Balance Sheet

	2023 DECEMBER (Unaudited)	2024 DECEMBER (Unaudited)	Change	%
Assets				
Current Assets				
Cash and Marketable Securities	304,866	393,449	88,583	29%
Restricted Cash	33,460,340	58,180,177	24,719,838	74%
Accounts Receivable - Other	11,754,435	11,047,017	(707,417)	-6%
Other Current Assets	4,512,510	322,419	(4,190,091)	-93%
Total Current Assets	**50,032,150**	**69,943,062**	**19,910,912**	**40%**
Loan Receivables	1,064,717,858	1,269,970,873	205,253,014	19%
Allowance for Losses	(181,878,514)	(339,132,263)	(157,253,749)	86%
Net Loan Receivable	**882,839,344**	**930,838,609**	**47,999,265**	**5%**
Fixed Assets, Net	116,391	91,510	(24,881)	-21%
Total Assets	**932,987,885**	**1,000,873,182**	**67,885,297**	**7%**
Liabilities & Equity				
Liabilities				
Current Liabilities				
Accounts Payable / Accrued Expenses	9,295,755	29,944,863	20,649,108	222%
Other Current Liabilities	16,748,889	24,618,077	7,869,188	47%
Total Current Liabilities	**26,044,644**	**54,562,940**	**28,518,296**	**109%**
Notes Payable				
Warehouse Line	314,705,642	330,658,445	15,952,803	5%
Intercompany Debt	525,168,721	525,903,073	734,352	0%
Total Notes Payable	**839,874,363**	**856,561,518**	**16,687,156**	**2%**
Total Liabilities	**865,919,007**	**911,124,459**	**45,205,452**	**5%**
Equity				
Capital Stock	10,742,770	10,710,130	(32,640)	0%
Retained Earnings	56,326,108	79,038,593	22,712,485	40%
Total Equity	**67,068,878**	**89,748,723**	**22,679,845**	**34%**
Total Liabilities & Equity	**932,987,885**	**1,000,873,182**	**67,885,297**	**7%**

Western Funding

Income Statement

	2023 (Unaudited)	2024 (Unaudited)	Change	%
Revenue				
Finance Charge	148,222,257	189,512,672	41,290,415	28%
Other Income	7,586,526	10,184,581	2,598,055	34%
Total Revenue	**155,808,783**	**199,697,253**	**43,888,470**	**28%**
Cost Of Revenue				
Interest Expense	46,710,420	64,224,250	17,513,830	37%
Other Cost of Revenue	3,551,698	3,761,077	209,379	6%
Total Cost Of Revenue	**50,262,118**	**67,985,327**	**17,723,209**	**35%**
Gross Margin	**105,546,665**	**131,711,926**	**26,165,260**	**25%**
Total Operating Expenses	21,554,057	25,911,416	4,357,359	20%
Total Provision For Losses	63,013,770	73,224,753	10,210,983	16%
Net Operating Income	**20,978,839**	**32,575,757**	**11,596,918**	**55%**
Total Taxes	8,746,273	9,863,272	1,116,999	13%
Net Income	**12,232,566**	**22,712,485**	**10,479,919**	**86%**

Statement of Stockholders' Equity / (Deficit)

	Common Stock			Treasury Stock		
	Shares Issued	**Shareholders' Contributed Capital**	**Accumulated Earnings / (Deficit)**	**Adjustments**	**Amount**	**Total Shareholders' Equity**
Balance December 31, 2022	**10,321,765**	**$ 10,739,090**	**$ 44,093,542**	**-**	**$ -**	**$ 54,832,632**
Sale of Shareholder Units						
Adj for 2022 Sale		**3,680**				**3,680**
Net Income			**12,232,566**			**12,232,566**
Balance December 31, 2023	**10,321,765**	**$ 10,742,770**	**$ 56,326,108**	**-**	**$ -**	**$ 67,068,878**
Sale of Shareholder Units						**-**
Repurchased Shareholder Units				(1,400)	(30,800)	**(30,800)**
Adj for 2022 Sale		**(1,840)**				**(1,840)**
Net Income			22,712,485			**22,712,485**
6-for-1 Stock split	51,608,825			(7,000)		
Balance December 31, 2024	**61,930,590**	**$ 10,740,930**	**$ 79,038,593**	**(8,400)**	**$ (30,800)**	**$ 89,748,723**

1. Description of Business

General

Western Funding Incorporated ("WFI" or the "Company") was incorporated in Las Vegas, NV and is a 96.8% owned subsidiary of Westlake Services, LLC., dba Westlake Financial and part the holding company, Nowlake Technology LLC.

