The Philadelphia Contributionship

265th Annual Report

2017

The Philadelphia Contributionship Mutual Holding Company

TPC Holdings, Inc.

Vector Security Holdings, Inc.

The Philadelphia Contributionship for the Insurance of Houses from Loss By Fire, Inc.

The Philadelphia Contributionship Insurance Company

Germantown Insurance Company

First Insurance Company of America

Franklin Agency, Inc.

At A Glance

The Philadelphia Contributionship Mutual Holding Company is a mutual holding company serving as the ultimate controlling parent in the corporate structure. The principal business of The Philadelphia Contributionship Mutual Holding Company is to hold the stock of TPC Holdings, Inc.

TPC Holdings, Inc. is a stock holding company whose principal business is to hold the stock of The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire, Inc. and Vector Security Holdings, Inc.

The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire, Inc. is the oldest successful property and casualty insurance company in the United States, having been founded in 1752. The company was converted from a mutual company to a stock company in 2009.

The Philadelphia Contributionship is our group of insurance companies writing residential business in predominantly urban communities. Our Company was founded by Benjamin Franklin and his fellow fire-fighters to provide insurance to urban Philadelphia homeowners. We provide homeowners, fire and liability insurance to customers in New Jersey, Pennsylvania, Delaware, Maryland and Virginia. We have earned the distinction of an A rating or higher from A.M. Best Company for over 90 years.

Vector Security Holdings, Inc., our residential and commercial security subsidiary, is one of the top ten security providers in North America. Vector provides electronic security services to commercial and residential markets including fire and burglary detection, video, access control, environmental monitoring, home automation and commercial analytics. Subsidiary Vector Intelligent Solutions provides customized managed network services including broadband and broadband-enabled services, network deployment, network management and mobile applications.

Corporate Seal

Chalk prototype of new company seal commissioned by The Philadelphia Contributionship in 1831.

Origins of "Contributionship"

Thomas Sheridan in *A Complete Dictionary of the English Language* (1796) defines contribution as "that which is given by several hands for some common purpose".

Our Vision

To be the most reliable partner for people seeking to protect their homes and their futures.

Our Mission

We provide insurance protection that puts people first, through uniquely personal service, strong partnerships and an unmatched history of financial stability.

...BEN WOULD HAVE BEEN PROUD.

Letter to Policy Holders

No company can survive and thrive over the long run without changing and adapting to evolving conditions. For 266 years, The Philadelphia Contributionship has successfully navigated through that evolution and, as a result, remains a vibrant, relevant and successful company in both the insurance and the security industries. We have made strides in our technology platform, enhanced products and services, entered new markets and introduced a refreshed brand and visual identity — all of which has helped us to earn a reputation as a 266 year old company that doesn't behave like one.

In 2017, The Philadelphia Contributionship completed a very successful year with solid growth and operating profitability. Investment performance was also strong, adding to the financial strength of the company, which provides peace of mind to our customers.

Insurance Group Operations

2017 was a remarkable year for the insurance operations. We were successful in growing our revenue while losses declined, leading to increased underwriting profit. Once again, we expanded our operating footprint when we entered Virginia in June. Growth in the regions of Pennsylvania and New Jersey that we've targeted for growth, along with Delaware, Maryland and Virginia was robust. Those territories now represents 20% of our total premium volume and 32% of our policies. In spite of the most expensive year for

weather catastrophes in United States history, The Philadelphia Contributionship fared well with weather events producing lower than average loss activity for the company.

Direct written premium was $145.2 million in 2017, up 5.8% from 2016. Net premiums earned for 2017 were $124.9 million, up 2.7% from 2016. Gross income from the investment portfolio grew 5.1% in 2017 to $10.9 million. Net realized gains on investments were $14.4 million during 2017 compared to $2.1 million in 2016. In total, revenues from insurance operations for the year ending December 31, 2017 were $150.2 million compared to $134.1 million for 2016.

Losses and loss adjustment expenses were lower in 2017 compared to 2016 due to lower losses from weather catastrophes and lower severity, in general. 2017 losses and loss adjustment expenses were $80.7 million compared to $83.6 million in 2016. Underwriting and investment expenses were higher in 2017 consistent with our growth in policy counts and the performance of our investment portfolio. In total, losses and expenses were $122.7 million for the year. We continued our consistent record of dividend payments to our members. In 2017, dividend payments totaled $1.0 million.

Overall, the insurance operation produced income before income taxes of $26.8 million in 2017 compared to $11.6 million in 2016.

The Philadelphia Contributionship's financial strength rating from AM Best Company was affirmed in 2017 as A (Excellent). We

have been rated A (Excellent) or better by AM Best Company for a remarkable 95 consecutive years.

Finally, in 2017 the company was named to Philly.com's list of Top Workplaces — affirming that The Philadelphia Contributionship is an employer of choice.

Security Group Operations

Vector Security, Inc. produced earnings before interest, taxes, depreciation and amortization of $49.3 million, 7% above 2016. While revenues were down slightly, gross margins for the year were 39.7%, better than prior year of 37.4%, and we were much more efficient in running our operations during 2017. Vector Security Networks experienced revenue losses due to several

History of Fire Marks

The Philadelphia Contributionship issued fire marks from 1752 until the 1830s and were often made by the company's surveyors although others may have provided the molded hands. The shields were painted black and the hands and policy numbers gilded.

Philadelphia Contributionship Fire Mark, c. 1770

Policy 1391 was issued to Thomas Nevill in 1770 for his house and kitchen situated on the west side of 4th Street between Spruce and Pine. Made by Joseph Rakestraw.

Philadelphia Contributionship Fire Mark, c. 1771

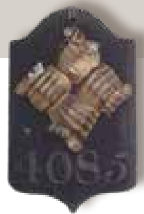
Policy 1548 was issued to Thomas Lawrence, upholsterer, for ensuring his house and kitchen situated on Rouse's Road in Passyunk Township on December 10, 1771. Made by Joseph Rakestraw. *Courtesy of Independence National Historical Park.*

retail customer bankruptcies. However, this division was able to overcome that challenge with favorable decisions on sales and use tax audits. We completed and integrated two acquisitions in 2017. We continued our Texas geographic expansion with the purchase of Guardian Force Security which has offices in Nederland and Lufkin, Texas. In addition, we added market density in Maryland with the acquisition of 9,000 customers from Security Associates. These accounts were folded into our existing branch office serving that area.

We continue to meet the demands of the residential market, expanding our home automation offerings, including integration with Amazon Alexa for voice control. We offer a single platform with security, locks, doorbells, garage door controls, thermostats,

Philadelphia Contributionship Fire Mark, c. 1775

Policy 1906 was issued in 1775 to John Riddle for his property situated on the south side of Union Street between 3rd and 4th Street. Made by Joseph Rakestraw.



Philadelphia Contributionship Fire Mark, c. 1822

Policy 4085 was issued in 1822 to Francis Smith, carriage builder, for his dwelling on the east side of South 11th Street between Locust and Spruce. Made by John C. Evans.

Philadelphia Contributionship 20th century Fire Marks

Policyholders asked for the return of fire marks in the early twentieth century. The founding date of the company, 1752, took the place of the policy number. Numbering styles changed somewhat as did materials but the shield with the four clasped hands remained a constant.

cameras, and lighting; making the consumer experience simple and secure. We also offer a customized Vector Security interface for small and mid-size businesses, allowing them the accessibility and flexibility that was previously only offered to large volume or high-end commercial entities. Network offerings have expanded to encompass new technologies like SD WAN. Keeping pace with technology, Vector continues to introduce and support reliable products and services that provide value to our customers.

Consolidated Balance Sheet

Total assets as of December 31, 2017 are $805.0 million, a 5.6% increase from 2016. Liabilities were essentially flat from 2016 at $425.5 million. Total equity as of December 31, 2017 is $379.6 million — up 12.7% from the end of 2016. The Philadelphia Contributionship is in outstanding financial condition.

On behalf of the Board of Directors, our officers and employees, thank you for placing your trust in The Philadelphia Contributionship. We are committed to meeting your insurance and security needs and to maintaining the financial strength that has been our hallmark for 266 years.

