31, 2024 | December 31, 2023 |
|---|---|---|
| Amortized cost | **$ 1,021,274** | $ 1,165,939 |
| Fair value | **771,667** | 835,937 |
| Unrealized loss charged against unassigned deficit | **$ 249,607** | $ 330,003 |

At December 31, 2024 and 2023, the Companies had bonds and short-term investments with a book adjusted carrying value of $6,721,566 and $6,724,481 respectively, on deposit with various insurance departments to satisfy regulatory requirements. In addition, at December 31, 2024 and 2023, FAIC had short-term investments with an amortized cost of $6,910,489 and $4,209,678, respectively, held as collateral under its assumed reinsurance agreement with a Texas insurance company.

Net realized capital gains from the sales, maturities and paydowns of investments were as follows:

| | December 31, 2024 | December 31, 2023 |
|---|---|---|
| Gains | **$ 588,645** | $ 510,700 |
| Losses | **(6,657)** | (10,308) |
| Net realized capital gains | **$ 581,988** | $ 500,392 |

The major categories of net investment income were as follows:

| | December 31, | |
|---|---|---|
| | **2024** | 2023 |
| Bonds | **$ 10,530,249** | $ 4,876,588 |
| Common stocks | **271,297** | 251,030 |
| Preferred stock | **227,756** | 199,473 |
| Income (loss) other invested assets | **441,926** | (35,140) |
| Cash and short-term investments | **3,430,286** | 2,458,605 |
| | **14,901,514** | 7,750,556 |
| Investment expenses | **(589,202)** | (536,406) |
| Net investment income | **$ 14,312,312** | $ 7,214,150 |

## 3. Other Invested Assets

Other invested assets consist of an investment in the common stock of a real estate investment trust, limited partnership interests in four funds that invest in (i) undervalued international publicly-traded equities, (ii) a pre-identified pool of select buyout private equity funds, (iii) middle-market infrastructure equity and equity-like investments and (iv) secondary fund investments in private equity, and a secured loan to an affiliate, that was repaid in full in December 2023. These investments have redemption and transfer restrictions. However, the Companies do not intend to sell these investments and it is more likely than not that the Companies will not be required to sell them before the restrictions expire. At December 31, 2024, the Companies had unfunded commitments of $6.2 million to these investments.

Any change in the fair value of the real estate investment trust and the Companies' share of undistributed earnings and losses of investments in limited partnership interests are included in unrealized capital gains and losses.

## 4. Losses and Loss Adjustment Expenses

The following table provides a reconciliation of the beginning and ending reserve balances for losses and loss adjustment expenses (LAE), net of reinsurance recoverables:

| | December 31, | |
|---|---|---|
| | **2024** | **2023** |
| | *(in thousands)* | |
| Reserve for losses and LAE at beginning of period | **$ 165,293** | $ 106,972 |
| Add provision for claims, net of reinsurance of $33,031 and $(21) respectively, occurring in: | | |
| Current year | **348,445** | 274,648 |
| Prior years | **13,283** | 1,714 |
| Net incurred losses and LAE during the current period | **361,728** | 276,362 |
| Deduct payments for claims, net of reinsurance, occurring in: | | |
| Current year | **180,078** | 141,061 |
| Prior years | **129,933** | 76,980 |
| Net claim payments during the current period | **310,011** | 218,041 |
| Less provisions for claims, net of reinsurance of $9,686 and $73, respectively | | |
| Reserve for losses and LAE at end of period | **$ 217,010** | $ 165,293 |

The Companies' liabilities for prior years unpaid losses and LAE, net of related reinsurance recoverables, at December 31, 2024 and 2023, increased by approximately $13,283,000 and $1,714,000, respectively.

The unfavorable change in this estimate for the year ended December 31, 2024 was primarily attributable to higher-than-expected property damage and bodily injury losses in the 2023 accident year.

The unfavorable change in this estimate for the year ended December 31, 2023 was primarily attributable to higher-than-expected collision losses in the 2022 accident year.

The Companies made payments of $2,568,641 and $760,000 on a direct basis for claims related to extra contractual obligation or bad faith losses for the year ended December 31, 2024 and 2023, respectively.

## 5. Reinsurance

Effective July 1, 2024, the Companies utilize quota-share reinsurance with an unaffiliated reinsurer to reinsure a portion of the business produced by their second largest independent agent which utilizes a technology-driven method of distribution. The reinsurance covers 50% of both the business in force as of July 1, 2024 and new and renewal business after this date through June 30, 2025, up to a combined total of $137.5 million of ceded premiums written. Although the reinsurance agreement contractually obligates the reinsurer to reimburse the Companies for their share of losses, it does not discharge the primary liability of the Companies, which remains contingently liable in the event the reinsurer is unable to meet their contractual obligations. The ceding commission income is adjustable based upon the loss ratio of the reinsured business.

FAIC has also assumed private-passenger non-standard automobile insurance premiums from an unrelated insurance company in Texas.

The following tables reconcile direct amounts to net as a result of reinsurance arrangements with unrelated parties:

| **Year Ended December 31, 2024** | **Premiums Written** | **Premiums Earned** | **Losses and Loss Adjustment Expenses** |
|---|---|---|---|
| Direct | **$ 527,624,954** | **$ 525,027,868** | **$ 388,005,617** |
| Assumed | **14,942,733** | **14,140,022** | **6,753,347** |
| Ceded | **(75,913,278)** | **(47,361,426)** | **(33,031,565)** |
| Net | **$ 466,654,409** | **$ 491,806,464** | **$ 361,727,399** |

| **Year Ended December 31, 2023** | **Premiums Written** | **Premiums Earned** | **Losses and Loss Adjustment Expenses** |
|---|---|---|---|
| Direct | $ 447,987,222 | $ 390,774,929 | $ 272,303,185 |
| Assumed | 8,598,762 | 6,169,628 | 3,912,042 |
| Ceded | — | — | 146,838) |
| Net | $ 456,585,984 | $ 396,944,557 | $ 276,362,065 |

Amounts related to ceded unpaid losses and loss expenses are netted against the respective liabilities in the consolidated statutory-basis financial statements. Ceded reserve amounts are as follows:

| | **December 31,** | |
|---|---|---|
| | **2024** | **2023** |
| Ceded loss and loss expense reserves | **$ 23,347,282** | $ 2,073 |

At both December 31, 2024 and 2023, the Companies did not have any unsecured aggregate reinsurance recoverable from any individual reinsurer in excess of 3% of total capital and surplus.