Automobile dealers who participate in WFI programs and who share our commitment to changing consumers' lives are referred to as "Dealers". Upon enrollment in our financing programs, the Dealer enters into a Master Servicing Agreement with us that defines the legal relationship between WFI and the Dealer. The Master Servicing Agreement assigns the responsibilities for administering, servicing, and collecting the amounts due on Consumer Loans from the Dealers to WFI. We are an indirect lender from a legal perspective, meaning the Consumer Loan is originated by the

The vast majority of the Consumer Loans assigned are made to consumers with impaired or limited credit histories.

Western Funding is also the 100% owner of Global Track GPS, LLC, which offers GPS tracking products to dealers and consumers.

Principal Business

WFI primarily engages in the financing of automobile loans to consumers through auto dealers (indirect auto finance). Under its Triple Pay 19-81 program (the "Portfolio Program"), WFI advances money to Dealers ("Dealer Loan") in exchange for the right to service the underlying Consumer Loans.

Dealers receive the following under the Portfolio Program:

1. A down-payment from the consumer purchasing the vehicle
2. An advance from Western Funding based on estimated future collections, which is non-recourse to the Dealer.
3. Following the repayment of the advance balance, including the advance to Dealer, Dealer Loan fees and collection costs, a split of 81% of the remaining collections ("Dealer Holdback")

The Dealer Loan contracts are generally secured by lien notations and vehicle titles. WFI has the right to repossess the vehicle if the borrower fails to meet the obligation stated in the contract. The collections are split between the Company and the Dealers on a 19%-81% structure, respectively.

The Master Servicing Agreement provides that collections received on Consumer Loans assigned by a Dealer are applied as follows:

- First, to reimburse us for any payments or credits required to be returned to the customer
- Second, to reimburse us for certain collection costs.
- Third, to pay us the servicing fee of 19% of gross collections.
- Fourth, to reduce the aggregate advance balance to the dealer and to pay any other amounts due from the Dealer to
- Fifth, to the Dealer as payment of Dealer Holdback.

If the collections on Consumer Loans from a Dealer's pool are not sufficient to repay the advance balance and any other amounts due, the Dealer will not receive Dealer Holdback. Certain events may also result in Dealers forfeiting their rights to Dealer Holdback, including becoming inactive before assigning 50 Consumer Loans.

Dealers have an opportunity to receive an accelerated Dealer Holdback payment ("Express Dealer Check") each time a pool of Consumer Loans is closed. The amount paid to the Dealer is calculated using a formula that considers the related forecasted collections, advance balance and age of the underlying consumer loans.

As a result of the Dealer's potential earnout of Holdback payments and therefore their continued financial interest in the consumer loans, the advances made under the Portfolio Program are not considered to be loans to consumers; they are instead accounted for as loans to the dealers.

Since typically the combination of the advance and the consumer's down payment provides the Dealer with a cash profit at the time of sale, the Dealer's risk in the Consumer Loan is limited. WFI cannot demand repayment of the advance from the Dealer except in the event the Dealer is in default of the master servicing agreement.

Advances are made only after the consumer and Dealer have signed a Consumer Loan contract, Dealer has submitted all supporting documentation, and the related funding stipulations have been approved.

Operations

Sales and Marketing

We have area sales managers located throughout the United States as well as internal sales managers (collectively "Sales Managers") that market our programs to prospective Dealers, enroll new Dealers, and support active Dealers.

Once a Dealer has successfully enrolled in our program, their assigned Sales Representative will work closely with the newly enrolled Dealer, to educate them on how our program works and how to incorporate our program to help their customers to secure outside financing for the vehicle of their choice. The Sales Manager also provides active Dealers ongoing support and consulting, which includes focusing on portfolio performance, inventory management, and strategies for how the Dealer can increase their volume and performance.

<u>Dealer Master Servicing Agreement</u>

As a part of the enrollment process, a new Dealer is required to enter into a Master Servicing Agreement with WFI that defines the legal relationship between Western Funding and the Dealer. The Master Servicing Agreement assigns the responsibilities for administering, servicing, and collecting the amounts due on Consumer Loans from the Dealers to Western Funding. Under the typical Master Servicing Agreement, a Dealer represents that it will only assign Consumer Loans to us that satisfy criteria established by us, meet certain conditions with respect to their binding nature and the status of the security interest in the purchased vehicle, and comply with applicable state and federal laws and regulations.