Scott M. Jenkins
Chairman of the Board

Robert G. Whitlock, Jr., FCAS, MAAA
President and Chief Executive Officer

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CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2017 AND 2016

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

ASSETS	2017	2016
INSURANCE GROUP ASSETS		
Investments:		
Fixed income securities	**$ 156,944**	$ 143,575
Convertible bonds	**15,816**	11,672
Preferred stocks	**771**	2,566
Convertible preferred stocks	**1,701**	2,261
Common stocks	**267,679**	228,515
Other invested assets	**37,675**	36,695
	480,586	425,284
Cash and cash equivalents	**11,071**	14,076
Reinsurance recoverable and receivable	**13,725**	12,982
Prepaid reinsurance premiums	**2,388**	1,880
Premiums receivable	**9,698**	9,095
Accrued income from investments	**1,704**	1,575
Income tax recoverable	**1,342**	27
Deferred acquisition costs	**15,821**	14,892
Property and equipment, net	**4,497**	5,573
Other assets	**595**	551
Total Insurance Group assets	**541,427**	485,935
SECURITY GROUP ASSETS		
Current assets:		
Cash and cash equivalents	**833**	193
Trade accounts receivable, less allowance for doubtful accounts of $1,666 in 2017 and $1,800 in 2016	**21,642**	21,820
Unbilled revenue	**10,364**	10,550
Inventories	**4,959**	5,175
Prepaid expenses and other current assets	**7,292**	6,716
Deferred income taxes	**—**	617
Income taxes receivable	**623**	1,625
Total current assets	**45,713**	46,696
Property and equipment, net	**29,998**	27,877
Intangible assets, net	**134,512**	139,565
Goodwill, net	**25,796**	30,438
Deferred income taxes	**17,580**	23,738
Other noncurrent assets	**1,178**	1,594
Deferred charges	**8,377**	6,323
Interest rate swap receivable	**467**	—
Total Security Group assets	**236,621**	276,231
Total assets	**$ 805,048**	$ 762,166

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

LIABILITIES AND EQUITY	2017	2016
INSURANCE GROUP LIABILITIES		
Unpaid losses and loss adjustment expenses	**$ 90,452**	$ 91,527
Unearned premiums	**77,213**	72,703
Advance premiums	**2,077**	2,192
Deposit premiums	**15,450**	15,602
Deferred income taxes	**21,940**	25,319
Ceded premium payable	**549**	165
Other liabilities	**11,638**	9,163
Total Insurance Group liabilities	**219,319**	216,671
SECURITY GROUP LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	**1,750**	1,700
Accounts payable and accrued expenses	**32,640**	29,987
Customer deposits	**586**	726
Unearned revenue	**11,907**	10,204
Deferred income taxes	**240**	—
Purchase holdbacks	**3,374**	1,491
Total current liabilities	**50,497**	44,108
Long-term debt, less current maturities	**146,327**	157,049
Unearned revenue	**5,259**	3,849
Other long-term liabilities	**4,068**	3,663
Total Security Group liabilities	**206,151**	208,669
Total liabilities	**425,470**	425,340
EQUITY		
Unassigned equity	**293,169**	285,830
Accumulated other comprehensive income	**86,409**	50,996
Total equity	**379,578**	336,826
Total liabilities and equity	**$ 805,048**	$ 762,166

CONSOLIDATED STATEMENT OF OPERATIONS
YEARS ENDED DECEMBER 31, 2017 AND 2016

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

	2017	2016
INSURANCE GROUP		
Revenue:		
Net premiums earned	**$ 124,900**	$ 121,649
Gross investment income	**10,878**	10,353
Net realized gains on investments	**14,374**	2,067
Total revenue	**150,152**	134,069
Losses and expenses:		
Losses and loss adjustment expenses	**80,738**	83,551
Underwriting expenses	**39,017**	35,990
Investment expenses	**2,939**	2,402
Total losses and expenses	**122,694**	121,943
Income before other income, dividends to policyholders, and income tax expense	**27,458**	12,126
Other income, net	**341**	471
Dividends to policyholders	**(959)**	(950)
Insurance Group income before income tax expense	**26,840**	11,647
SECURITY GROUP		
Revenue	**296,262**	301,116
Cost of sales	**178,709**	188,553
Gross profit	**117,553**	112,563
Operating expenses:		
Selling, general, and administrative	**68,188**	67,881
Acquisition-related costs	**113**	—
Depreciation	**11,344**	11,095
Amortization and impairment of intangible assets and goodwill	**35,890**	35,847
Total operating expenses	**115,535**	114,823
Operating income (loss)	**2,018**	(2,260)
Other:		
Interest expense	**(5,669)**	(5,158)
Other income, net	**90**	249
Gain on business divestiture	**—**	1,199
	(5,579)	(3,710)
Security Group loss before income tax expense	**(3,561)**	(5,970)
Income before income tax expense	**23,279**	5,677
Income tax expense	**372**	823
Net income	**22,907**	4,854
Less: Net loss attributable to redeemable noncontrolling interest	**—**	(633)
Net income attributable to the Company	**$ 22,907**	$ 5,487

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2017 AND 2016

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

	2017	2016
Net income	**$ 22,907**	$ 4,854
Other comprehensive income net of tax:		
Unrealized gains on securities available-for-sale:		
Unrealized net holding gains arising during the year (net of tax of $15,199 in 2017 and $5,086 in 2016)	**28,226**	9,444
Less: reclassification adjustment for net realized gains included in net income (net of tax of $4,853 in 2017 and $326 in 2016)	**9,013**	606
	19,213	8,838
Cash flow hedge:		
Change in fair value of cash flow hedge (net of tax of $204 in 2017 and $3 in 2016)	**768**	5
Less: reclassification adjustment for settlement of cash flow hedge included in net income (net of tax of $106 in 2017 and $(60) in 2016)	**399**	(112)
	369	117
Defined benefit pension plan:		
Change in actuarial assumptions	**(201)**	(9)
Asset gain and amortization of net loss	**460**	77
Experience gain	**4**	47
Defined benefit pension plan, net actuarial gain arising during the year (net of tax of $141 in 2017 and $61 in 2016)	**263**	115
Other comprehensive income	**19,845**	9,070
Comprehensive income	**42,752**	13,924
Less: Comprehensive loss attributable to redeemable noncontrolling interest	**—**	(633)
Comprehensive income attributable to the Company	**$ 42,752**	$ 14,557

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF EQUITY
YEARS ENDED DECEMBER 31, 2017 AND 2016

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

	Unassigned Equity	Accumulated Other Comprehensive Income	Total
BALANCE, JANUARY 1, 2016	$ 279,791	$ 41,926	$ 321,717
Net income attributable to the Company (1)	5,487	—	5,487
Redemption of noncontrolling interest, net of purchase price and distributions	552	—	552
Other comprehensive income, net of tax	—	9,070	9,070
BALANCE, DECEMBER 31, 2016	**285,830**	**50,996**	**336,826**
Net income	**22,907**	**—**	**22,907**
Reclassification of the stranded tax effects as a result of the Tax Reform Act	**(15,568)**	**15,568**	**—**
Other comprehensive income, net of tax	**—**	**19,845**	**19,845**
BALANCE, DECEMBER 31, 2017	**$ 293,169**	**$ 86,409**	**$ 379,578**

(1) Net income for the year December 31, 2016 exclude $(633) net loss attributable to the redeemable noncontrolling interest. See Note 8 to the consolidated financial statements for further detail.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	**$ 22,907**	$ 4,854
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized gains on investments	**(14,374)**	(2,067)
Depreciation and amortization	**49,902**	49,651
Deferred income taxes	**(6,950)**	(1,144)
Gains on disposals of property and equipment	**(231)**	(94)
Gains on divestiture of business	**—**	(1,199)
Change in assets and liabilities, net of effects of acquisitions:		
Reinsurance recoverable and receivable	**(743)**	1,271
Prepaid reinsurance premiums	**(508)**	33
Premiums receivable	**(603)**	(647)
Accrued income from investments	**(129)**	(52)
Deferred acquisition costs	**(929)**	(1,206)
Unpaid losses and loss adjustment expenses	**(1,075)**	(2,834)
Unearned premiums	**4,510**	1,203
Advance premiums	**(115)**	(114)
Deposit premiums	**(152)**	(364)
Other liabilities	**3,289**	877
Income taxes and other receivables	**(314)**	1,633
Prepaid expenses and other assets	**(496)**	(328)
Trade accounts receivable, unbilled revenue, and inventories	**694**	3,619
Accounts payable, accrued expenses and purchase holdbacks	**3,058**	6,180
Unearned revenue and customer deposits	**2,171**	1,670
Deferred charges	**(2,054)**	(2,428)
Net cash provided by operating activities	**$ 57,858**	$ 58,514

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

	2017	2016
CASH FLOW FROM INVESTING ACTIVITIES		
Cash paid for acquisitions, net of cash received	**$ (23,746)**	$ (14,336)
Purchases of property, plant and equipment	**(12,371)**	(11,605)
Proceeds from disposals of property and equipment	**258**	213
Proceeds from divestiture of business, net	**—**	3,198
Purchases of fixed income securities	**(71,179)**	(37,586)
Purchases of convertible bonds	**(12,178)**	(4,397)
Purchases of common stocks	**(96,692)**	(60,844)
Purchases of convertible preferred stocks	**(263)**	(399)
Purchases of other invested assets	**(130)**	(3,450)
Proceeds from sales of fixed income securities	**47,465**	14,547
Proceeds from sales of convertible bonds	**9,217**	4,041
Proceeds from maturities/calls of fixed income securities	**11,395**	18,174
Proceeds from the sales of common stocks	**96,858**	59,802
Proceeds from the sales of convertible preferred stocks	**3,161**	137
Proceeds from the sales of other invested assets	**31**	—
Net cash used in investing activities	**(48,174)**	(32,505)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from revolving credit agreements	**75,460**	59,440
Payments on revolving credit agreements	**(85,616)**	(64,454)
Cash paid for debt issuance costs	**—**	(840)
Payment for redemption of noncontrolling interest, including distributions	**—**	(19,938)
Principal payments on capital leases	**(1,893)**	(1,794)
Payments of contingent consideration	**—**	(1,186)
Net cash used in provided financing activities	**(12,049)**	(28,772)
Net decrease in cash and cash equivalents	**(2,365)**	(2,763)
CASH AND CASH EQUIVALENTS, BEGINNING	**14,269**	17,032
CASH AND CASH EQUIVALENTS, ENDING	**$ 11,904**	$ 14,269
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	**$ 5,237**	$ 5,337
Income taxes paid	**$ 9,550**	$ 5,151
SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
In conjunction with acquisitions, the Security Group:		
Recorded purchase holdbacks	**$ 3,111**	$ 1,252
Capital leases	**$ 1,377**	$ 2,273

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of The Philadelphia Contributionship Mutual Holding Company (the Company), a mutual holding company, and its wholly-owned subsidiaries: TPC Holdings, Inc., The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire, Inc. (The Contributionship), and Vector Security Holdings, Inc. (Vector).

