

Axos Clearing LLC

Statement of Financial Condition as of December 31, 2023
(Unaudited)

AXOS CLEARING LLC
(A Wholly Owned Subsidiary of Axos Securities, LLC)

STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2023

ASSETS

CASH AND CASH EQUIVALENTS	\$	38,242,735
CASH SEGREGATED IN COMPLIANCE WITH FEDERAL AND OTHER REGULATIONS		194,950,426
DEPOSITS WITH CLEARING ORGANIZATIONS		15,009,043
SECURITIES OWNED - At fair value		4,612,910
RECEIVABLE FROM BROKERS, DEALERS, AND CLEARING ORGANIZATIONS		27,382,938
RECEIVABLE FROM CUSTOMERS - NET		239,591,115
RECEIVABLE FROM REGISTERED INVESTMENT ADVISOR (RIA)		1,670,162
SECURITIES BORROWED		145,606,484
PROPERTY AND EQUIPMENT - NET		9,371,987
GOODWILL AND INTANGIBLE ASSETS - NET		93,044,312
OTHER ASSETS		<u>21,035,156</u>
TOTAL ASSETS	\$	<u><u>790,517,268</u></u>

LIABILITIES AND MEMBER'S EQUITY

PAYABLE TO BANKS	\$	6,000,000
PAYABLE TO CUSTOMERS		353,863,929
SECURITIES LOANED		155,491,707
PAYABLE TO BROKERS, DEALERS, AND CLEARING ORGANIZATIONS		3,590,267
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		30,628,530
INCOME TAX PAYABLE		3,954,864
SUBORDINATED BORROWINGS		<u>3,000,000</u>
TOTAL LIABILITIES		556,529,297
MEMBER'S EQUITY		<u>233,987,971</u>
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$	<u><u>790,517,268</u></u>

See notes to Statement of Financial Condition

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NOTES TO STATEMENT OF FINANCIAL CONDITION (UNAUDITED)
AS OF DECEMBER 31, 2023

1. ORGANIZATION AND NATURE OF OPERATIONS

Organization — Axos Clearing LLC (the “Company”) is a wholly-owned subsidiary of Axos Securities, LLC, a wholly owned subsidiary company of Axos Nevada Holding, LLC, a wholly owned subsidiary company of Axos Financial, Inc. (the “Parent”) and is headquartered in Omaha, Nebraska. The Company is a Delaware Limited Liability Company formed on January 21, 2004.

Nature of Operations — The Company is a securities broker-dealer and provides clearing services to other broker-dealers on a fully disclosed and omnibus basis throughout the United States. The Company also provides custodial and trading services for individual retirement accounts and registered investment advisors. The Company is required to comply with all applicable rules and regulations of the Securities and Exchange Commission (“SEC”), Financial Industry Regulatory Authority, Inc. (“FINRA”), and the various securities exchanges in which it maintains membership.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates — The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents — The Company defines cash and cash equivalents as all cash balances and highly liquid investments with original maturities of three months or less, that are not segregated and deposited for regulatory purposes, at the time of purchase. While the Company’s cash and cash equivalents are on deposit with high-quality institutions, such deposits exceed Federal Deposit Insurance Corporation insured limits.

Cash Segregated in Compliance with Federal and Other Regulations — Cash segregated in compliance with federal regulations consist primarily of qualified deposits in special reserve bank accounts for the exclusive benefit of customers in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934 (the “Exchange Act”) and other regulations.

Deposits with Clearing Organizations — The Company maintains a minimum deposit with certain clearing organizations in the event the clearing organization incurs losses if customers are unable to fulfill their contractual commitments and margin requirements are not sufficient to fully cover losses incurred.

Receivables from and Payables to Brokers or Dealers and Clearing Organizations — Receivables from/payables to brokers, dealers and clearing organizations represent amounts due in connection with the Company’s normal transactions involving trading and clearing of securities. In addition, the net receivable or payable arising from unsettled trades is reflected in either the

receivable or payable line item on the financial statements. A portion of the Company's trades and contracts are cleared through a clearing organization and settled daily between the clearing organization and the Company. Due to the this daily settlement, the amount of unsettled credit exposures is limited to the amount owed the Company for a very short period of time. The Company regularly reviews the credit quality of its counterparties.