The Master Servicing Agreement may be terminated by WFI or by the Dealer upon written notice. We may terminate the Master Servicing Agreement immediately in the case of an event of default by the Dealer.

Events of default under the Master Servicing Agreement include, among other things:

- the Dealer's refusal to allow us to audit its records relating to the Consumer Loans assigned to us.
- the Dealer, without our consent, is dissolved; merges or consolidates with an entity not affiliated with the Dealer; or sells a material part of its assets outside the course of its business to an entity not affiliated with the Dealer; or
- the appointment of a receiver for, or the bankruptcy or insolvency of, the Dealer.

A Dealer can cease assigning Consumer Loans to us at any time without terminating the Master Servicing Agreement. If the Dealer elects to terminate the Master Servicing Agreement and requests reassignment of the underlying consumer loans, we have the right to require that the Dealer immediately pay us:

- any unreimbursed collection costs on Dealer Loans
- any unpaid advances or other amounts owed by the Dealer to us; and
- a termination fee equal to 10% of the then outstanding amount of the Consumer Loans assigned to Western Funding.

Upon receipt of such amounts in full, we reassign the Consumer Loans and our security interest in the financed vehicles to the Dealer. No dealer has to date exercised this option.

In the event of termination of the Master Servicing Agreement by us, we may continue to service Consumer Loans assigned by Dealers accepted prior to termination in the normal course of business without charging a termination fee.

Consumer Loan Assignment

Once a Dealer has enrolled in our programs, the Dealer may begin assigning Consumer Loans to us. For legal purposes, a Consumer Loan is considered to have been assigned to us after the following has occurred:

- the consumer and Dealer have signed a Consumer Loan contract; and
- we have received the executed Consumer Loan contract and supporting documentation in either physical or electronic form.

For accounting and financial reporting purposes, a Consumer Loan is considered to have been assigned to WFI after the following has occurred:

- the Consumer Loan has been legally assigned to us; and
- we have made a funding decision and generally have provided funding to the Dealer in the form of an advance (The Portfolio Program).

A Consumer Loan is originated by the Dealer when a consumer enters a contract with a Dealer that sets forth the terms of the agreement between the consumer and the Dealer for the payment of the purchase price of the vehicle.

Although the Dealer is named in the Consumer Loan contract, the Dealer generally does not have legal ownership of the Consumer Loan for more than a moment and Western Funding, not the Dealer, is listed as lien holder on the vehicle title. Consumers are obligated to make payments on the Consumer Loan directly to us, and any failure to make such payments will result in our pursuing payment through collection efforts.

All Consumer Loans submitted to us for assignment are processed through DealerCenter, a Dealer Management System created by an affiliate of Western Funding, Nowcom. Dealers may subscribe to DealerCenter and submit Consumer Loans directly to Western Funding or may submit through Dealertrack, which submits through DealerCenter's lending portal. Submitting Consumer Loans directly though DealerCenter allows Dealers to input a consumer's credit application and view the response, from the company, via the internet. It also allows Dealers to receive an automated approval from the company, interact with our scoring system to optimize the structure of each transaction prior to assignment, and create and electronically execute Consumer Loan documents.

All responses include the amount of funding (the advance), as well as any stipulations required for funding. The amount of funding is determined using a formula which considers several factors including the timing and amount of cash flows expected on the related Consumer Loan and our target profitability at the time a Consumer Loan is submitted to us for assignment.

Funding

While a Dealer can submit any legally compliant Consumer Loan to Western Funding for assignment, the decision whether to provide funding to the Dealer and the amount of any funding is made solely by WFI. Through our Funding department, we perform all significant functions relating to the processing of the Consumer Loan applications and bear certain costs of Consumer Loan assignment, including the cost of assessing the adequacy of Consumer Loan documentation, compliance with our underwriting guidelines, and the cost of verifying employment, residence, and other information provided by the Dealer.

WFI audits Consumer Loan files for compliance with our underwriting guidelines to assess whether our Dealers are operating in accordance with the terms and conditions of our Master Servicing Agreement.

WFI occasionally identifies breaches of the Master Servicing Agreement and depending upon the circumstances, and at our discretion, we may:

• Change pricing for future Consumer Loan assignments.