The consolidated financial statements include the accounts of The Contributionship, a stock company, and its wholly-owned subsidiaries, The Philadelphia Contributionship Insurance Company, Germantown Insurance Company, First Insurance Company of America, and Franklin Agency, Inc. (collectively, the Insurance Group), and Vector. Vector is the parent company of the following wholly-owned subsidiaries: Vector Security, Inc., Vector International Holdings, Inc., Vector Security Canada, Inc., and Vector Security de Mexico, S.A. de C.V., and Vector Intelligent Solutions, LLC (VIS) (collectively, the Security Group). The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), which differ in some regard from those followed in reports to insurance regulatory authorities. All significant intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the 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.

The Insurance Group writes property and casualty insurance for homeowners and multi-family dwellings principally in urban communities in Pennsylvania, New Jersey, Delaware, Maryland, and Virginia. The Insurance Group had approximately 142,000 policyholders at December 31, 2017.

Vector sells, installs, services, and manages intelligent security and home automation products and solutions and provides security monitoring services as well as network services through advanced electronic systems designed to detect intrusion, as well as fire, water, temperature, and medical emergencies. Vector also does business with large national commercial accounts to which it provides equipment and installation, monitoring, and managed network services. Vector's customers are located throughout North America. Vector has approximately 287,000 residential and commercial customers as of December 31, 2017. No such customer accounted for more than 10% of the December 31, 2017 and 2016 trade accounts receivable balance or revenue for the years then ended.

Premiums

The Contributionship issues perpetual fire and homeowners insurance policies. When a perpetual policy is issued, a deposit premium is received, which is reflected as a liability. The deposit premium is returned if coverage terminates.

The Insurance Group also issues term policies for property and casualty coverage. Premiums on such policies are reflected in income over the effective period of the policies Unearned premiums are computed on either a monthly pro rata basis or a daily basis over the term of the policy.

Reinsurance

Prospective reinsurance premiums, 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.

The Contributionship cedes reinsurance to other insurance companies to minimize the net loss potential arising from large losses and as well as from an aggregation of losses. An allowance is established for amounts deemed uncollectible and losses are charged against the allowance when the uncollectibility of amounts recoverable from reinsurers is confirmed. There was no such allowance recorded as of December 31, 2017, or 2016, respectively.

Acquisition Costs

Acquisition costs, such as commissions, premium taxes, and certain other underwriting and agency expenses that vary with and are directly related to the successful acquisition of new and renewal business, are deferred and amortized over the effective period of the related insurance policies. The Insurance Group determines whether acquisition costs are recoverable considering future losses and loss adjustment expenses, policy maintenance costs and anticipated investment income. To the extent that acquisition costs are determined not to be recoverable, the difference is charged to income in the period identified. All deferred acquisition costs at December 31, 2017 and 2016 were determined to be recoverable.

Liability for Unpaid Losses and Loss Adjustment Expenses

The reserving process for the unpaid loss and loss adjustment expenses ("LAE") provides for the Insurance Group's best estimate at a particular point in time of the ultimate unpaid cost of all losses and loss adjustment expenses incurred, including settlement and administration of claims, and is based on facts and circumstances known and includes losses that have been incurred but not yet reported. The process includes using actuarial methodologies to assist in establishing these estimates, judgments relative to estimates of future claims severity and frequency, the length of time before claims will develop to their ultimate level and the possible changes in the law and other external factors that are often beyond the Insurance Group's control. The methods used to select the estimated claim reserves include the loss ratio method, loss development methods, the Bornhuetter-Ferguson (B-F) method, and the Berquist-Sherman (B-S) method. The process produces carried reserves set by management's best estimate and is the result of numerous best estimates made by line of business, accident year, and broken out between losses and loss adjustment expenses. The amount of loss and loss adjustment expense reserves for reported claims is based primarily upon a case-by-case evaluation of coverage, liability, injury severity, and any other information considered pertinent to estimating the exposure presented by the loss. The amounts of loss and loss adjustment expense reserves for unreported claims are determined using historical information by line of insurance as adjusted to current conditions.

Due to the inherent uncertainty associated with the reserving process, the ultimate liability may differ, perhaps substantially, from the original estimate. Such estimates are regularly reviewed and updated and any resulting adjustments are included in the current year's results. These liabilities are closely monitored and are recomputed periodically using the most recent information on reported claims and a variety of statistical techniques. Specifically, on at least a quarterly basis, the Insurance Group reviews, by line of business, existing revenues, new claims, changes to existing case reserves and paid claims with respect to the current and prior years.

Fixed Income Securities and Preferred & Common stocks

All fixed income securities, preferred and common stocks are classified as available-for-sale and are carried at fair value. Management reviews the securities in its investment portfolio on a periodic basis to specifically identify individual securities that have incurred an other-than-temporary decline in fair value below cost or amortized cost. As part of its periodic review process, management utilizes information received from its outside professional asset manager to assess each issuer's current credit situation. When management's review identifies an other-than-temporary impairment in the valuation of a fixed income security, it compares its projected discounted cash flows to the amortized cost in order to determine the credit related portion and the non-credit related portion of the loss. The credit related portion is recorded as a charge in the consolidated statement of operations while the non-credit related portion is recorded through other comprehensive income and included as a component of accumulated other comprehensive income in the consolidated balance sheet. For preferred and common stocks, the cost of the security is adjusted and recognized as a realized loss in the statement of operations.

For structured securities, management projects cash flows using loss adjusted cash flows that contemplate current market factors such as prepayment assumptions, expected default assumptions, and the current condition of the guarantor of the security. For structured

securities, the discount rate used in the present value calculation is the security's current effective interest rate. The discount rate used for other fixed income securities is the security's effective interest rate at the date of acquisition.

In addition to issuer-specific financial information, general economic data and management's projections of discounted cash flows, management also assesses whether it has the intent to sell a particular security or whether it is more-likely-than-not it will be required to sell the security before its anticipated recovery. When management determines that it either intends to sell or is no longer more likely than not to hold the security until its anticipated recovery, a realized loss is recorded in the consolidated statement of operations for the full amount of the difference between fair value and amortized cost.

Dividends and interest income are recognized when earned. Premiums and discounts on fixed income securities are amortized or accreted based upon the effective-interest method. Realized gains and losses on investments are determined by the specific identification method.

Other Invested Assets
Other invested assets consist of investments in limited partnerships that invest in oil and gas interests and equity and debt securities of public and privately held companies. These investments are classified as available-for-sale investments and are carried at fair value. Net unrealized gains (losses) are reported as a component of accumulated other comprehensive income. See Note 3 for more information on the determination of fair value.

The Company reviews other invested assets in its investment portfolio on a periodic basis to specifically identify individual securities that have incurred an other-than-temporary decline in fair value below cost. This review encompasses, among other things, recent issuer activities, such as defaults, quarterly earnings announcements, and other pertinent financial news for the issuer, recent developments and economic outlooks for particular industries, rating agency actions, and the length of time and extent to which fair value has been less than cost. When management's review identifies an other-than-temporary impairment in the valuation of a security, a realized loss is recognized in the consolidated statement of operations.

Convertible Bonds and Preferred Stocks
The Company's investments in convertible bonds and convertible preferred stocks are considered hybrid financial instruments and are carried at estimated fair value, with changes in estimated fair value reported in net realized gains on investments in the consolidated statements of operations and comprehensive income.

Property and Equipment - Insurance Group
Property and equipment, which primarily consist of the Insurance Group's home office, electronic data processing equipment, furniture and fixtures, a software license and related implementation costs, are stated at cost, less accumulated depreciation of $13,045 and $11,591 at December 31, 2017 and 2016, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of depreciable assets. Land is not subject to depreciation.

Property and Equipment - Security Group
Property and equipment are stated at cost less accumulated depreciation. Equipment under capital leases is stated at the present value of minimum lease payments. Vector provides for depreciation over the estimated useful lives of the related assets utilizing the straight-line method. Estimated useful lives range from 3 to 12 years, with the exception of buildings, which are depreciated over approximately 25 years.