## 6. Intercompany Reinsurance Arrangement

The following table outlines the participants and their pooling percentage within the Companies' Reinsurance and Pooling Agreement ("Pooling Agreement").

| | | Pooling Percentage | |
|---|---|---|---|
| **Company** | **NAIC Code** | **2024** | **2023** |
| FAIC | 10336 | 59% | 59% |
| FAIC-GA | 11508 | 28% | 28% |
| FAIC-TN | 12825 | 13% | 13% |

Under the terms of the Pooling Agreement, participants cede to FAIC all of their insurance business and assume from FAIC an amount equal to their respective participation percentages outlined in the Pooling Agreement. All business written, assumed or ceded by each participant is subject to the Pooling Agreement. All premiums, losses, loss adjustment expenses, underwriting expenses and finance and service charge income are allocated among the participants on the basis of each company's respective participation percentage outlined in the Pooling Agreement. The Pooling Agreement provides indemnification against loss or liability relating to insurance risk and is accounted for as reinsurance (See Note 17).

Unpaid balances between the participants are settled quarterly and have been eliminated in consolidation.

## 7. Income Taxes

The Companies file on a consolidated return basis with their ultimate parent company, First Acceptance Corporation, and the following of its subsidiaries: FAC Holdings, Inc., Transit Automobile Club, Inc., Acceptance Insurance Agency of Tennessee, Inc.(sold effective December 1, 2023), First Acceptance Services, Inc., and First Acceptance Insurance Services, Inc. The Companies have a written tax sharing agreement that sets forth the manner in which the total combined federal income tax is allocated to each entity that is a party to the consolidation. Pursuant to this agreement, the Companies have the enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which they may incur, or to recoup their net losses carried forward as an offset to future net income subject to federal income taxes. The Companies are generally not subject to U.S. federal, state or local income tax examinations by tax authorities for taxable years prior to 2017.

The components of the net deferred income tax asset are as follows:

| **December 31, 2024** | **Ordinary** | **Capital** | **Total** |
|---|---|---|---|
| Gross deferred tax assets | **$ 10,005,715** | **$ 420,219** | **$ 10,425,925** |
| Statutory valuation allowance adjustments | **—** | **(352,290)** | **352,290** |
| Adjusted gross deferred tax assets | **10,005,715** | **67,929** | **10,073,644** |
| Deferred tax assets non-admitted | **(91,420)** | **—** | **(91,420)** |
| Net admitted deferred tax assets | **9,914,295** | **67,929** | **9,982,224** |
| Deferred tax liabilities | **(329,770)** | **(488,273)** | **(818,042)** |
| Net admitted deferred income tax asset | **$ 9,584,525** | **$ (420,344)** | **$ 9,164,182** |
| Change in non-admitted | **$ 923,986** | **$ —** | **$ 923,986** |

| **December 31, 2023** | **Ordinary** | **Capital** | **Total** |
|---|---|---|---|
| Gross deferred tax assets | $ 10,459,317 | $ 403,653 | $ 10,862,970 |
| Statutory valuation allowance adjustments | — | (333,470) | (333,470) |
| Adjusted gross deferred tax assets | 10,459,317 | 70,183 | 10,529,500 |
| Deferred tax assets non-admitted | (1,015,407) | — | (1,015,407) |
| Net admitted deferred tax assets | 9,443,910 | 70,183 | 9,514,093 |
| Deferred tax liabilities | (356,369) | (392,612) | (748,981) |
| Net admitted deferred income tax asset | $ 9,087,541 | $ (322,428) | $ 8,765,112 |
| Change in non-admitted | $ 7,880,209 | $ — | $ 7,880,209 |

| **December 31, 2024** | **Ordinary** | **Capital** | **Total** |
|---|---|---|---|
| **Admission calculation components SSAP No. 101** | | | |
| a. Federal income taxes paid in prior years recoverable through loss carrybacks | **$ 7,438,402** | **$ —** | **$ 7,438,402** |
| b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation (the lesser of 2(b)1 and 2(b)2 below) | **2,475,893** | **67,929** | **2,543,822** |
| i. Adjusted gross deferred tax assets expected to be realized following the balance sheet date | **2,475,893** | **67,929** | **2,543,822** |
| ii. Adjusted gross deferred tax assets allowed per limitation threshold | **2,475,893** | **67,929** | **2,543,822** |
| c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities | **(329,770)** | **(488,273)** | **(818,043)** |
| d. Deferred tax assets admitted as the result of application of SSAP No. 101. Total (2(a) + 2(b) + 2(c)) | **$ 9,584,525** | **$ (420,344)** | **$ 9,164,181** |

| | 2024 | 2023 |
|---|---|---|
| Ratio percentage used to determine recovery period and threshold limitation amount: | | |
| FAIC | **334%** | 293% |
| FAIC - GA | **307%** | 306% |
| FAIC - TN | **336%** | 304% |
| Amount of adjusted capital and surplus used to determine recovery period and threshold limitation: | | |
| FAIC | **$ 159,848,551** | $ 115,240,846 |
| FAIC - GA | **51,517,733** | 41,925,231 |
| FAIC - TN | **26,107,834** | 19,739,155 |

| **December 31, 2023** | **Ordinary** | **Capital** | **Total** |
|---|---|---|---|
| **Admission calculation components SSAP No. 101** | | | |
| a. Federal income taxes paid in prior years recoverable through loss carrybacks | $ 1,319,959 | $ — | $ 1,319,959 |
| b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation (the lesser of 2(b)1 and 2(b)2 below) | 8,123,951 | 70,183 | 8,194,134 |
| i. Adjusted gross deferred tax assets expected to be realized following the balance sheet date | 8,123,951 | 70,183 | 8,194,134 |
| ii. Adjusted gross deferred tax assets allowed per limitation threshold | 8,123,951 | 70,183 | 8,194,134 |
| c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities | (356,369) | (392,612) | (748,981) |
| d. Deferred tax assets admitted as the result of application of SSAP No. 101. Total (2(a) + 2(b) + 2(c)) | $ 9,087,541 | $ (322,428) | $ 8,765,112 |

The statutory valuation allowances at December 31, 2024 and 2023, were recorded based upon management’s assessment, based on the weight of available evidence, as to the amount of deferred tax assets that are more likely than not to be realized.