• Reassign the Consumer Loans back to the Dealer and require repayment of the related advances; or

• Terminate our relationship with the Dealer.

Portfolio Program

Dealers are granted access to the WFI Portfolio Program upon enrollment and begin to originate consumer auto loans which are assigned to WFI for servicing.

WFI records the amount advanced to the Dealer as a Dealer Loan, which is classified within Loans receivable in the consolidated balance sheets. Cash advanced to the Dealer is automatically assigned to the Dealer's open pool of advances. Groups of 50 loans are combined into pools that give the dealer the opportunity to receive additional advances based on loan performance. Consumer loans will be assigned to an open pool before it is closed, and subsequent advances are assigned to a new pool. Unless a request is received from the Dealer to keep a pool open, it is automatically closed once a group of 50 loans is reached. All advances within a Dealer's pool are secured by the future collections on the related Consumer Loans assigned to the pool. For Dealers with more than one pool, the pools are cross-collateralized, so the performance of other pools is considered in determining eligibility for Dealer Holdback.

For accounting purposes, the transactions described under the Portfolio Program reflect WFI as a lender to Dealers as opposed to a lender to the consumer. The classification as a Dealer Loan for accounting purposes is primarily a result of:

(1) the Dealer's financial interest in the Consumer Loan and

(2) certain elements of the legal relationship with the Dealer.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accounting and reporting policies of the Company are set forth in accordance with U.S. generally accepted accounting principles ("GAAP") and conform to industry practice.

Use of Estimates

The preparation of financial statements in conformity with 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the allowance for credit losses, the valuation of repossessed assets and the estimated amount of future collections. Such estimates and assumptions are subject to inherent uncertainties, which may result in actual amounts differing from reported amounts.

Concentration of Credit Risk

Concentration of credit risk with respect to Dealer loan receivables is limited due to the large number of dealers composing the Company's customer base and their dispersion among different geographical areas. However, the Company is exposed to a concentration of credit risk inherent in providing dealer financing program in which funds are advanced to the dealer.

The Company recognizes that there is an inherent risk associated with the loan portfolios. Such risk is primarily driven by credit quality, which is further affected by borrower-specific and economy-wide factors. An attempt to mitigate risk is done through WFI's underwriting, credit approval, and servicing practices and policies.

Underwriting Process

WFI has a formal risk assessment process, through the underwriting process, which is governed by the Buy Program and Guidelines. The primary underwriting tool is the Buy Program, in which the advance to the dealer is the primary mechanism used to adjust for the deal's risk level.

The methodology for calculating the advance has remained consistent over time. However, the inputs used, and each input's weighting is constantly evolving.

The Buy Program uses combination of the following for estimating the Collection Rate:

- Structure – LTV, PTI, Down,
- Vehicle – Make, Mileage, Book Value, Auto Check,
- Customer – Credit, Income amount and type, stability, alternative data, and
- Dealer – Tier, Type, State.

The estimate, at origination, is recorded as the **Score**. At each month-end thereafter, the Risk department generates a new estimate of the collection rate for each account, called the **Forecast,** which combines origination demographics with servicing results. As the account ages, the servicing results will play a larger role. Areas of the portfolio with variance between the Score and the Forecast are subject to future Buy Program changes.

The Buy Program converts the Collection Rate to an Advance Rate to achieve the **Target Return.** The Risk department tracks the Forecast trend, for origination periods, over time. A good forecast will remain the same, as opposed to fluctuating, over time.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Periodically, the Company maintains balances in various operating accounts in excess of federally insured limits. The Company has not experienced any losses in such accounts. Cash flows from the purchase of, and payments related to, finance receivables are recorded net.

Restricted Cash: Western Funding entered into a $450m securitized warehouse financing facility on October 18, 2023 with two commercial banks. This facility was expanded to $650M with the addition of two more banks and renewed on October 31, 2024. The governing loan and security agreement requires the servicer (Western Funding) to identify all collections associated with loans contributed to the warehouse facility and remit them to a third-party administrator within two days of receipt. The third-party administrator conducts a settlement procedure each month in the middle of the month to apply all collections via a waterfall approach for the benefit of all parties to pay any fees, interest, and/or principle on the loans as applicable. Because of the mid-month settlement procedure, cash collections remitted to the third party are required to be accounted for as "Restricted Cash" on the associated Financial Statements of Western Funding.