Vector installs certain home security package systems in residences if the customer commits to a monitoring arrangement for a minimum period of time. These security systems remain the property of Vector. The costs of the security systems, including costs of installation, are capitalized and depreciated over their estimated useful life of 7 years.

Balances consist of the following as of December 31:

	2017	2016
Land	**$ 200**	$ 200
Buildings and improvements	**4,328**	4,287
Home security package systems	**45,111**	40,303
Furniture and fixtures	**4,294**	4,120
Vehicles and equipment	**20,848**	20,951
Construction-in-progress	**317**	122
	75,098	69,983
Less accumulated depreciation	**(45,100)**	(42,106)
Total Property and Equipment	**$ 29,998**	$ 27,877

Revenue Recognition

Vector's major sources of revenue are equipment sales, installation, monitoring and managed network services as described above. While Vector frequently sells these elements in a bundled arrangement, it also sells each element individually, with no discounts given for the elements included in a bundled arrangement. Accordingly, when elements are included in a bundled arrangement, each element is treated as a separate unit of accounting. The revenue recognition policy with respect to each of the three major elements is as follows:

- Installation and equipment revenue - Recognized as services are performed on a percentage-of-completion basis calculated on a cost-to-cost comparison.
- Service revenue - Recognized as services are performed for time and material agreements and recognized ratably over the service period for those agreements entered into under a fixed fee arrangement.
- Monitoring and managed network revenue - Recognized ratably over the service period with amounts billed in advance of service delivery deferred and amortized over the applicable period of service.

In accordance with Accounting Standards Update (ASU) 2009 13, *Revenue Recognition (Topic 605): Multiple Deliverable Revenue Arrangements* (EITF Issue No. 08 1, *Revenue Arrangements with Multiple Deliverables*), the overall arrangement fee for bundled arrangements is allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by vendor specific objective evidence or third party evidence or are based on the entity's estimated selling price. Application of the "residual method" of allocating an overall arrangement fee between delivered and undelivered elements is not permitted.

As part of Vector's residential business, they offer certain packages, whereby they bundle a free or low cost equipment package with a long term monitoring contract, which is generally three to five years. Vector retains ownership of the system for the duration of the monitoring contract. The equipment costs, including related direct costs, are capitalized and included in home security package systems on the consolidated balance sheet and amortized to cost of sales over the expected life of the customer relationship, which is generally seven years. Selling costs are recorded as deferred charges on the consolidated balance sheet and amortized to selling, general and administrative expense. Upfront fees charged in connection with these packages are recorded as unearned revenue on the consolidated balance sheet. These packages are priced so that the additional monitoring and other fees generated over the life of the contract will exceed the cost of the equipment and related direct costs.

Inventories
Inventories, consisting primarily of security equipment, are stated at the lower of average cost or market.

Intangible Assets
In accordance with ASC Topic 350, *Intangibles – Goodwill and Other*, as of January 1, 2013, goodwill is amortized over 10 years and tested when a triggering event occurs. A triggering event draws into question whether the fair value of the entity may be below its carrying amount.

In accordance with Impairment or Disposal of Long Lived Assets subsections of ASC Subtopic 360 10, *Property, Plant, and Equipment – Overall*, long lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long lived asset or asset group be tested for possible impairment, Vector first compares the undiscounted future cash flows of that asset or asset group to its carrying value. If the carrying value of the long lived asset or asset group is greater than the undiscounted future cash flows, an impairment is recognized to the extent that the carrying value exceeds its estimated fair value. Vector recorded impairment expense, through amortization expense, on their customer service agreements of $1,290 and $1,680 during 2017 and 2016, respectively.

Newly acquired customer service agreements, that have been purchased through Vector's authorized dealer program are being amortized on a straight-line basis over a seven year period, which reflects the historical attrition rate on Vector's customer service agreements acquired through the authorized dealer program.

Customer relationships, which were recorded in connection with acquisitions, are amortized on a straight-line basis over a period of 13 years.

Covenants not-to-compete are generally amortized on a straight-line basis over periods ranging from 3 to 5 years, depending upon the length of the agreement. All intangible assets have been recorded in connection with acquisitions.

Covenants not to solicit, which were recorded in connection with acquisitions, are amortized on a straight-line basis over a period of 8 years.

Trade names, which were recorded in connection with acquisitions, are amortized on a straight-line basis over a period of 5 years.

Technology, which was recorded in connection with acquisitions, are amortized on a straight-line basis over a period of 5 years.

All fully amortized intangible assets are removed from Vector's asset system in the year following full amortization.

Redeemable Noncontrolling Interest
On August 15, 2013, Vector issued membership interest units to Industry Retail Group, LLC (IRG), the former noncontrolling interest holder of VIS, that is redeemable either at the option of the holder or upon the occurrence of an event that is not solely within Vector's control. Under the terms of an agreement related to the IRG acquisition, the noncontrolling interest holder had the right to require Vector to purchase its 28% interest in Vector's subsidiary for an amount equal to a specified multiple of trailing twelve-month gross margin multiplied by the noncontrolling interest holder's percentage interest in Vector's subsidiary at the time of redemption. The noncontrolling interest becomes redeemable within 10 days after the earliest of the third anniversary of the date of the acquisition and every anniversary thereafter or the date on which certain principals of IRG no longer control IRG. During 2016, the conditions for redemption of the noncontrolling interest were met, and effective October 21, 2016, Vector redeemed the remaining 28% interest from the noncontrolling interest holder for $19,124 funded primarily through cash on hand and drawings from Vector's revolving credit facility.

Income Taxes

Deferred income taxes are recognized in the consolidated financial statements for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. Deferred income tax expense is the result of changes in deferred tax assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred income tax asset will not be realized.

A tax position is recognized as a benefit at the largest amount that is more likely than not to be sustained in a tax examination solely on its merits. An uncertain tax position will not be recognized if it has a less than 50% likelihood of being sustained. The Company recognizes interest and penalties accrued related to uncertain tax positions as a component of income tax expense. The Company has no such uncertain tax positions as of December 31, 2017 or 2016.

Cash Equivalents

Cash equivalents consist of highly liquid short-term investments with an expected maturity at date of purchase of three months or less.

Credit Risk

The Company maintains cash balances in major financial institutions in excess of the federally insured limit of $250 by the Federal Deposit Insurance Corporation (FDIC). The Company has not experienced any losses and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Derivative Instruments and Hedging Activities

Vector accounts for derivatives and hedging activities in accordance with ASC Topic 815, *Derivatives and Hedging*, which requires entities to recognize all derivative instruments as either assets or liabilities in the balance sheet at their respective fair values.

Vector only enters into derivative contracts that it intends to designate as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). For all hedging relationships, Vector formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. Vector also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items. For derivative instruments that are designated and qualify as a cash-flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Vector discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is designated as a hedging instrument because it is unlikely that a forecasted transaction will occur, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

In all situations in which hedge accounting is discontinued and the derivative is retained, Vector continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in earnings. When it is probable that a forecasted transaction will not occur, Vector discontinues hedge accounting and recognizes immediately in earnings gains and losses that were accumulated in other comprehensive income.

Deferred Financing Costs

Deferred financing costs represent loan fees and other related costs incurred in obtaining the debt financing currently in place, which are being amortized over the term of the related debts and are recorded within prepaid expenses and other current assets and other noncurrent assets on the consolidated balance sheets.

Comprehensive Income

Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investments, changes in fair value of certain hedges, defined benefit pension plans, and unrealized losses related to factors other than credit on fixed income securities are reported as a separate component on the equity section of the consolidated balance sheet. Such items, along with net income, are components of comprehensive income and are reflected in the consolidated statement of comprehensive income (loss).

Changes in the balances of each component of accumulated other comprehensive income, net of tax, at December 31 are as follows:

	UNREALIZED GAINS ON AVAILABLE-FOR-SALE SECURITIES	CASH FLOW HEDGE	DEFINED BENEFIT PENSION PLAN	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance, January 1, 2016	$ 44,055	$ (117)	$ (2,012)	$ 41,926
Other comprehensive income before reclassifications	9,444	229	55	9,728
Amounts reclassified from accumulated other comprehensive income	(606)	(112)	60	(658)
Balance, December 31, 2016	52,893	—	(1,897)	50,996
Other comprehensive income (loss) before reclassifications	28,226	(30)	203	28,399
Reclassification of the stranded tax effects as a result of the Tax Reform Act	15,511	—	57	15,568
Amounts reclassified from accumulated other comprehensive income (loss)	(9,013)	399	60	(8,554)
Balance, December 31, 2017	**$ 87,617**	**$ 369**	**$ (1,577)**	**$ 86,409**

The following table presents the effect of the reclassification of significant items out of accumulated other comprehensive income on the respective line items in the consolidated statement of operations for year ended December 31.