Tax-planning strategies did not have any impact on adjusted gross and net admitted deferred tax assets. The Companies’ tax-planning strategies do not include the use of reinsurance.

The Companies did not have any protective tax deposits admitted under section 6603 of the Internal Revenue Code.

The Companies had no unrecognized tax benefits booked as of December 31, 2024 and 2023, and they do not expect any material changes to the unrecognized tax benefits within twelve months of the reporting date.

There are no deferred tax liabilities for which temporary differences have not been established.

The tax effects of temporary differences that give rise to net deferred income tax assets are as follows:

| December 31, 2024 | Ordinary | Capital | Total |
|---|---|---|---|
| **Deferred tax assets:** | | | |
| Discounting of unpaid losses and loss adjustment expenses | **$ 1,850,936** | **$ —** | **$ 1,850,936** |
| Change in unearned premiums reserve | **5,748,153** | **—** | **5,748,153** |
| Other-than-temporary impairment | **—** | **420,219** | **420,219** |
| Non-admitted assets | **1,023,478** | **—** | **1,023,478** |
| Accrued expenses | **870,037** | **—** | **870,037** |
| Depreciation | **(61,414)** | **—** | **(61,414)** |
| Other | **574,526** | **—** | **574,526** |
| Total gross deferred tax assets | **10,005,715** | **420,219** | **10,425,935** |
| Statutory valuation allowance adjustment | **—** | **(352,290)** | **(352,290)** |
| Total adjusted deferred tax assets | **10,005,715** | **67,929** | **10,073,644** |
| Non-admitted deferred tax assets | **(91,420)** | **—** | **(91,420)** |
| Admitted deferred tax assets | **9,914,295** | **67,929** | **9,982,224** |
| **Deferred tax liabilities:** | | | |
| Investment in partnerships | **(244,764)** | **—** | **(244,764)** |
| Discounting of unpaid losses | **(85,005)** | **—** | **(85,005)** |
| Unrealized gain on investments | **—** | **(488,273)** | **(488,273)** |
| Total deferred tax liabilities | **(329,770)** | **(488,273)** | **(818,043)** |
| Net admitted deferred tax assets | **$ 9,584,525** | **$ (420,344)** | **$ 9,164,181** |

| December 31, 2023 | Ordinary | Capital | Total |
|---|---|---|---|
| **Deferred tax assets:** | | | |
| Discounting of unpaid losses and loss adjustment expenses | $ 1,367,630 | $ — | $ 1,367,630 |
| Change in unearned premiums reserve | 6,806,656 | — | 6,806,656 |
| Unrealized capital losses | — | 403,653 | 403,653 |
| Non-admitted assets | 1,268,640 | — | 1,268,640 |
| Accrued expenses | 888,875 | — | 886,875 |
| Depreciation | (225,708) | — | (225,708) |
| Other | 355,223 | — | 355,223 |
| Total gross deferred tax assets | 10,459,317 | 403,653 | 10,862,970 |
| Statutory valuation allowance adjustment | — | (333,470) | (333,470) |
| Total adjusted deferred tax assets | 10,459,317 | 70,183 | 10,529,500 |
| Non-admitted deferred tax assets | (1,015,407) | — | (1,015,407) |
| Admitted deferred tax assets | $ 9,443,910 | $ 70,183 | $ 9,514,093 |
| **Deferred tax liabilities:** | | | |
| Investment in partnerships | (186,359) | — | (186,359) |
| Discounting of unpaid losses | (170,010) | — | (170,010) |
| Unrealized gain on investments | — | (392,612) | (392,612) |
| Total deferred tax liabilities | (356,369) | (392,612) | (748,981) |
| Net admitted deferred tax assets | $ 9,087,541 | $ (322,428) | $ 8,765,112 |

The change in net deferred income taxes is comprised of the following:

| | 2024 | 2023 | 2022 | 2024 Change | 2023 Change |
|---|---|---|---|---|---|
| Total deferred income tax assets | **$10,073,644** | $10,529,500 | $12,972,799 | **$ (455,856)** | $(2,443,299) |
| Total deferred income tax liabilities | **(818,042)** | (748,981) | (508,124) | **(69,061)** | (240,857) |
| Net deferred income tax assets | **$ 9,255,602** | $ 9,780,519 | $12,464,675 | **(524,917)** | (2,684,156) |
| Tax effect of unrealized gains | | | | **—** | — |
| Change in net deferred income tax | | | | **$ (524,917)** | $(2,684,156) |

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate of 21% to income before income taxes. The significant items causing this difference are as follows:

| | December 31, 2024 | December 31, 2023 |
|---|---|---|
| Tax computed at statutory rate | **$ 6,709,222** | $ 3,510,419 |
| Tax-exempt income | **(41,705)** | (19,659) |
| Change in statutory valuation allowance adjustment | **18,820** | 81,865 |
| Other | **229,041** | 332,750 |
| Total | **$ 6,915,378** | $ 3,905,375 |
| Federal income tax | **$ 6,390,461** | $ 1,221,219 |
| Change in net deferred income tax | **524,917** | 2,684,156 |
| Total statutory tax | **$ 6,915,378** | $ 3,905,375 |

Federal income taxes of $7,438,402 are available for recoupment in the event of future net losses.

## 8. Statutory Capital and Surplus and Dividend Restrictions

Property and casualty insurance companies are subject to certain Risked-Based Capital (“RBC”) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by an insurance company is to be determined based on the various risk factors related to it. At December 31, 2024, all of the Companies met their respective RBC requirements.