Recognition and Measurement Policies

Through the end of calendar year 2022, Western Funding operated under the **Originated Method** for the purposes of valuing its dealer loan portfolio. At the time of loan assignment, WFI:

• calculated the effective interest rate based on contractual future net cash flows.

• recorded a Loan receivable equal to the advance paid to the Dealer under the Portfolio Program, and

• recorded an allowance for credit losses equal to the difference between the initial Loan receivable balance and the present value of expected future net cash flows discounted at the effective interest rate. The initial allowance for credit losses is recognized as provision for credit losses expense.

Under the Portfolio Program, contractual collections that exceed initial expectations were substantially offset by additional Dealer Holdback payments.

Under the **Originated Method**, for each reporting period after assignment, WFI:

• recognized finance charge revenue using the effective interest rate that was calculated at the time of assignment based on contractual future net cash flows; and

• adjusted the allowance for credit losses so that the net carrying amount of each Loan equals the present value of expected future net cash flows discounted at the effective interest rate. The adjustment to the allowance for credit losses is recognized as either provision for credit losses expense or a reversal of provision for credit losses expense.

Accounting Standard Adopted In 2023

On January 1, 2023, WFI adopted the *ASU 2016-13 (aka the* **CECL- Current Expected Credit Loss) methodology,** which changed accounting policies for Loans.

This is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities and reinsurance receivables. It also applies to off-balance-sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees and other similar instruments), and net investments in leases recognized by a lessor. **The scope excludes** financial assets measured at fair value through net income, available-for-sale securities, loans made to participants by defined contribution employee benefit plans, policy loan receivables of an insurance company, pledge receivables of a not-for-profit entity, and receivables between entities under common control. This ASU **will require** entities to immediately record the full amount of credit losses that are expected in their loan portfolios and to re-evaluate at each reporting period. The statement of income will reflect the credit loss provision (or expense) necessary to adjust the allowance estimate from the previous reporting date. The **expected credit loss estimate** should consider available information relevant to assessing the collectability of contractual cash flows, including information about past events (i.e., historical loss experience), current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount.

Dealer Loan Receivables

The outstanding balance of each Loan included in Loans receivable is comprised of the following:

- Cash paid to the Dealer (or to third party ancillary product providers on the Dealer's behalf) for the Consumer Loan assignment (advance under the Portfolio Program)
- Finance charges;
- Dealer Holdback payments;
- Recoveries;
- Transfers in;
- Less: collections (net of certain collection costs);
- Less: write-offs; and
- Less: transfers out.

Amounts advanced to Dealers for Consumer Loans are recorded as Dealer Loans and are aggregated by Dealer for purposes of recognizing revenue and measuring credit losses.

Allowance for Credit Losses

The Company estimates loan losses based on delinquency status, historical loss experience, estimated values of applicable underlying collateral, and various other economic factors. The allowance for credit losses is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectable. An allowance for credit losses is recorded when the amount of the dealer loan receivable is less than the adjusted carrying value, based on the net present value of the forecasted future cash flows on the loans being serviced, for a given dealer.

The Company uses a **static pool analysis** to stratify the finance receivable portfolio into separately identified pools, based on their period of origination, and then uses the historical performance of **seasoned pools** to estimate future losses on **current pools**. The Company adjusts the computed historical loss percentages, for qualitative factors, based on an assessment of internal and external influences on credit quality, that are not fully reflected in the historical loss data. Those qualitative factors can include trends in loan portfolio growth, delinquency, unemployment, bankruptcy and other economic trends.

WFI reports an allowance for credit losses through a provision for credit losses charged to expense. The loan receivable is charged against the allowance for credit losses when management believes collectability of the principal will be unlikely. Unlikely collectability is typically determined when a receivable reaches 91 days past due at the end of the month; however, unlikely collectability may be determined to be sooner if a loss becomes apparent before the receivable reaches the 91 days past due.

Expected future collections are forecasted for each individual Consumer Loan based on the historical performance of Consumer Loans with similar characteristics, adjusted for recent trends in payment patterns and economic conditions. Forecast of expected future collections includes estimates for prepayments and post-contractual-term cash flows. Unless the consumer is no longer contractually obligated to pay us, WFI forecasts future collections on each Consumer Loan for a 120-month period after the origination date. Expected future Dealer Holdback payments are forecasted for each individual Dealer, based on the expected future collections, and current advance balance of each Dealer Loan.