	AMOUNT RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME		AFFECTED LINE ITEM IN THE CONSOLIDATED STATEMENT OF OPERATIONS
	2017	2016	
Unrealized gain on securities available for sale			
Realized gains on sale of securities	**$ 13,866**	$ 932	NET REALIZED GAINS ON INVESTMENTS
(Loss) gain on cash flow hedges			
Interest rate derivative contracts	**(614)**	172	INTEREST EXPENSE
Change in retirement plan liabilities adjustment			
Amortization of actuarial losses	**(92)**	(92)	(a)
Total reclassifications before income tax expense	**13,160**	1,012	
Less: Income tax expense	**4,606**	354	
Total reclassifications net of income tax expense	**$ 8,554**	$ 658	

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost. See Note 12 to the consolidated financial statements for further detail.

Legal Matters

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

Recently Issued Accounting Pronouncements

In January 2017, the FASB issued ASU No. 2017-01, Clarifying the Definition of a Business, which provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The ASU creates an initial screening test (step one) that reduces the population of transactions that an entity needs to analyze to determine whether there is an input and a substantive process in the set (step two). During step one, an entity must first determine if substantially all of the fair value of the gross assets acquired concentrated in a single (group of similar) identifiable asset(s) and if so, the set is not a business. If not, an entity must evaluate during step two whether the set is a business if it includes input(s) and an organized workforce, a process that cannot be replaced or a process that is considered unique or scarce. This ASU is expected to result in fewer transactions being defined as acquiring or selling a business. The Company adopted this guidance as of January 1, 2017 and the adoption did not have a material effect on the Company's consolidated statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force), which provides new guidance intended to clarify the presentation of certain cash flow items including debt prepayments, debt extinguishment costs, contingent considerations payments, and insurance proceeds, among other things. This ASU is effective for the Company beginning in fiscal year 2019, with early adoption permitted. The Company is in the process of assessing the impact this ASU will have on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial

Instruments (Topic 326), which requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This ASU is effective for annual periods beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The company is currently assessing the effect that this ASU will have on its results of operations, financial position and cash flows

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principle versus Agent Considerations (Reporting Revenue Gross versus Net), which coincides with ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and provides additional guidance in the determination of principals versus agents. ASU 2014-09 provides guidance to all entities in order to establish a common revenue standard for companies entering into contracts with customers for the transfer of goods or services or entering into contracts for the transfer of nonfinancial assets. This ASU requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard prescribes a five step model for recognizing revenue, the application of which will require significant judgment. An entity should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. These ASUs are effective for the Company beginning in fiscal year 2019. The Company is in the process of assessing the impact this ASU will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which provides new guidance on how an entity should account for leases and recognize associated lease assets and liabilities. This ASU requires lessees to recognize assets and liabilities that arise from financing and operating leases on the consolidated balance sheet. The implementation of this standard will require application of the new guidance at the beginning of the earliest comparative period presented, once adopted. This ASU is effective for the Company beginning in fiscal year 2020, with early adoption is permitted. The Company is in the process of assessing the impact this ASU will have on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10), which requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (g) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (h) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This ASU is effective for annual periods beginning after

December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently assessing the effect that this ASU will have on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes (Income Taxes – Topic 740), which requires all deferred tax assets and liabilities, and related valuation allowances, to be classified as noncurrent on the Company's consolidated balance sheets. The new standard will be effective for the Company's fiscal year 2018 and the adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted this guidance as of January 1, 2017 and the adoption did not have a material effect on the Company's consolidated statements.

In May of 2015 the FASB issued ASU 2015-07 Fair Value Measurement (Topic 820) which eliminated the requirement for investments measured at fair value using net asset value as a practice expedient to be categorized within the fair value hierarchy. We adopted this guidance which requires a change in disclosure only and adoption did not have an impact on our financial condition or results of operations.

In April and August 2015, the Financial Accounting Standards Board (FASB) issued ASU Nos. 2015-3, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, and 2015-15, Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Lines of Credit Arrangements, respectively. The new guidance requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of debt, consistent with debt discounts. The guidance also allows for debt issuance costs related to line of credit arrangements to be presented as an asset, regardless of whether there are any outstanding borrowings on the line of credit arrangements. The adoption of this guidance had no material impact on the Company's consolidated financial statements due to Vector's revolving credit facility.

Subsequent Events

In preparing these consolidated financial statements, management has evaluated events and transactions for potential recognition or disclosure through February 28, 2018, the date the consolidated financial statements were available to be issued.

Note 2: Investments

The cost or amortized cost and estimated fair values of fixed income and equity securities at December 31 are as follows:

2017	COST OR AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 1,255**	**$ 33**	**$ (1)**	**$ 1,287**
Obligations of states and political subdivisions	**78,363**	**4,293**	**(3)**	**82,653**
Corporate securities	**25,731**	**808**	**(39)**	**26,500**
Mortgage-backed and asset-backed securities	**45,706**	**959**	**(161)**	**46,504**
Total fixed income securities	**151,055**	**6,093**	**(204)**	**156,944**
Preferred stocks	**623**	**169**	**(21)**	**771**
Common stocks	**165,624**	**102,376**	**(321)**	**267,679**
Total	**$ 317,302**	**$ 108,638**	**$ (546)**	**$ 425,394**

2016	COST OR AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 5,766	$ 29	$ (99)	$ 5,696
Obligations of states and political subdivisions	62,067	3,017	(244)	64,840
Corporate securities	28,140	1,066	(61)	29,145
Mortgage-backed and asset-backed securities	43,523	938	(567)	43,894
Total fixed income securities	139,496	5,050	(971)	143,575
Preferred stocks	2,277	575	(286)	2,566
Common stocks	153,124	79,016	(3,625)	228,515
Total	$ 294,897	$ 84,641	$ (4,882)	$ 374,656

Other investments in limited partnerships are classified as available for sale and carried at fair value in the consolidated balance sheet as follows:

	COST		ESTIMATED FAIR VALUE	
	2017	2016	**2017**	2016
Other Invested Assets	**$ 34,833**	$ 35,081	**$ 37,675**	$ 36,695

The amortized cost and estimated fair value of fixed income securities and convertible bonds at December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or repayment penalties.

	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	**$ 3,765**	**$ 4,138**
Due after one year through five years	**34,710**	**36,428**
Due after five years through ten years	**27,360**	**28,366**
Due after ten years	**53,768**	**57,324**
	119,603	**126,256**
Mortgage-backed and asset-backed securities	**45,706**	**46,504**
Total	**$ 165,309**	**$ 172,760**

Net realized gains on investments consisted of the following:

	2017	2016
Realized gains on investments	**$ 20,353**	$ 11,113
Realized losses on investments	**(6,193)**	(9,523)
Change in fair value of convertible securities	**561**	996
Other-than-temporary impairment charges	**(347)**	(519)
	$ 14,374	$ 2,067

The 2017 and 2016 other-than-temporary impairment charges noted above related to an investment in an oil and gas related limited partnership. This charge resulted from a reduction in the GAAP book value of the limited partnership caused by impairment charges to partnership assets.

The Company had on deposit, as required by various state regulatory agencies, fixed income securities with a fair value of $3,165 and $3,222 and cash equivalents of $148 and $821 at December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the Company's investment portfolio had gross unrealized losses of $546 and $4,882, respectively. For securities that were in an unrealized loss position as of December 31, the lengths of time that such securities have been in an unrealized loss position, as measured by their year-end fair values, are as follows:

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
December 31, 2017:						
Fixed income securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 898**	**$ (1)**	**$ —**	**—**	**$ 898**	**$ (1)**
Obligations of states and political subdivisions	**527**	**(3)**	**—**	**—**	**527**	**(3)**
Corporate securities	**500**	**(1)**	**4,083**	**(38)**	**4,583**	**(39)**
Mortgage-backed and asset-backed securities	**9,331**	**(58)**	**7,600**	**(103)**	**16,931**	**(161)**
Total fixed income securities	**11,256**	**(63)**	**11,683**	**(141)**	**22,939**	**(204)**
Preferred stocks	**—**	**—**	**579**	**(21)**	**579**	**(21)**
Common stocks	**14,586**	**(162)**	**846**	**(159)**	**15,432**	**(321)**
Total	**$ 25,842**	**$ (225)**	**$ 13,108**	**$ (321)**	**$ 38,950**	**$ (546)**

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
December 31, 2016:						
Fixed income securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 4,325	$ (87)	$ 635	$ (12)	$ 4,960	$ (99)
Obligations of states and political subdivisions	7,113	(240)	499	(4)	7,612	(244)
Corporate securities	4,141	(35)	—	(26)	4,141	(61)
Mortgage-backed and asset-backed securities	15,084	(293)	10,849	(274)	25,933	(567)
Total fixed income securities	30,663	(655)	11,983	(316)	42,646	(971)
Preferred stocks	—	—	1,914	(286)	1,914	(286)
Common stocks	23,843	(2,282)	12,085	(1,343)	35,928	(3,625)
Total	$ 54,506	$ (2,937)	$ 25,982	$ (1,945)	$ 80,488	$ (4,882)

There were 53 and 81 fixed income securities in an unrealized loss position as of December 31, 2017 and 2016, respectively. In management's opinion, the unrealized losses on fixed income securities reflect general market conditions. Management believes that the unrealized losses are temporary. The Company does not intend to sell these securities prior to maturity or market recovery, and it is more likely than not the Company has the ability to hold these securities until maturity or market recovery. Management performed cash flow testing on its mortgage-backed and asset-backed securities and based on this cash flow testing all principal of these securities was deemed to be recoverable at December 31, 2017. There were 22 and 78 common and preferred stocks in an unrealized loss position as of December 31, 2017 and 2016, respectively. Management believes that the unrealized losses on common and preferred stocks reflect general market conditions and has the intent and ability to hold these common and preferred stocks to market price recovery of original cost.