FAIC, FAIC-GA and FAIC-TN are required by the Insurance Departments of their respective states of domicile to maintain capital and surplus of $5,000,000, $3,000,000 and $2,000,000, respectively. At December 31, 2024, all of the Companies met their respective requirements.

The future maximum amount of dividends which can be paid by the Companies to their respective stockholders, without the prior approval of the Insurance Departments of their respective states of domicile, is limited to the greater of 10% of statutory capital and surplus as of December 31, next preceding or net income (not including realized capital gains or losses) for the year, limited to the balance of unassigned surplus. Accordingly, as of December 31, 2024, the future maximum dividend payouts, which may be made without prior approval within the preceding twelve-month period, are as follows:

- FAIC is able to pay dividends to Holdings of $16,603,000 at December 31, 2024.

- FAIC-GA is unable to pay any dividends to FAIC as a result of a deficit in unassigned surplus at December 31, 2024.

- FAIC-TN is able to pay dividends to FAIC of $3,619,000 at December 31, 2024.

The National Association of Insurance Commissioners ("NAIC") Model Act for risk-based capital provides formulas to determine each December 31 on an annual basis the amount of statutory capital and surplus that an insurance company needs to ensure that it has an acceptable expectation of not becoming financially impaired. Failure to meet applicable minimum risk-based capital requirements could subject our insurance company subsidiaries to further examination or corrective action imposed by state regulators, including limitations on their writing of additional business, state supervision or even liquidation. Risk-based capital calculations are only made as of each December 31, and the three insurance company subsidiaries were each above the minimum regulatory company action levels as of December 31, 2024. Failure to maintain an adequate RBC could subject the Insurance Companies to regulatory action and could restrict the payment of dividends. There are also statutory guidelines that suggest that on an annual calendar year basis an insurance company should not exceed a ratio of net premiums written to statutory capital and surplus of 3-to-1. For the year ended December 31, 2024, each insurance company subsidiary was within this guideline.

In 2024, FAIC received cash contributions of $16 million from their parent FAC Holdings, Inc. FAIC, the parent company, made a cash contribution of $2.5 million to both FAIC-GA and FAIC-TN.

During 2023, FAC Holdings, Inc. made cash contributions of $14.4 million to FAIC, $15.0 million to FAIC- GA, and $7.0 million to FAIC-TN.

**9. Lease Obligations**

The Companies are committed under various operating lease agreements for office space. Rental expense for 2024 and 2023 was $777,853 and $1,828,844, respectively. Future minimum lease payments under these agreements are as follows (in thousands):

| Years ended December 31: | | |
|---|---|---|
| 2025 | $ | 975 |
| 2026 | | 985 |
| 2027 | | 996 |
| 2028 | | 780 |
| 2029 | | 2,024 |
| Total | $ | 5,760 |

**10. Related-Party Transactions**

FAIC and FAIC-GA operated under managing general agencies agreements for the states of Florida and Georgia with AITN and FAIS. FAIC also operated under a broker agreement with AITN in the state of California and under a general agency agreement with AITN in all other states. Commissions paid during 2023 (through the December 1, 2023 sale of AITN), under these agreements were $30,358,114, and have been allocated to the appropriate underwriting expense classifications as if these costs have been borne directly by the Companies in the consolidated statements of income – statutory-basis. There were no payments to FAIS in 2024.

The Companies operate under an agreement with Services for claims handling services whereby Services charges the Companies for actual costs incurred ($51,009,963 and $34,850,425 for 2024 and 2023, respectively).

The Companies operate under an administrative cost-sharing agreement amongst themselves. Under such arrangement, certain costs incurred by FAIC on behalf of FAIC-GA and FAIC-TN are allocated to them and recorded as direct expenses, primarily based on premiums written and/or square footage utilized. Costs allocated amongst the Companies are eliminated in consolidation.

The Companies operate under standard agreements for treasury and custodial services with a bank indirectly owned by Gerald J. Ford, the controlling stockholder of FAC. Treasury fees are reflected in the statement of income – statutory basis within other underwriting expenses and custodial fees are reflected in the statement of income– statutory basis within net investment income. The fees under this agreement for the years ended December 31, 2024 and 2023 were $131,309 and $140,595, respectively, reflected in the statement of income -statutory basis, within net investment income.

At December 31, 2024, intercompany balances due to and from FAIS and SERV under these agreements are reflected in receivable from affiliates and payable to affiliates in the consolidated balance sheets – statutory basis.

## 11. Direct Premiums Written by Managing General Agents

FAIC and FAIC-GA wrote $289,613,786 and $249,931,078, respectively, in direct premiums for the years ended December 31, 2024 and 2023, respectively, through the following affiliated managing general agency:

Acceptance Insurance Agency of Tennessee, Inc. (AITN) (through November 30, 2023)
Nashville, TN
FEIN Number: 62-1552707

First Acceptance Insurance Services, Inc. (FAIS) (effective December 1, 2023)
Nashville, TN
FEIN Number: 93-1645443

AITN and FAIS operated under exclusive managing general agency contracts with FAIC and FAIC-GA for private-passenger non-standard automobile insurance in the states of Florida, and Georgia. AITN and FAIS had binding authority and also handled premium collection. FAIS receives no commissions from FAIC and FAIC-GA as managing general agency.

## 12. Stock-Based Compensation

FAC has issued Restricted Stock Units to certain employees of the Companies pursuant to the Amended and Restated First Acceptance Corporation 2002 Long Term Incentive Plan and Restricted Stock Unit Agreements. In 2024 and 2023, $900,736 and $299,372, respectively, were amortized and charged to compensation expense and recorded as a capital contribution.