Receivables from Registered Investment Advisors (RIAs) — Receivables from RIAs represent amounts due in connection with the Company's asset custody services.

Customer Transactions — Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected in the Statement of Financial Condition. Customer securities transactions are recorded on a settlement date basis in the Statement of Financial Condition with the related revenue and expense reported on a trade date basis. Receivables from customers are generally fully secured by securities held in the customer accounts. To the extent that margin loans and other receivables from customers are not fully collateralized by customer securities, management estimates and records the amount of expected credit losses as an allowance for credit losses by applying the collateral maintenance practical expedient in estimating an allowance for credit losses for margin loans. When establishing this allowance, management considers a number of factors, including its ability to collect from the customer or the customer's advisor and the Company's historical experience in collecting on such transactions.

Securities Owned — Securities owned are carried at fair value and are recorded on a trade-date basis. The Company also owns preferred and common stock of the Depository Trust Clearing Corporation ("DTCC") and other various securities. Additional detail of securities owned as of December 31, 2023, is provided within Note 6.

Securities Borrowed and Securities Loaned — Securities borrowed and securities loaned transactions are reported as collateralized financings and recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash with the lender. With respect to securities loaned, the Company receives collateral in the form of cash in an amount in excess of the fair value of securities loaned. The Company monitors the fair value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary. The Company applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for securities borrowed receivables. The Company has established policies and procedures for mitigating credit risk on securities borrowed transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties. The Company minimizes credit risk associated with these activities by daily monitoring collateral values and requiring additional collateral to be deposited with the Company as permitted under contractual provisions.

Allowance for Credit Losses — The Company accounts for estimated credit losses on financial assets measured at an amortized cost basis and certain off-balance sheet credit exposures in accordance with FASB ASC 326-20, Financial Instruments – Credit Losses. FASB ASC 326-20 requires the Company to estimate expected credit losses over the life of its financial assets and certain off-balance sheet exposures as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts. As of December 31, 2023, the Company did not have any off-balance sheet credit exposures that require an allowance for credit losses.

The Company records the estimate of expected credit losses as an allowance for credit losses. For financial assets measured at an amortized cost basis the allowance for credit losses is reported as a valuation account on the balance sheet that is deducted from the asset's amortized cost basis.

Property and Equipment — Property and equipment is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 7 years.

Impairment of Long-Lived Assets —The Company reviews long-lived assets for impairment annually and whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If the Company determines an impairment of a long-lived asset has occurred, the asset will be written down to its estimated fair value, which is based primarily on expected discounted future cash flows.

Income Taxes — The Company has elected to be treated as a regarded entity for income tax purposes pursuant to the Internal Revenue Code. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred income tax assets and liabilities are determined using the asset and liability method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various assets and liabilities on the Statement of Financial Condition and gives current recognition to changes in tax rates and laws. The Company records a valuation allowance when management believes it is more likely than not that deferred tax assets will not be realized. An income tax position will be recognized as a benefit only if it is more likely than not that it will be sustained upon examination by the Internal Revenue Service, based upon its technical merits. Once that status is met, the amount recorded will be the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Goodwill and Intangibles Assets — Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangible assets that have finite lives, such as customer relationship intangibles, are amortized over their estimated useful lives.

The Company performs annual impairment tests of its goodwill as of March 31. The goodwill impairment test requires the Company to make judgments in determining what assumptions to use in the calculation. The Company performed a qualitative assessment as of March 31, 2023 and determined it was not more likely than not that the fair value of the reporting unit was less than its carrying amount.

At December 31, 2023, Goodwill of \$59,952,830 was included within Goodwill and Intangible Assets, Net on the Statement of Financial Condition. As of December 31, 2023, the Company concluded that the goodwill was not impaired.

Finite-lived intangible assets are tested for impairment periodically at the asset group level if events or circumstances indicate the carrying amount of the asset group may not be recoverable. If there are indicators that the asset group is not recoverable then an impairment loss shall be recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value. Intangible assets (other than goodwill) are amortized to amortization expense on the Statement of Income, using accelerated or straight-line methods over their respective estimated useful lives. As of December 31, 2023, there was no impairment recorded.

The Company maintains customer relationship intangibles which are being amortized over a period of 9 or 15 years depending on the size of the relationship. The Company reviews intangibles for impairment annually and whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. No impairment charges were recorded as of December 31, 2023.