Note 3: Fair Value Measurements

The Company measures fair value by categorizing assets and liabilities based upon the level of judgment associated with the inputs to measure their fair value. These levels are:

Level 1 - Inputs that are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 - Inputs other than quoted process included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 - Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The fair values for securities included in Level 1 are based on observable inputs either directly or indirectly, such as quoted prices in markets that are active, quoted prices for similar securities at the measurement date; quoted prices in markets that are not active; or other inputs that are observable. The Company classifies its investment in U.S. Treasury securities and common stocks as Level 1 assets.

The fair values for securities included in Level 2 are based upon fair values generated by external pricing models that vary by asset class and incorporate available trade, bid and other market information, as well as price quotes from other independent market participants which reflect fair value of that particular security. The Company considers its investments in U.S. government agency bonds, municipal bonds, corporate bonds, mortgage-backed and asset-backed securities, and one convertible bond as Level 2 assets.

In classifying the mortgage-backed and asset-backed securities owned as Level 2 securities, the Company considers the inputs as follows:

a. Quoted prices for similar assets or liabilities in active markets.

b. Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the assets or liabilities, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets) or in which little information is released publicly (for example, a principal-to-principal market).

The Company's determination of the fair value of its interest rate swap as Level 2 is calculated using a discounted cash flow analysis based on the terms of the swap contract and the observable interest rate curve.

Securities included in Level 3 are securities where inputs are based solely on a broker price or unobservable market data. The Company classifies its investments in certain convertible bonds, convertible preferred stocks, and a closely held equity security as Level 3 assets.

The fair value of the other invested assets (limited partnership interests) is determined by the investment company and is based upon fair value policies established by management of the underlying fund. Fair value policies at the underlying fund generally require the fund to utilize pricing/valuation information; however, in some instances current valuation information, for illiquid securities or securities in markets that are not active, may not be available from any third party source, or fund management may conclude that the valuations available from third party sources are not reliable. In these instances fund management may perform model-based analytical valuations that may be used to value these investments. The Company uses net asset value (NAV) per share (or its equivalent), as a practical expedient to estimate the fair value of its other invested assets, if NAV is calculated consistent with accounting principles generally accepted in the United States of America and sale of the investment at an amount different than NAV is not probable. The Company considered the nature, risk, and probability for the sale of the investment (at amounts different from NAV). The Company's considerations included (but were not limited to):

- Unfunded commitments (for additional investment)
- Redemption eligibility and frequency
- Required redemption notice

Based upon these considerations, the Company concluded that NAV for the other invested assets is calculated consistent with accounting principles generally accepted in the United States of America.

Investments carried at NAV may be adjusted based upon management's assumptions; therefore, any withdrawal, transfer, or sale of the limited partnership interest is subject to the general partner's discretion. At December 31, 2017 and 2016, the fair value using net asset value for the Company's other invested assets were $37,675 and $36,695, respectively.

One investment in a limited partnership included in other invested assets comprising 65% of other invested assets is subject to certain lock up provisions. This investment provides that the Company may not withdraw a capital contribution for 12 months following the date of its initial investment. Following this one year lock up period, the Company, in order to make a withdraw, must provide 90 days' prior notice as of the last date of each calendar quarter to the general partner. Withdrawals made by the Company less than 36 months from initial contribution are subject to a 3% early withdrawal charge. These restrictions may be waived by the general partner in the case of certain events or at the discretion of the general partner. This partnership does not have a finite life.

One investment in a master limited partnership included in other invested assets comprising 32% of other invested assets contains a stipulation that redemptions by the Company within 12 months following its initial investment are subject to a 1% early withdrawal charge. This restriction may be waived by the managing member. The Company can make a withdrawal as of the last business day of the month by providing notice to the managing member at least 30 days in advance of the withdrawal. This partnership does not have a finite life.

One investment in a limited partnership included in other invested assets comprising 2% of other invested assets has a term of 10 years from the initial closing, with an option for up to two consecutive one year extensions at the general partner's election. A 90% in interest of the limited partners may elect to terminate the fund at any time. This limited partnership is not subject to lock up provisions.

One investment in a limited partnership included in other invested assets comprising 1% of other invested assets has a term of 10 years from the initial closing. This limited partnership is not subject to lock up provisions.

The following table summarizes fair value measurements by level within the fair value hierarchy at December 31, 2017 and 2016 for assets and liabilities measured at fair value on a recurring basis:

2017

		FAIR VALUE MEASUREMENTS USING:		
DESCRIPTION	TOTAL	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Assets				
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 1,287**	**$ 1,287**	**$ —**	**$ —**
Obligations of states and political subdivisions	**82,653**	**—**	**82,653**	**—**
Corporate securities	**26,500**	**—**	**26,500**	**—**
Mortgage-backed and asset-backed securities	**46,504**	**—**	**46,504**	**—**
Total fixed income securities	**156,944**	**1,287**	**155,657**	**—**
Convertible bonds	**15,816**	**—**	**13,348**	**2,468**
Preferred stocks	**771**	**—**	**192**	**579**
Convertible preferred stocks	**1,701**	**—**	**—**	**1,701**
Common stocks	**267,679**	**267,573**	**—**	**106**
Total bonds and stocks	**442,911**	**268,860**	**169,197**	**4,854**
Interest rate swap receivable	**$ 467**	**$ —**	**$ 467**	**$ —**

2016

		FAIR VALUE MEASUREMENTS USING:		
DESCRIPTION	TOTAL	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Assets				
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 5,696	$ 5,696	$ —	$ —
Obligations of states and political subdivisions	64,840	—	64,840	—
Corporate securities	29,145	—	29,145	—
Mortgage-backed and asset-backed securities	43,894	—	43,894	—
Total fixed income securities	143,575	5,696	137,879	—
Convertible bonds	11,672	—	7,010	4,662
Preferred stocks	2,566	—	2,038	528
Convertible preferred stocks	2,261	—	—	2,261
Common stocks	228,515	228,415	—	100
Total bonds and stocks	$388,589	$234,111	$146,927	$7,551

For fair value measurements using Level 3 inputs, a reconciliation of the beginning and ending balances is as follows at December 31:

	2017					
	FIXED INCOME SECURITIES	CONVERTIBLE BONDS	PREFERRED STOCKS	CONVERTIBLE PREFERRED STOCKS	COMMON STOCKS	TOTAL
Balance, January 1, 2017	**$ —**	**$ 4,662**	**$ 528**	**$ 2,261**	**$ 100**	**$ 7,551**
Purchases	**—**	**2,451**	**—**	**78**	**—**	**2,529**
Sales	**—**	**—**	**—**	**—**	**—**	**—**
Distributions:						
Transfers in from Level 2	**—**	**—**	**—**	**—**	**—**	**—**
Transfers out to Level 2	**—**	**(4,520)**	**—**	**(638)**	**—**	**(5,158)**
Total gains (losses):						
Included in earnings (reported in net realized gains on investments)	**—**	**—**	**—**	**—**	**—**	**—**
Included in other comprehensive income	**—**	**(125)**	**51**	**—**	**6**	**(68)**
Balance, December 31, 2017	**$ —**	**$ 2,468**	**$ 579**	**$ 1,701**	**$ 106**	**$ 4,854**

	2016					
	FIXED INCOME SECURITIES	CONVERTIBLE BONDS	PREFERRED STOCKS	CONVERTIBLE PREFERRED STOCKS	COMMON STOCKS	TOTAL
Balance, January 1, 2016	$ —	$ 8,063	$ 548	$ 1,835	$ 99	$10,545
Purchases	—	1,091	—	265	—	1,356
Sales	—	(1,351)	—	—	—	(1,351)
Distributions:						
Transfers in from Level 2	—	—	—	62	1	63
Transfers out to Level 2	—	(3,526)	—	—	—	(3,526)
Total gains (losses):						
Included in earnings (reported in net realized gains on investments)	—	—	—	4	—	4
Included in other comprehensive (loss)	—	385	(20)	95	—	460
Balance, December 31, 2016	$ —	$ 4,662	$ 528	$ 2,261	$ 100	$ 7,551

The Company's policy is to transfer assets and liabilities into and out of Level 3 at the beginning of the reporting period when the circumstance is such that significant inputs can or cannot be corroborated with market observable data.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2017 and 2016. The fair value of a financial instrument is the amount that would be paid to transfer an asset or a liability in an orderly transaction between market participants at the measurement date.