## 13. Concentration of Credit Risk

The Company primarily transacts business directly with its policyholders, and through independently owned insurance agencies who write non-standard personal automobile insurance policies on behalf of the Company. Direct policyholders make payments directly to the Company. Balances due from policyholders are generally secured by the related unearned premium. The Company requires a down payment at the time the policy is originated, and subsequent scheduled payments are monitored in order to prevent the Company from providing coverage beyond the date for which payment has been received. If subsequent payments are not made timely, the policy is generally canceled at no loss to the Company. Policyholders whose premiums are written through independent agencies may make their payments to these agencies that in turn remit these payments to the Company. Balances due to the Company resulting from premium payments made to these agencies and contingent commission adjustments are unsecured.

## 14. Litigation

The Companies are named as a defendant in various lawsuits, arising in the ordinary course of business, generally relating to their insurance operations. All legal actions relating to claims made under insurance policies are considered by the Companies in establishing their loss and loss adjustment expense reserves. The Companies also face lawsuits that seek damages beyond policy limits, commonly known as bad faith claims, as well as class action and individual lawsuits that involve issues arising in the course of the Companies' business. The Companies continually evaluate potential liabilities and reserves for litigation of these types using the criteria established by SSAP 5, *Liabilities, Contingencies and Impairments of Assets*. Pursuant to SSAP 5, reserves for a loss may only be recorded if the likelihood of occurrence is probable and the amount can be reasonably estimated. If a loss, while not probable, is judged to be reasonably possible, management will disclose, if it can be estimated, a possible range of loss or state that an estimate cannot be made. Management evaluates each legal action in accordance with SSAP 5 and records reserves for losses as warranted by establishing a reserve within the Companies' consolidated balance sheet – statutory-basis in loss and loss adjustment expense reserves for bad faith claims and in a separate litigation settlement payable for any other lawsuits. Amounts incurred are recorded within the Companies' consolidated statements of income – statutory-basis in loss adjustment expenses for bad faith claims and in litigation settlement expense for other lawsuits.

**15. Fair Value of Financial Instruments**

The fair value of financial instruments has been estimated by the Companies using available market information and valuation methodologies considered appropriate to the circumstances:

Fair values for bonds and stocks are based on quoted market prices by the NAIC Valuation of Securities Manual prepared by the SVO, or in the absence of SVO published unit prices or when amortized cost is used by the SVO as unit price, quoted market prices by other third party organizations, where available. Other invested assets consist of an investment in a real estate investment trust for which fair value has been recorded at cost subject to future adjustment based upon any observable market data or in the event of any impairment. Investments in limited partnership interests that are stated at the Companies' share of the underlying GAAP equity of the partnerships. Additional information with respect to fair values of the Companies' investments is disclosed in Note 2.

For cash and short-term investments, agents' balances and premium installments booked but deferred and not yet due, and reinsurance recoverables, their fair values approximate their carrying amounts (prior to any non-admitted amounts) based upon their short maturities.

## 16. Expenses

The most significant components of expenses included in the accompanying consolidated statements of income – statutory-basis are as follows:

| | December 31, | |
|---|---|---|
| | **2024** | **2023** |
| Loss adjustment expenses: | | |
| Claim adjustment services - direct | **$ 10,860,734** | $ 9,263,020 |
| Salary and related items | **35,941,350** | 25,205,234 |
| Other underwriting expenses: | | |
| Commission and brokerage | **77,727,278** | 44,437,941 |
| Advertising | **490,378** | 3,304,501 |
| Surveys and underwriting reports | **5,801,544** | 3,023,212 |
| Salary and related items | **27.194,520** | 42,666,519 |
| Employee relations and welfare | **2,978,518** | 4,843,021 |
| Rent and rent items | **915,633** | 5,616,804 |
| Equipment | **1,191,857** | 1,542,304 |
| Cost or depreciation-EDP Equip/Software | **1,452,073** | 5,420,054 |
| Printing and stationary | **317,634** | 537,044 |
| Postage and telephone | **2,683,247** | 3,085,791 |
| Legal and auditing | **3,407,242** | 1,548,459 |
| Taxes, licenses, and fees | **13,301,909** | 11,076,606 |
| Bank and credit card fees | **2,823,413** | 3,134,706 |

## 17. Subsequent Event

In March 2025, the Companies received regulatory approval from the Texas, Tennessee and Georgia Insurance Departments and commuted the Reinsurance and Pooling Agreement effective January 1, 2025 (See Note 6). Upon commutation of this Agreement, FAIC-GA and FAIC-TN reimbursed FAIC for their respective percentage shares of policy liabilities ceded and transferred and assumed and reinsured as of December 31, 2024. (i.e. unearned premiums and reserves for losses and loss adjustment expenses), of $1,592,700 and $29,631,845, respectively. To the extent that transfers of any non-cash assets were required to effectuate the commutation, transfers were made at the statutory book values as of the date such transfers were made. There was no gain or loss recorded on the commutation. In the future, the Companies will file separate audited statutory financial statements.

# Supplementary Information

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries
First Acceptance Insurance Company, Inc. (FAIC)
First Acceptance Insurance Company of Georgia, Inc. (FAIC-GA)
First Acceptance Insurance Company of Tennessee, Inc. (FAIC-TN)

We have audited the consolidated statutory basis financial statements of First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries (the Company) as of and for the year ended December 31, 2024, and have issued our report thereon dated May 30, 2025, which stated that the consolidated statutory basis financial statements are not presented fairly in accordance with accounting principles generally accepted in the United States of America because the consolidated statutory basis financial statements have been prepared on the statutory basis of accounting in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance (FAIC), Georgia Department of Insurance (FAIC-GA) and Tennessee Department of Commerce and Insurance (FAIC-TN) (collectively referred to as "the Departments"). Our report contained an unmodified opinion on the consolidated statutory basis financial statements in accordance with the statutory basis of accounting. Our audits were conducted for the purpose of forming an opinion on the consolidated statutory basis financial statements as a whole. The supplemental schedules, which include the consolidated statutory basis balance sheets and statements of income, the consolidated investment risk interrogatories, the consolidated summary investment schedule, and the reinsurance interrogatories, are presented for purposes of additional analysis and are not required parts of the consolidated statutory basis financial statements. The effects on the supplemental schedules of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive. As a consequence, the supplemental schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2024 and for the year ended. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated statutory basis financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated statutory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated statutory basis financial statements or to the consolidated statutory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the consolidated statutory basis financial statements as a whole.