The Company's intangible assets are summarized as follows December 31, 2023:

Gross value	\$ 46,553,148
Accumulated Amortization	<u>(13,461,666)</u>
Net Carrying Amount	<u>\$ 33,091,482</u>

3. CASH AND CASH SEGREGATED IN COMPLIANCE WITH FEDERAL AND OTHER REGULATIONS

Cash segregated in compliance with federal and other regulations on the financial statements represents cash segregated or set aside to satisfy requirements under rule 15c3-3 of the SEC. This cash is held within special reserve bank accounts for the benefit of customers.

4. RECEIVABLE FROM AND PAYABLE TO BROKERS, DEALERS, AND CLEARING ORGANIZATIONS

Receivable from and payable to brokers, dealers, and clearing organizations are comprised of the following as of December 31, 2023:

Receivable:	
Brokers and dealers	\$ 14,035,197
Securities failed to deliver	1,387,467
Clearing organizations	<u>11,960,274</u>
	<u>\$ 27,382,938</u>
Payable:	
Securities failed to receive	2,985,367
Clearing organizations	<u>604,900</u>
	<u>\$ 3,590,267</u>

Receivables related to securities are collateralized by the underlying securities.

5. RECEIVABLE FROM AND PAYABLE TO CUSTOMERS

Accounts receivable from and payable to customers include amounts due on cash and margin transactions. Securities owned by customers are held as collateral for receivables. The customer receivables are recorded net of an allowance for credit losses of \$265,594. The amounts are as follows as of December 31, 2023:

Receivable	Payable
\$ 239,591,115	\$ -
<u>-</u>	<u>353,863,929</u>
<u>\$ 239,591,115</u>	<u>\$ 353,863,929</u>

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is categorized into three levels based on the inputs as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets include securities with quoted prices that are traded less frequently than exchange-traded instruments and whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models such as discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Level 3 investments consist of DTCC stock. Members are required to own a certain amount of DTCC stock based on the clearing levels and other factors. DTCC stock is carried at fair value, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the availability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

At December 31, 2023, the Company's assets measured at fair value on a recurring basis consist of the following:

Assets:	Level 1	Level 2	Level 3	Total
Equities	\$ 329,283	\$ -	\$4,283,627	\$ 4,612,910
State and Municipal obligations	-	-	-	-
Total assets at fair value	<u>\$ 329,283</u>	<u>\$ -</u>	<u>\$4,283,627</u>	<u>\$ 4,612,910</u>

The fair value of all other financial instruments reflected in the Statement of Financial Condition consisting of primarily receivables from and payables to brokers, dealers and clearing organizations and customers, securities borrowed and loaned, payable to banks, and notes receivable approximates the carrying value due to the short-term nature and pricing characteristics of the financial instruments.

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2023:

Furniture and equipment	\$ 3,621,320
Software	<u>15,298,704</u>
	18,920,024
Less accumulated depreciation and amortization	<u>(9,548,037)</u>
Property and equipment, net	<u>\$ 9,371,987</u>

8. REGULATORY REQUIREMENTS

The Company is subject to the SEC Uniform Net Capital (Rule 15c3-1 of the Exchange Act). Under this rule, the Company has elected to operate under the alternate method and is required to maintain minimum net capital of \$250,000 or 2% of aggregate debit balances arising from client transactions, as defined. On December 31, 2023, the Company had net capital of \$103,453,868 which was \$98,397,171 in excess of the required net capital requirement of \$5,056,697. The Company's percentage of net capital to aggregate debit items was 41%. Under the alternate method, the Company may not repay subordinated debt, pay cash distributions, or make any unsecured advances or loans to its parent or employees if such payment would result in net capital of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement.

The Company, as a clearing broker, is subject to SEC Customer Protection Rule (Rule 15c3-3 of the Exchange Act) which requires segregation of funds in a special reserve account for the exclusive benefit of customers ("Customer Reserve Bank Account") and proprietary accounts of brokers (PAB Reserve Account"). At December 31, 2023, the Company calculated a Customer Reserve Bank Account requirement of \$137,343,160 and maintained a Customer Reserve Bank Account deposit of \$172,872,462.

At December 31, 2023, the Company calculated a PAB Reserve Account deposit requirement of \$7,828,391 and maintained PAB Reserve Account deposit of \$22,062,965.