The Company initiates repossession proceedings when an account is 55 days delinquent and, in the opinion of management, the customer is unlikely to make further payments on the loan. The amount charged off upon repossession is the remaining principal balance of the receivable, after the application of the net proceeds, from the liquidation of the vehicle or other collateral.

Credit Quality

Most of the Consumer Loans assigned are made to individuals with impaired or limited credit histories. Consumer Loans made to these individuals generally entail a higher risk of delinquency, default, and repossession and higher losses than loans made to consumers with better credit. Since most of the revenue and cash flows are generated from these Consumer Loans, the ability to accurately forecast Consumer Loan performance is critical to business and financial

At the time a Consumer Loan is submitted, future expected cash flows from the Consumer Loan are forecasted. Based on these forecasts, an advance is made to the related Dealer at a price designed to achieve the Company's target Return on Assets. The credit quality of Consumer Loans is monitored and evaluated on a monthly basis by comparing current forecasted collection rates to initial expectations. A statistical model is used that considers a number of credit quality indicators to estimate the expected collection rate for each Consumer Loan at the time of assignment.

The credit quality indicators considered in the model include attributes contained in the consumer's credit bureau report, data contained in the consumer's credit application, Third Party risk scores, the structure of the proposed transaction, vehicle information, and other factors. WFI continues to evaluate the expected collection rate of each Consumer Loan after assignment primarily through the monitoring of consumer payment behavior. Evaluation of Consumer Loans becomes more accurate as they age, as actual performance data is used in the forecast.

When overall forecasted rates underperform initial expectations, the decline in forecasted collections has an adverse impact on the profitability of the Dealer Loans. For Dealer Loans, the decline in the forecasted collections is first offset by a decline in forecasted payments of Dealer Holdback.

Troubled Debt Restructured Finance Receivables

Loan receivables associated with customers in bankruptcy are considered **Troubled Debt Restructured Finance Receivables**. The Company's policy for the accounts of customers in bankruptcy is to charge off the balance of accounts in a confirmed bankruptcy under Chapter 7 of the bankruptcy code. For customers in a Chapter 13 bankruptcy plan, the bankruptcy court reduces the interest rate the Company can charge, as it does for most creditors. Additionally, if the bankruptcy court converts a portion of a loan to an unsecured claim, the Company's policy is to charge off the portion of the unsecured balance that it deems uncollectable at the time the bankruptcy plan is confirmed. Once the customer is in a confirmed Chapter 13 bankruptcy plan, the Company receives payments with respect to the remaining amount of the loan at the reduced interest rate from the bankruptcy trustee. The Company does not believe that accounts in a confirmed Chapter 13 bankruptcy plan have a higher level of risk than non-bankrupt accounts.

If a customer fails to comply with the terms of the bankruptcy order, the Company will petition the trustee to have the customer dismissed from bankruptcy. Upon dismissal, the Company restores the account to the original terms and pursues collection through its normal collection activities. These finance receivables are placed on non-accrual, once the Company confirms the customer is in bankruptcy, upon receipt of a court order.

Repossessed Assets

WFI has an inventory of vehicles repossessed by the Company due to borrowers defaulting on payment terms, as stipulated in the installment contracts and/or loan agreements. Vehicles that are not redeemed by the customer are sold at auction. Repossessed vehicles are reported in WFI's inventory at the vehicles' estimated fair value less costs to sell. Any difference in the estimated sale price, net of expenses, and the contract receivable balance is treated as a charge-off against the allowance for credit losses.

Property and Equipment

Purchases of property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful life of the asset. Estimated useful lives are generally as follows: buildings – 40 years, building improvements – 10 years, data processing equipment – 3 years, software – 5 years, office furniture and equipment – 7 years, and leasehold improvements – the lesser of the lease term or 7 years. The cost of assets sold or retired, and the related accumulated depreciation are removed from the balance sheet at the time of disposition and any resulting gain or loss is included in operations. Maintenance, repairs, and minor replacements are charged to operations as incurred; major replacements and improvements are capitalized. We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Costs incurred during the application development stage of software developed for internal use are capitalized and generally depreciated on a straight-line basis over five years. Costs incurred to maintain existing software are expensed

Finance Charge

Finance Charge Revenue is recognized monthly, using the effective interest method based upon forecasted cash flows. Certain direct loan origination costs are deferred and amortized, as an adjustment to interest income, over the estimated life of each dealer loan portfolio.