Our report is intended solely for the information and use of the Board of Directors and management of the Company, and the state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Crowe LLP

West Hartford, Connecticut
May 30, 2025

# First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries

## Consolidated Balance Sheet – Statutory-Basis

December 31, 2024

| | FAIC | FAIC- GA | FAIC- TN | Eliminations/ Reclassifications | Consolidated |
|---|---|---|---|---|---|
| **Admitted assets** | | | | | |
| Cash and invested assets: | | | | | |
| Bonds, at adjusted amortized cost | $159,482,624 | $ 86,013,074 | $ 59,600,984 | $ – | $305,096,682 |
| Common stocks of affiliates, at admitted value | 80,819,875 | – | – | (80,819,875) | – |
| Common stocks, at fair value | 9,273,132 | 2,748,184 | – | – | 12,021,316 |
| Preferred stock, at fair value | 628,800 | 3,032,388 | – | – | 3,661,188 |
| Cash and short-term investments | 15,886,872 | 40,446,312 | 6,704,850 | – | 63,038,034 |
| Other invested assets | 7,722,529 | – | – | – | 7,722,529 |
| Total cash and invested assets | 273,813,832 | 132,239,958 | 66,305,834 | (80,819,875) | 391,539,749 |
| | | | | | |
| Interest due and accrued | 1,153,258 | 616,799 | 456,746 | – | 2,226,803 |
| Agents' balances in course of collection | 27,162,712 | 1,440,035 | 2,347,503 | (14,378,583) | 16,571,667 |
| Premium installments booked but deferred and not yet due | 97,588,296 | 39,452,001 | 6,087,655 | – | 143,127,952 |
| Reinsurance recoverables | 11,646,109 | 7,823,109 | 1,369,970 | (18,900,775) | 1,938,413 |
| Deferred income tax asset | 5,969,874 | 2,183,401 | 1,010,906 | – | 9,164,181 |
| Electronic data processing equipment | 482,670 | – | – | – | 482,670 |
| Receivable from affiliates | 2,730,959 | – | 797,922 | (1,548,867) | 1,980,014 |
| Total admitted assets | $420,547,710 | $183,755,303 | $ 78,376,536 | $ (115,648,100) | $567,031,449 |

Note: Eliminations are related to FAIC's investment in FAIC-GA and FAIC-TN and certain other intercompany balances.

## First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries

## Consolidated Balance Sheet – Statutory-Basis (cont.)

December 31, 2024

| | FAIC | FAIC- GA | FAIC- TN | Eliminations/ Reclassifications | Consolidated |
|---|---|---|---|---|---|
| **Liabilities and capital and surplus** | | | | | |
| Liabilities: | | | | | |
| Reserves: | | | | | |
| Loss reserves | $110,221,179 | $ 52,308,356 | $ 24,286,023 | $ – | $186,815,558 |
| Loss adjustment expense reserves | 17,815,302 | 8,454,719 | 3,925,405 | – | 30,195,426 |
| Unearned premiums | 80,730,881 | 38,312,960 | 17,788,160 | – | 136,832,001 |
| Advance premiums | 263,777 | 125,182 | 58,120 | – | 447,079 |
| Total reserves | 209,031,139 | 99,201,217 | 46,057,708 | – | 354,290,064 |
| Reinsurance payable on paid losses and loss adjustment expenses | 8,052,745 | 7,408,411 | 3,439,619 | (18,900,775) | – |
| Commissions payable | 4,804,059 | 237,886 | 325,412 | – | 5,367,357 |
| Deferred ceding commission | 5,198,880 | 3,912,334 | 201,205 | – | 9,312,419 |
| Other expenses payable | 7,727,945 | 246,750 | 129,718 | 9,482 | 8,113,895 |
| Taxes, licenses and fees payable | 1,732,539 | 4,230,784 | 37,898 | – | 6,001,221 |
| Current federal and foreign taxes payable | (460,621) | 1,622,965 | 449,175 | – | 1,611,519 |
| Due to reinsurers | 14,997,486 | 11,901,906 | 283,278 | (14,388,065) | 12,794,605 |
| Payable to affiliates | 3,162,442 | 1,291,916 | 333,782 | (1,548,867) | 3,239,273 |
| Total liabilities | 254,246,614 | 130,054,168 | 51,257,796 | (34,828,225) | 400,730,553 |
| Capital and surplus: | | | | | |
| Common stock | 3,000,000 | 1,500,000 | 1,500,000 | (3,000,000) | 3,000,000 |
| Paid-in surplus | 117,533,154 | 53,366,573 | 22,000,000 | (43,366,573) | 149,533,154 |
| Unassigned deficit | 45,767,942 | (1,165,438) | 3,618,740 | (34,453,302) | 13,767,942 |
| Total capital and surplus | 166,301,096 | 53,701,135 | 27,118,740 | (80,819,875) | 166,301,096 |
| Total liabilities and capital and surplus | $420,547,710 | $183,755,303 | $ 78,376,536 | $ (115,648,100) | $567,031,449 |

Note: Eliminations are related to FAIC's investment in FAIC-GA and FAIC-TN and certain other intercompany balances.