	2017		2016	
	CARRYING VALUE	**FAIR VALUE**	CARRYING VALUE	FAIR VALUE
Financial assets:				
Insurance Group				
Investments:				
Fixed income securities	**$ 156,944**	**$ 156,944**	$ 143,575	$ 143,575
Convertible bonds	**15,816**	**15,816**	11,672	11,672
Preferred stocks	**771**	**771**	2,566	2,566
Convertible preferred stocks	**1,701**	**1,701**	2,261	2,261
Common stocks	**267,679**	**267,679**	228,515	228,515
Other invested assets	**37,675**	**37,675**	36,695	36,695
Cash and cash equivalents	**11,071**	**11,071**	14,076	14,076
Accrued income from investments	**1,704**	**1,704**	1,575	1,575
Security Group:				
Cash and cash equivalents	**833**	**833**	193	193
Trade accounts receivable	**21,642**	**21,642**	21,820	21,820
Prepaid expenses and other current assets	**7,292**	**7,292**	6,716	6,716
Interest rate swap receivable	**467**	**467**	—	—
Financial liabilities:				
Security Group:				
Accounts payable and accrued expenses	**32,640**	**32,640**	29,987	29,987
Customer deposits	**586**	**586**	726	726
Long-term debt and current maturities thereof	**$ 148,077**	**$ 148,077**	$ 158,749	$ 158,749

The carrying amounts shown in the table are included in the consolidated balance sheet under the indicated captions.

Cash and cash equivalents, other receivables, trade accounts receivable, accrued income from investments, accounts payable, and accrued expenses - the carrying amounts at face value approximate fair value because of the short maturity of these instruments.

Interest rate swap payable – The Company's determination of the fair value of its interest rate swap is calculated using a discounted cash flow analysis based on the terms of the swap contract and the observable interest rate curve (Level 2 inputs).

The fair values of the financial instruments shown in the above table as of December 31, 2017 and 2016 represent management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Company based on the best information available in the circumstances.

The fair value of long-term debt is estimated by discounting the future cash flows of each issuance at rates that the Company could obtain similar debt instruments of comparable maturities.

The Security Group has assets and liabilities that are required to be recorded at fair value on a nonrecurring basis when certain circumstances occur. In the case of intangible assets, upon the occurrence of an event or change in circumstance that may indicate that the fair value of a customer service agreement is less than its carrying value, the Company determines the fair value of the specific customer service agreement and records an impairment for the amount by which the carrying value exceeds the customer service agreement's fair value. The estimate of fair value of a customer service agreement is determined using Level 3 inputs, primarily an analysis of future expected cash flows. The Company recorded impairment expense, through amortization expense, on their customer service agreements of $1,290 and $1,680 during 2017 and 2016, respectively.

Note 4: Liability for Unpaid Losses and Loss Adjustment Expenses

Activity in unpaid losses and loss adjustment expenses is summarized as follows:

	2017	2016
Balance as of January 1	**$ 91,527**	$ 94,361
Less reinsurance recoverable	**(12,307)**	(13,318)
Net balance at January 1	**79,220**	81,043
Incurred related to:		
Current year	**83,913**	87,747
Prior years	**(3,175)**	(4,196)
Total incurred	**80,738**	83,551
Paid related to:		
Current year	**51,501**	56,902
Prior years	**30,735**	28,472
Total paid	**82,236**	85,374
Net balance as of December 31	**77,722**	79,220
Plus reinsurance recoverable	**12,730**	12,307
Balance at December 31	**$ 90,452**	$ 91,527

Due to changes in estimates of insured events in prior years, the Insurance Group decreased the liability for unpaid losses and loss adjustment expenses relative to prior accident years in 2017 and 2016 by $3,175 and $4,196, respectively. The decrease in 2017 is due to better than expected development of losses incurred, primarily in the homeowners property and special property lines of business, and primarily related to accident years 2016 and 2015. The decrease in 2016 is due to better than expected development of losses incurred, primarily in the homeowners property and special property lines of business, and primarily related to accident year 2015. Additionally, the decrease in 2016 was partially offset by adverse development in accident years 2012, 2013, and 2014 relating to homeowners liability and other liability lines of business.

The following tables present information about incurred and paid claims development as of December 31, 2017 net of reinsurance, as well as cumulative claim frequency and the total of IBNR reserves plus expected development on reported claims that the Insurance Group included in unpaid losses and loss adjustment expenses as of December 31, 2017 . The tables include unaudited information about incurred and paid claims development for the years ended December 31, 2013 through 2016, which is presented as supplementary information.

Homeowners

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	UNAUDITED					AS OF DECEMBER 31, 2017	
ACCIDENT YEAR	2013	2014	2015	2016	2017	TOTAL IBNR PLUS EXPECTED ON REPORTED	CUMULATIVE NUMBER OF REPORTED CLAIMS
2008	$ 41,883	$ 41,749	$ 41,664	$ 41,626	$ 41,593	$ 4	4,709
2009	41,504	41,460	41,676	41,564	41,624	71	5,076
2010	53,227	52,756	52,517	52,517	52,460	129	7,516
2011	61,459	60,873	61,047	60,795	60,681	31	10,637
2012	55,576	54,401	53,961	54,692	54,486	144	12,394
2013	49,259	47,510	44,736	45,123	44,610	185	4,834
2014		67,879	64,035	64,722	64,678	948	7,006
2015			59,902	55,851	54,839	1,830	5,512
2016				51,560	51,007	3,927	5,270
2017					52,190	8,037	5,219
				Total	$ 518,168		

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	UNAUDITED				
ACCIDENT YEAR	2013	2014	2015	2016	2017
2008	$ 41,498	$ 41,497	$ 41,525	$ 41,515	$ 41,515
2009	40,943	40,976	41,001	41,268	41,304
2010	51,256	51,974	52,218	52,264	52,258
2011	57,054	58,473	60,365	60,484	60,566
2012	48,722	50,337	52,226	53,998	54,256
2013	29,281	39,921	41,195	42,637	43,946
2014		48,758	56,644	59,671	62,226
2015			40,780	49,251	51,165
2016				35,608	44,198
2017					33,973
				Total	$ 485,407
				All outstanding liabilities before 2007, net of reinsurance	9,607
				Liabilities for losses and loss adjustment expenses, net of reinsurance	$ 42,368

Other Liability

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	UNAUDITED					DECEMBER 31, 2017	
ACCIDENT YEAR	2013	2014	2015	2016	2017	TOTAL IBNR PLUS EXPECTED ON REPORTED	CUMULATIVE NUMBER OF REPORTED CLAIMS
2008	$ 6,780	$ 6,700	$ 6,692	$ 6,848	$ 6,838	$ 233	259
2009	7,670	7,705	8,018	7,865	7,887	22	291
2010	5,965	6,405	6,062	6,078	6,061	19	270
2011	7,202	7,576	8,039	7,807	7,763	23	304
2012	6,572	6,327	5,200	5,555	5,556	58	237
2013	7,333	7,133	7,562	7,678	7,869	223	244
2014		6,909	8,493	10,031	10,554	914	261
2015			7,888	8,125	8,108	1,552	248
2016				7,264	7,171	3,139	168
2017					6,792	5,140	109
				Total	$ 74,599		

Other Liability

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	UNAUDITED				
ACCIDENT YEAR	2013	2014	2015	2016	2017
2008	$ 5,924	$ 6,292	$ 6,305	$ 6,339	$ 6,356
2009	6,748	6,929	7,375	7,669	7,715
2010	4,046	5,682	5,920	6,032	6,032
2011	2,644	6,137	7,153	7,740	7,740
2012	988	2,721	4,256	5,079	5,197
2013	191	770	2,357	5,473	7,282
2014		20	1,484	4,338	8,209
2015			174	904	3,414
2016				167	1,146
2017					75
				Total	$ 53,166
		All outstanding liabilities before 2007, net of reinsurance			2,998
	Liabilities for losses and loss adjustment expenses, net of reinsurance				$24,431

The reconciliation of the net incurred and paid loss development tables to the liability for losses and loss adjustment expenses in the consolidated statement of financial position is as follows:

	DECEMBER 31, 2017
Net outstanding liabilities	
Homeowners	$ 42,368
Other liability	24,431
Other short-duration insurance lines	6,693
Liabilities for unpaid losses and allocated loss adjustment expenses, net of reinsurance	73,492
Reinsurance recoverable on unpaid claims	
Homeowners	8,361
Other liability	1,458
Other short-duration insurance lines	2,911
Total reinsurance recoverable on unpaid losses	12,730
Unallocated loss adjustment expenses	4,230
Total gross liability for unpaid losses and loss adjustment expenses	$ 90,452

The methods used to select the estimated claim reserves include the loss ratio method, loss development methods, the Bornhuetter-Ferguson (B-F) method, and the Berquist-Sherman (B-S) method, applied to paid losses and incurred losses. Cumulative claim frequency was calculated using the sum of all individual claimants. Claims that were presented to the Company, investigated, and ultimated closed without any loss or loss adjustment expense payments would be included the cumulative claim frequency information shown above.