9. OFFSETTING OF SECURITIES FINANCING AGREEMENTS

The Company enters into securities borrowed and securities loaned transactions. The Company executes these transactions to facilitate customer match-book activity, to cover short positions, and for customer securities lending. The Company manages credit exposure from certain transactions by entering into master securities lending agreements. The relevant agreements allow for the efficient closeout of transactions, liquidation and set-off of collateral against the net amount owed by the counterparty following a default. Default events generally include, among other things, failure to pay, insolvency or bankruptcy of a counterparty.

The following table presents information about the offsetting of these instruments and related collateral amounts as of December 31, 2023:

	<u>Gross Assets/ Liabilities</u>	<u>Amounts Offset</u>	<u>Net Balance Sheet Amount</u>	<u>Financial Collateral</u>	<u>Net Assets/ Liabilities</u>
Assets:					
Securities borrowed	\$ 145,606,484	\$ -	\$ 145,606,484	\$ (145,606,484)	\$ -
Liabilities:					
Securities loaned	\$ 155,491,707	\$ -	\$ 155,491,707	\$ (155,491,707)	\$ -

The securities loaned transactions represent equities with an overnight and open maturity classification.

10. BENEFIT PLANS

The parent, Axos Financial, Inc., offered a 401(k) plan during the year ended December 31, 2023. Substantially all of the Company's employees are able to participate in the plan. Employees may contribute up to 100% of their compensation subject to certain limits based on federal tax laws. The Company provided an employer matching contribution to the 401(k) plan based on an employee's designated deferral of their eligible compensation.

11. PAYABLE TO BANKS AND PARENT

The Company has a total of \$150,000,000 uncommitted secured lines of credit available for borrowing as needed. As of December 31, 2023, borrowings outstanding totaled \$6,000,000. This credit facility bears interest at rates based on the Federal Funds rate and any borrowings are due upon demand. As of December 31, 2023, the rate was 7.00%. The credit facilities have no expiration date. The Company was in compliance with all covenants at December 31, 2023.

The Company has a \$110,000,000 committed unsecured line of credit available for limited purpose borrowing. As of December 31, 2023, the Company had no amount borrowed on this line. This credit facility expires in October 2024. The committed credit facilities contain financial and other covenants. The Company was in compliance with all applicable covenants at December 31, 2023. As of December 31, 2023, the rate was 8.00%.

The Company has a \$100,000,000 uncommitted unsecured line of credit available from the Parent. As of December 31, 2023, the Company had no amount borrowed on this line. These credit facilities bear interest at rates based on the Federal Funds rate and are due upon demand. As of December 31, 2023, the rate was 8.00%. The credit facilities have no expiration date. The Company was in compliance with all covenants at December 31, 2023.

12. INCOME TAXES

The components of the net deferred tax asset as of December 31, 2023 are presented in the following table. The net deferred tax asset is included in Other Assets in the Statement of Financial Condition.

Deferred tax assets:	
Intangible assets	\$ 7,618,076
Allowance for credit losses	5,295,423
Accrued compensation	846,515
Stock-based compensation expense	<u>333,565</u>
Total deferred tax asset	<u>14,093,579</u>
Deferred tax liabilities:	
Depreciation and amortization	(5,920,404)
State taxes	<u>(399,093)</u>
Total deferred tax liability	<u>(6,319,497)</u>
Net deferred tax asset	<u>\$ 7,774,082</u>

Beginning with its 2022 taxable year, the Company elected to be treated as a “C” Corporation under the Internal Revenue Code for tax filing purposes. As a “C” Corporation, the Company is subject to federal, state, and local corporate-level income taxes and the Company generally will have to pay corporate-level income taxes. As a result of the election, there was a step up in basis in the assets contributed to the “C” Corporation which will be amortized over a 15-year period for tax purposes.

The Company is included in the consolidated tax return of Axos Financial, Inc. and Subsidiaries (“Parent”). The provision for income taxes is calculated by using a “separate return” method. Under this method, it is assumed to file a separate return with the tax authority, thereby reporting taxable income or loss and paying the applicable tax to or receiving the appropriate refund from ultimate Parent. The current tax provision is the amount of the tax payable or refundable based on a hypothetical, current-year separate return. The Company provides deferred taxes on temporary differences and on any carryforwards that could be claimed on our hypothetical return and assess the need for a valuation allowance on the basis of the projected separate return results.