# First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries

## Consolidated Statement of Income – Statutory-Basis

### Year Ended December 31, 2024

| | **FAIC** | **FAIC- GA** | **FAIC- TN** | **Eliminations** | **Consolidated** |
|---|---|---|---|---|---|
| Premiums earned: | | | | | |
| Premiums written and assumed | $ 503,015,659 | $ 280,306,049 | $ 83,164,338 | $ (323,918,359) | $ 542,567,687 |
| Less ceded premiums written | (227,689,558) | (149,642,814) | (22,499,265) | 323,918,359 | (75,913,278) |
| Net premiums written | 275,326,101 | 130,663,235 | 60,665,073 | – | 466,654,409 |
| Decrease in unearned premiums | 14,839,712 | 7,042,576 | 3,269,767 | – | 25,152,055 |
| Premiums earned | 290,165,813 | 137,705,811 | 63,934,840 | – | 491,806,464 |
| | | | | | |
| Losses incurred | 182,419,118 | 86,571,785 | 401,94,043 | – | 309,184,946 |
| Loss adjustment expenses incurred | 31,000,047 | 14,711,887 | 6,830,519 | – | 52,542,453 |
| Other underwriting expenses incurred | 86,773,849 | 41,180,811 | 19,119,661 | – | 147,074,321 |
| Underwriting loss | (10,027,201) | (4,758,672) | (2,209,383) | – | (16,995,256) |
| | | | | | |
| Net investment income | 8,071,623 | 3,768,848 | 2,471,841 | – | 14,312,312 |
| Net realized capital gains | 275,150 | 306,833 | 5 | – | 581,988 |
| Finance and service charge income | 20,089,284 | 9,533,897 | 4,426,452 | – | 34,049,633 |
| Income before federal income taxes | 18,408,856 | 8,850.906 | 4,688,915 | – | 31,948,677 |
| Federal income taxes | 3,826,971 | 1,690,228 | 872,812 | – | 6,390,461 |
| Net income | $ 14,581,885 | $ 7,160,228 | $ 3,816,103 | $ – | $ 25,558,216 |

Note: Eliminations are related to the intercompany reinsurance arrangement.

## First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries

## Consolidated Investment Risks Interrogatories

December 31, 2024

The Companies' total consolidated admitted assets as reported on page two of the Companies' Annual Statements (after intercompany eliminations) for the year ended December 31, 2024, are $567,031,449.

1. Following are the 10 largest exposures to a single issuer/borrower/investment, by investment category, excluding: (i) U.S. government, U.S. government agency securities and those U.S. government money market funds listed in the Appendix to the *SVO Practices and Procedures Manual* as exempt; (ii) property occupied by the Companies; and (iii) policy loans:

| **Investment Category/Issuer** | **Description of Exposure** | | **Amount** | **Percentage of Total Admitted Assets** |
|---|---|---|---|---|
| a. Federal National Mortgage Assn | MBS | $ | 19,353,077 | 3.4% |
| b. Fidelity IMM: Govt Instl | MMF | | 19,159,733 | 3.4% |
| c. Federal Home Loan Mortgage Corp | MBS | | 10,068,856 | 1.8% |
| d. Microsoft Corporation | Bonds | | 5,993,788 | 1.1% |
| e. Fidelity IMM: Treasury Only Portfolio | MMF | | 5,144,652 | 0.9% |
| f. SPDR S&P 500 ETF Trust | Common Stock | | 4,981,680 | 0.9% |
| g. BA Credit Card Trust | ABS | | 4,516,365 | 0.8% |
| h. Metropolitan Govt Nashville-Davidson Cty TN | Bonds | | 3,956,497 | 0.7% |
| i. iShares Trust: Pref and Inc Sec | Preferred Stock | | 3,661,188 | 0.7% |
| j. Capital One Multi-Asset Execution Trust | ABS | | 3,522,085 | 0.6% |

2. The Companies' total admitted assets held in bonds and preferred stocks, by NAIC rating, are:

| **Bonds and Short-Term Investments** | | | | **Preferred Stocks** | | | |
|---|---|---|---|---|---|---|---|
| **NAIC Rating** | | **Amount** | **Percentage of Total Admitted Assets** | **NAIC Rating** | | **Amount** | **Percentage of Total Admitted Assets** |
| NAIC-1 | $ | 268,110,903 | 47.3% | P/RP-1 | $ | — | — |
| NAIC-2 | | 36,553,204 | 6.4% | P/RP-2 | | — | — |
| NAIC-3 | | — | — | P/RP-2 | | — | — |
| NAIC-4 | | 432,575 | 0.1% | P/RP-4 | | 3,661,188 | 0.6% |
| NAIC-5 | | — | — | P/RP-5 | | — | — |
| NAIC-6 | | — | — | P/RP-6 | | — | |
| | $ | 305,096,682 | | | $ | 3,661,188 | |

3. Assets held in foreign investments are less than 2.5% of the Companies' total admitted assets.

   The Companies have no foreign-currency denominated investments and no insurance liabilities denominated in that same foreign currency.

   The Companies have no unhedged foreign currency exposure.

4. Assets held in Canadian investments are less than 2.5% of the Companies' total admitted assets.

5. Assets held in investments with contractual sales restrictions are less than 2.5% of the Companies' total admitted assets.

6. Assets held in equity interests are greater than 2.5% of the Companies' total admitted assets. Total admitted assets held in equity interests are $15,682,504 or 2.30% of total admitted assets.

Following are the ten largest equity interests (the Companies only had eight):

| **Investment Category/Issuer** | **Description of Exposure** | **Amount** | **Percentage of Total Admitted Assets** |
|---|---|---|---|
| a. SPDR S&P 500 ETF | Common Stock/Mutual Fund | $ 4,981,680 | 0.88% |
| b. iShares Trust: Pref and Inc Sec | Preferred Stock | 3,661,188 | 0.65% |
| c. Blackrock: HY BD I | Common Stock/Mutual Fund | 1,795,196 | 0.32% |
| d. iShares: Core High Div | Common Stock/Mutual Fund | 1,629,117 | 0.29% |
| e. Invesco S&P 500 Equal Weight | Common Stock/Mutual Fund | 1,542,024 | 0.27% |
| f. iShares: MSCI EAFE | Common Stock/Mutual Fund | 945,125 | 0.17% |
| g. Invesco QQQ Trust 1 | Common Stock/Mutual Fund | 699,874 | 0.12% |
| h. SEL Sector | Common Stock/Mutual Fund | 428,399 | 0.08% |

7. Assets held in nonaffiliated, privately placed equities are less than 2.5% of the Companies' total admitted assets.

8. Assets held in general partnership interests are less than 2.5% of the Companies' total admitted assets.

9. Mortgage loans reported in Schedule B are less than 2.5% of the Companies' total admitted assets.

10. The five largest investments in one parcel or group of contiguous parcels of real estate reported in Schedule A are less than 2.5% of the Companies' total admitted assets.