Finance charges is comprised of: (1) interest income earned on Loans; (2) administrative fees earned from ancillary products; (3) program fees charged to Dealers under the Portfolio Program; (4) Consumer Loan assignment fees charged to Dealers; and (5) direct origination costs incurred on Dealer Loans.

WFI provides Dealers the ability to offer vehicle service contracts to consumers through our relationships with **Third Party Providers ("TPPs")**. A vehicle service contract provides the consumer with protection by paying for the repair or replacement of certain components of the vehicle in the event of a mechanical failure. The retail price of the vehicle service contract is included in the principal balance of the Consumer Loan. The wholesale cost of the vehicle service contract is paid to the TPP, net of an administrative fee retained. The difference between the wholesale cost and the retail price to the consumer is paid to the Dealer as a commission. Under the Portfolio Program, the wholesale cost of the vehicle service contract and the commission paid to the Dealer are charged to the Dealer's advance balance. TPPs process claims on vehicle service contracts that are underwritten by third party insurers. Vehicle service contracts are marketed directly to WFI Dealers.

WFI provides Dealers the ability to offer Guaranteed Asset Protection ("GAP") to consumers, which is serviced by the Company. GAP provides the consumer protection by paying the difference between the loan balance and the amount covered by the consumer's insurance policy in the event of a total loss of the vehicle due to severe damage or theft. The retail price of GAP is included in the principal balance of the Consumer Loan. Under the Program, the wholesale cost of GAP is charged to the Dealer's advance balance.

Recognition Policy. We recognize finance charges under the interest method such that revenue is recognized, on a level yield basis, over the life of the Loan. Finance charges are calculated on a monthly basis by applying the effective interest rate of the Loan to the net carrying amount of the Loan (Loan receivable less the related allowance for credit losses). For Consumer Loans assigned on or after January 1, 2023, the effective interest rate is based on contractual future net cash flows. For Consumer Loans assigned prior to January 1, 2023, the effective interest rate was determined based on expected future net cash flows.

Income Taxes

WFI is fully taxable, as a C corporation, for federal and state income tax purposes. The entity files tax returns in various

Advertising Costs

The Company expenses advertising costs as incurred. The Company also operates incentive programs for Dealers, which are expensed as incurred, as a marketing promotion.

Litigation and Contingent Liabilities

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

3. Loan Receivables

WFI generates a Dealer loan receivable portfolio. Under this financing program, funds are advanced to the dealer in exchange for the right to service the underlying consumer loan. Groups of 50 loans are combined into pools. The pools give the dealer the opportunity to receive additional advances of expected future cash flows based on loan performance.

We recognize provision for credit losses on new Consumer Loan assignments for contractual net cash flows that were not expected to be realized at the time of assignment. We also recognize provision for credit losses on forecast changes in the amount and timing of expected future net cash flows subsequent to assignment.

The net Loan income (finance charge revenue less provision for credit losses expense) that we will recognize over the life of a Loan equals the cash we collect from the underlying Consumer Loan less the cash we pay to the Dealer. Under CECL, we are required to recognize a significant provision for credit losses expense at the time of assignment for contractual net cash flows we never expect to realize and to recognize in subsequent periods finance charge revenue that is significantly in excess of our expected yields.

4. Allowance for Credit Losses

The Company estimates loan losses based on delinquency status, historical loss experience, estimated values of applicable underlying collateral and various other economic factors. Additionally, the Company evaluates the dealer loan portfolios for impairment. These activities are performed each month.

Loan Collection rate

At loan inception: The most critical time to correctly assess future loan performance since that is when the amount paid to the dealer is determined.

WFI uses a statistical model known as a credit scorecard to estimate the expected collection rate for that loan. Most consumer finance companies use such a tool to forecast the performance of the loans they originate. The credit scorecard combines credit bureau data, customer data supplied in the credit application, vehicle data, dealer data, and data captured from the loan transaction such as the initial loan term or the amount of the down payment received from the customer. The credit scorecard is revised periodically as new trends are identified through the evaluation of variances in expected collection rates. An accurate credit scorecard, across a population of loans, allows for proper pricing of new loan originations, which improves the probability that expected returns on capital will be realized.

After loan inception: WFI continues to evaluate the expected collection rate for each loan. The evaluation becomes more accurate as the loans age since actual loan performance data is used in the forecast. By comparing the current expected collection rate, for each loan, with the rate projected at the time of origination, the accuracy of that initial

5. Debt

The Company has two sources of debt capital, a $650M Securitized Warehouse Financing Line and Intercompany debt from its parent company, Westlake Financial.