13. COMMITMENTS AND CONTINGENCIES

The Company may be subject to lawsuits, arbitration, claims, and other legal proceedings in connection with its business. A substantial adverse judgment or other unfavorable resolution of these matters could have a material adverse effect on the Company’s financial statements. Management is of the opinion that the Company has adequate legal defenses with respect to the legal proceedings to which it is a defendant or respondent and the outcome of these pending proceedings is not likely to have a material adverse effect on the financial statements of the Company.

The Company discusses matters with its regulators raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines, or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company’s financial statements. However, the Company is unable to predict the ultimate outcome of these matters.

14. SUBORDINATED BORROWINGS FROM PARENT

As of December 31, 2023, the Company had borrowings of \$3,000,000 under a subordinated loan facility from the Parent. The borrowing bears interest at a rate of 5.5% and matures on November 2024. Interest payments on the subordinated borrowings are paid monthly to the Parent. There were no covenants.

The borrowing was approved by FINRA as subordinated debt available in computing net capital under Rule 15c3-1. The debt facility is subordinated to the claims of general creditors and to the extent that the debt facility is required for the Company's continued compliance with minimum net capital requirements, it may not be repaid. FINRA requires more than three months advance notification of intent not to extend the maturity of a subordinated loan agreement.

15. RELATED PARTIES

The Company has an FDIC sweep program deposit account with Axos Bank, an affiliated company. While the deposit account is not an asset of the Company and is held for the exclusive benefit of the Company's customers, the Company does earn fees from the deposit account with Axos Bank.

At December 31, 2023, there was a net payable to related parties and Axos Bank in the amount of \$1,317,236 and \$2,743,028, respectively. The Company sponsors a fully paid lending program whereby customers provide securities for securities lending. The Company receives cash as collateral from broker dealers and deposits this cash in an off balance sheet restricted deposit account at Axos Bank. As of December 31, 2023, \$430,696 was held as such collateral by Axos Bank.

16. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss. The Company's clearing agreements with broker-dealers for which it provides clearing services indemnify the Company if customers fail to satisfy their contractual obligation.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customer's accounts. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily, and pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary.

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the policy to review, as necessary, the credit standing of each counterparty.

The Company temporarily loans securities to other broker-dealers in connection with its business. The Company receives cash as collateral for the securities loaned. Increases in securities prices may cause the market value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by requiring credit approvals for counterparties, by monitoring the market value of securities loaned on a daily basis, and by requiring additional cash as collateral when necessary.

The Company temporarily borrows securities from other broker-dealers in connection with its business. The Company deposits cash as collateral for the securities borrowed. Decreases in securities prices may cause the fair value of the securities borrowed to fall below the amount of cash deposited as collateral. In the event the counterparty to these transactions does not return the cash deposited, the Company may be exposed to the risk of selling the securities at prevailing market prices. The Company controls this risk by requiring credit approvals for counterparties, by monitoring the collateral values on a daily basis, and by requiring collateral to be returned by the counterparties when necessary.

The Company has available non-customer and customer margin securities and stock borrowings to utilize as collateral on various borrowings or for other purposes. As of December 31, 2023, The Company utilized \$154,709,735 of these available securities as collateral for securities loaned, \$87,471,415 for bank loans, and \$11,008,914 for OCC margin requirements.

The Company provides guarantees to securities clearing houses and exchanges. Under related agreements, the Company is generally required to guarantee the performance of other members. Under the agreements, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, the potential for the Company to be required to make payments under these agreements is remote. Accordingly, no contingent liability is carried on the Statement of Financial Condition for these transactions.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events after the balance sheet date through March 1, 2024, the date these financial statements were issued.

On February 16, 2024, the Parent notified the Company that the Subordinated Borrowing Agreement would not be extended past its current maturity date of November 22, 2024. The removal of the automatic rollover provision was accepted by FINRA on February 22, 2024.

There have been no other material subsequent events that would require recognition or disclosure.

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The Statement of Financial Condition filed pursuant to Rule 17a-5(d) under the Securities and Exchange Act of 1934 is available for inspection at the Company's main office located at 15950 W Dodge Road, Suite #300, Omaha, NE 68118 and at the Denver Regional Office of the Securities and Exchange Commission.