11. Assets held in mezzanine real estate loans are less than 2.5% of the Companies' total admitted assets.

12. The Companies hold no admitted assets subject to securities lending and repurchase agreements.

13. The Companies hold no warrants not attached to other financial instruments, options, caps, and floors.

14. The Companies' hold no admitted assets of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for collars, swaps, and forwards.

15. The Companies' hold no total admitted assets of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for futures contracts.

First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries

Consolidated Summary Investment Schedule

December 31, 2024

| Investment Categories | Gross Investment Holdings* | | Admitted Assets as Reported in the Annual Statement | |
|---|---|---|---|---|
| | Amount | Percentage of Gross Investment Holdings | Amount | Percentage of Gross Investment Holdings |
| Long-Term Bonds | | | | |
| U.S. Governments | $ 75,499,353 | 19.28% | $ 75,499,353 | 19.28% |
| All other governments | — | — | — | — |
| U.S. states, territories, and possessions, etc. guaranteed | — | — | — | — |
| U.S. political subdivisions of states, territories and possessions, guaranteed | 9,694,142 | 2.48% | 9,694,142 | 2.48% |
| U.S. special revenue and special assessment obligations, etc. non-guaranteed | 45,717,126 | 11.68% | 45,717,126 | 11.68% |
| Industrial and miscellaneous | 173,753,486 | 44.38% | 173,753,486 | 44.38% |
| Hybrid securities | — | — | — | — |
| Parent, subsidiaries and affiliates | — | — | — | — |
| SVO identified funds | 432,575 | 0.11% | 432,575 | 0.11% |
| Unaffiliated bank loans | — | — | — | — |
| Total long-term bonds | 305,096,682 | 77.92% | 305,096,682 | 77.92% |
| Preferred stocks | | | | |
| Industrial and miscellaneous | 3,661,188 | 0.94% | 3,661,188 | 0.94% |
| Parent, subsidiaries and affiliates | — | — | — | — |
| Total preferred stocks | 3,661,188 | 0.94% | 3,661,188 | 0.94% |
| Common stocks | | | | |
| Industrial and miscellaneous Publicly traded (Unaffiliated) | — | — | — | — |
| Industrial and miscellaneous Other (Unaffiliated) | — | — | — | — |
| Parent, subsidiaries and affiliates Publicly traded | — | — | — | — |
| Parent, subsidiaries and affiliates Other | — | — | — | — |
| Mutual Funds | 1,795,196 | 0.46% | 1,795,196 | 0.46% |
| Unit investment trusts | — | — | — | — |
| Closed-end funds | — | — | — | — |
| Exchange traded funds | 10,226,120 | 2.61% | 10,226,120 | 2.61% |
| Total common stocks | 12,021,316 | 3.07% | 12,021,316 | 3.07% |

| Investment Categories | Gross Investment Holdings* Amount | Gross Investment Holdings* Percentage of Gross Investment Holdings | Admitted Assets as Reported in the Annual Statement Amount | Admitted Assets as Reported in the Annual Statement Percentage of Gross Investment Holdings |
|---|---|---|---|---|
| Mortgage loans | | | | |
| Farm mortgages | — | — | — | — |
| Residential mortgages | — | — | — | — |
| Commercial mortgages | — | — | — | — |
| Mezzanine real estate loans | — | — | — | — |
| Total mortgage loans | — | — | — | — |
| Real Estate | | | | |
| Properties occupied by company | — | — | — | — |
| Properties held for production of income | — | — | — | — |
| Properties held for sale | — | — | — | — |
| Total real estate | — | — | — | — |
| Cash, cash equivalents and short-term investments | | | | |
| Cash | 36,716,503 | 9.38% | 36,716,503 | 9.38% |
| Cash equivalents | 26,321,531 | 6.72% | 26,321,531 | 6.72% |
| Short-term investments | — | — | — | — |
| Total cash, cash equivalents and short-term investments | 63,038,034 | 16.10% | 63,038,034 | 16.10% |
| Contract loans | — | — | — | — |
| Derivatives | — | — | — | — |
| Other invested assets | 7,722,529 | 1.97% | 7,722,529 | 1.97% |
| Receivable for securities | — | — | — | — |
| Securities Lending | — | — | — | — |
| Other invested assets | — | — | — | — |
| Total invested assets | $ 391,539,749 | 100.00% | $ 391,539,749 | 100.00% |

* Gross investment holdings as valued in compliance with NAIC's *Accounting Practices and Procedures Manual.*

First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries

Reinsurance Interrogatories

December 31, 2024

The following information related to reinsurance assertions included within the respective Statutory Annual Statements for the Companies' General Interrogatories, Part 2:

1. The reporting entity did not reinsure any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions).

2. The reporting entity has not reinsured any risk with any other entity and agrees to release such entity from liability, in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured.

3.1. The reporting entity has not ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

   (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

   (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

   (c) Aggregate stop loss reinsurance coverage;

   (d) An unconditional or unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

   (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

3.2. The reporting entity has not reported during the period covered by the statement any ceded risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards to policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves greater than 5% of prior year-end surplus as regards to policyholders, excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premiums written by the reinsurer based on its most recently available financial statement; or

(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.

3.3. Except for transactions meeting the requirements of paragraph .31 of SSAP 62 – Property and Casualty Reinsurance, the reporting entity has not ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

(a) Accounted for the contract as reinsurance (either prospective or retroactive) under statutory accounting principles and as a deposit under GAAP; or

(b) Accounted for the contract as reinsurance under GAAP and as a deposit under statutory accounting principles.

# First Acceptance Insurance Company, Inc. and Consolidated Subsidiaries

## Note to Supplemental Schedules

December 31, 2024

**Note – Basis of Presentation**

The accompanying supplemental schedules present selected consolidated statutory-basis financial data as of December 31, 2024, and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and agrees to or are included in the amounts reported in the Companies' respective 2024 Statutory Annual Statements as filed with the respective domiciliary Departments of Insurance.