Warehouse Facility ("Facility")-- Western Funding entered into a $450M securitized warehouse financing facility on October 18, 2023 with two commercial banks. This facility was expanded to $650m with the addition of two more banks and renewed as of October 31, 2024. The facility is governed by a Loan and Security Agreement. Western Funding can contribute Dealer Loans to a bankruptcy remote entity which in turn pledges them to the lenders in exchange for a 76% advance rate against the net book value of the pledged dealer loans. The facility is non-recourse to Western Funding and relies on the performance of the contributed loans to pay back any outstanding debt. Western Funding must identify all collections associated with loans contributed to the warehouse facility and remit them to a third-party administrator within two days of receipt. The third-party administrator conducts a settlement procedure each month in the middle of the month to apply all collections via a waterfall approach for the benefit of all parties to pay any fees, interest, and/or principle on the loans as applicable. Because of the mid-month settlement procedure, cash collections remitted to the third party are required to be accounted for as "Restricted Cash" on the associated Financial Statements of Western Funding. The facility bears interest at the 1 Month SOFR rate plus 185 basis points. The facility has revolving structure with Amortization triggers based on collection performance criteria.

Intercompany Debt – Debt not provided by the Warehouse facility is provided by our parent company, Westlake Financial, as intercompany debt. A portion of this debt is considered "Senior" and bears an intercompany rate of 1 Month SOFR plus 200 basis points. The remainder is considered Subordinated Debt and bears a rate of 1 Month SOFR plus 450 bps with a floor of 10%.

Debt Covenants

The Company is compliant with all stated debt covenants, consisting of EBITDA and Debt-to-Equity financial ratios requirements, as well as other financial conditions.

6. Stockholders' Equity

The Company is authorized to issue 120,000,000 shares of common stock with no par value per share. As of December 31, 2024, the Company has issued 61,930,590 shares

7. Commitments and Contingencies

As a consumer finance company and during the ordinary course of business, WFI is subject to various legal claims, consumer claims and litigation, seeking damages, fines, and statutory penalties. The claims may allege, among other theories of liability, violations of state and federal **Truth-In-Lending Act (TILA),** credit availability, credit reporting, consumer protection, warranty, debt collection, insurance, and other consumer-oriented laws and regulations, including seeking damages for alleged physical and mental harm, relating to the repossession and sale of consumers' vehicles and other debt collection activities. The basis is, among other things, disclosure inaccuracies, wrongful repossession, violations of bankruptcy stay provisions, certificate of title disputes, fraud, breach of contract and discriminatory treatment of credit applicants. WFI must adhere to industry and financial regulations and other statutes set forth by the jurisdictions in which business operations occur. Some litigation against the Company and its affiliates could take the form of class action complaints by consumers. Among other types of claims, as the assignee of motor vehicle loan contracts originated by dealers, the Company and its affiliates may also be named as co-defendants in lawsuits filed by consumers or regulatory agencies principally against dealers. The damages and penalties claimed by consumers in these types of matters can be substantial. The relief requested by the plaintiffs varies but can include requests for compensatory, statutory and punitive damages. The Company believes that it has taken adequate steps to address and mitigate the litigation risks associated with its business activities. Presently, management believes the Company is not subject to litigation that, individually or in the aggregate, would materially adversely affect the Company's financial position, results of operations, or cash flows.

Considering recent conditions in the economic markets, federal and state governing authorities have increased their scrutiny over the financial services industry. As a result, proposals for legislation and increased regulation have led to increases in the scope and nature of restrictions on the financial services industry.

The scope and potential risks associated with these allegations are still unknown. However, the belief is that they will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

8. Related-Party Transactions

The Company engages in various related-party arrangements in order to help facilitate the Company's operations. Such related-party transactions not disclosed elsewhere consist of intercompany debt and rent, as follows:

Intercompany Debt
The Company has intercompany debt as a subsidiary of Westlake Financial Services. Debt balances that are intercompany are identified as such on the Balance Sheet and are presented as Secured Debt and Subordinate Debt, the latter of which carries a higher intercompany cost to Western Funding.

Rent
The Company rents its headquarters office in Las Vegas through MCA Patrick. Total lease expense for 2024 incurred by WFI and paid to the related party is approximately $300,000.