There were no changes in methodology from the prior year.

The following is supplementary information about average historical claims duration as of December 31, 2017.

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

		UNAUDITED			
Years	1	2	3	4	5
Homeowners	70.3%	17.2%	4.4%	3.7%	2.3%
Other Liability	0.7%	12.4%	22.7%	30.3%	15.4%

Note 5: Reinsurance

The Insurance Group purchases quota share and per risk and catastrophic excess of loss reinsurance. The Insurance Group remains contingently liable in the event that the reinsurer is unable to meet its obligations assumed under the reinsurance agreements.

The Insurance Group had no assumed premiums earned in 2017 and 2016 and had ceded premiums earned in 2017 and 2016 of $15,832 and $14,477, respectively. Losses and loss adjustment expenses are net of reinsurance recoveries of $5,968 and $5,121 in 2017 and

2016, respectively. Amounts paid to reinsurers related to the unexpired portion of reinsured contracts were $2,388 and $1,880 as of December 31, 2017 and 2016, respectively.

The Insurance Group had no significant concentration in risk from any one unaffiliated reinsurer as of December 31, 2017 and 2016.

Note 6: Dividends from Subsidiaries and Statutory Financial Information

The Contributionship and its subsidiaries prepare statutory financial statements in accordance with accounting practices prescribed or permitted by the Pennsylvania Insurance Department. The Commonwealth of Pennsylvania requires that insurance companies domiciled in the Commonwealth of Pennsylvania prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures manual, subject to any deviations prescribed or permitted by the Commonwealth of Pennsylvania Insurance Commissioner. Permitted statutory accounting practices encompass all accounting practices that are not prescribed; such practices differ from state to state, may differ from company to company within a state, and may change in the future.

The Contributionship and its subsidiaries are restricted by law as to the amount of dividends they may pay without the approval of regulatory authorities. During 2018, the maximum amount of dividends that can be paid by the Contributionship without such approval is $30,023. The Contributionship paid no ordinary dividends during 2017 and 2016.

The surplus of the Contributionship and its subsidiaries, as determined in accordance with statutory accounting practices, is $300,226 and $251,900 at December 31, 2017 and 2016, respectively. The net income of the Contributionship and its subsidiaries, as determined in accordance with statutory accounting practices, is $18,015 and $7,983 for the years ended December 31, 2017 and 2016, respectively.

Risk-based capital is designed to measure the acceptable amount of capital an insurer should have based on the inherent risks of the insurer's business. Insurers failing to meet adequate capital levels may be subject to insurance department scrutiny and ultimately rehabilitation or liquidation. As of December 31, 2017 and 2016, the Contributionship and its subsidiaries maintained statutory-basis surplus in excess of the minimum prescribed risk-based capital requirements. As of December 31, 2017 and 2016, the Contributionship and its subsidiaries were in compliance with the minimum capital requirements under Commonwealth of Pennsylvania regulations.

Note 7: Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the years ended December 31 are as follows:

	2017	2016
Balance as of January 1	**$ 30,438**	$ 35,080
Amortization	**(4,642)**	(4,642)
Balance as of December 31	**$ 25,796**	$ 30,438

The amortization period for goodwill is 10 years.

The following summarizes the gross carrying amount and accumulated amortization of intangible assets as of December 31:

	2017		2016	
	GROSS CARRYING AMOUNT	**ACCUMULATED AMORTIZATION**	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Customer service agreements	**$ 286,671**	**$ 160,620**	$ 277,263	$ 147,986
Customer relationships	**10,460**	**3,520**	10,460	2,716
Covenants not to compete	**750**	**600**	698	467
Covenants not to solicit	**2,084**	**1,140**	2,084	879
Technology	**2,740**	**2,397**	2,740	1,849
Trade Names	**669**	**585**	669	452
Total	**$ 303,374**	**$ 168,862**	$ 293,914	$ 154,349

Amortization expense, excluding impairment charges, for other intangible assets was $29,958 and $29,525 for the years ended December 31, 2017 and 2016, respectively.

The estimated amortization expense for goodwill and other intangible assets for each of the five succeeding fiscal years is as follows:

2018	$ 34,809
2019	32,365
2020	29,090
2021	25,253
2022	21,127
Thereafter	17,664
Total	$ 160,308

Note 8: Acquisitions

Industry Retail Group

On August 15, 2013, Vector, through its VIS subsidiary, acquired selected assets and assumed certain liabilities of IRG. IRG provides virtual managed network services. As a result of the acquisition, Vector began cross-selling virtual managed network services to existing customers. Goodwill arising from the acquisition consisted largely of Vector's specific synergies related to cross-selling. The results of the IRG acquisition have been included in the consolidated financial statements since the acquisition date. The acquisition was accounted for as a business combination.

The following table summarizes the consideration paid for the IRG acquisition and the amounts of estimated fair value of the assets acquired and liabilities assumed at the acquisition date.

Consideration:	
Cash	$ 27,737
Contingent consideration	3,227
Redeemable noncontrolling interest	25,710
Fair value of total consideration transferred	$56,674
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Current assets	$ 853
Intangible assets	16,561
Current liabilities	(2,116)
Total identifiable net assets assumed	15,298
Goodwill	41,376
Total	$ 56,674

Of the acquired intangible assets, $10,460 was assigned to customer relationships, which are amortized over 13 years, $2,740 was assigned to technology, which is amortized over 5 years, $2,084 was assigned to covenants not to solicit, which are amortized over 8 years, $669 was assigned to trade names, which are amortized over 5 years, and $608 was assigned to covenants not to compete, which are amortized over 5 years.

Funding for the acquisition consisted primarily of $27,737 in borrowings on Vector's existing revolving credit facility, contingent consideration with a fair value at the acquisition date of $3,227, and issuance of 30% of the outstanding membership units of VIS to IRG (redeemable noncontrolling interest) with a fair value at the acquisition date of $25,710. In August 2014, the contingent consideration was adjusted to $3,558 based upon average monthly recurring charges billed to customers during the 12 months subsequent to the acquisition date. The payment of the contingent consideration is being made in 24 monthly installments of $148, which began in September 2014.

In November 2014, IRG's membership units in VIS were decreased by 27,052 units based upon average monthly recurring charges billed to and collected from customers during the 12 months subsequent to the acquisition date, which resulted in an adjustment of $2,285 to the redeemable noncontrolling interest with an offset to the unassigned equity.

Included within Vector's membership units in VIS is a call option to purchase IRG's membership units based on a multiple of trailing twelve-month gross margin at the exercise date. Included within IRG's membership units in VIS is a put option to sell IRG's membership units based on a multiple of trailing twelve-month gross margin at the exercise date. The noncontrolling interest becomes redeemable within 10 days after the earliest of (i) the third anniversary of the date of the acquisition and every anniversary thereafter or (ii) the date on which certain principals of IRG no longer control IRG. Vector determined that the put/call option is embedded within the redeemable noncontrolling interest shares that are subject to the put/call option. Therefore, the put option is accounted for within redeemable noncontrolling interest in the consolidated balance sheet.

In accordance with ASC Topic 815, Vector initially measured the redeemable noncontrolling interest at fair value. The acquisition date fair value of IRG's redeemable noncontrolling interest in VIS was estimated by applying an income approach. This fair value measurement is based on significant inputs that are not observable in the market and thus represents a Level 3 measurement. Key assumptions included a discount rate of 22.3% and the projected 12 month trailing gross margin on the third anniversary of the acquisition date.

Subsequent measurement of the redeemable noncontrolling interest is the greater of the amount determined under ASC Subtopic 810-10 (adjusted carrying value) or ASC Section 480-10-S99 (redemption value). The noncontrolling interest was $22,244 at December 31, 2015 as the adjusted carrying value exceeded the redemption value. During 2015, the carrying value of the redeemable noncontrolling interest was adjusted for the net loss of $235 as well as tax distributions of $440 related to IRG.

During 2016, the conditions for redemption of the noncontrolling interest were met, and effective October 21, 2016, Vector redeemed the remaining 28% interest from the noncontrolling interest holder for a purchase price of $19,124 funded through cash on hand and drawings on Vector's revolving credit facility. The difference between the purchase price and the value of the noncontrolling interest as well as the net loss of $633, and tax distributions of $814 related to IRG, were offset to Vector's additional paid-in-capital.

Guardian Force Security Services, LLC

On May 31, 2017, Vector acquired selected assets and assumed certain liabilities of Guardian Force Security Services, LLC (GFSS) located in Texas for a purchase price of $2,490. The results of GFSS have been included in the consolidated financial statements since the acquisition date. The assets acquired represent approximately 2,000 customer accounts. The transaction was accounted for as an asset acquisition.

The aggregate purchase price of $2,490 included $2,525 of intangible assets and $55 of tangible and current assets and $75 of noncurrent assets, net of $165 in current liabilities. The $2,525 of intangible assets was assigned to customer service agreements, which are amortized over 13 years.

Funding for the acquired assets and assumed liabilities consisted primarily of $2,190 in borrowings on Vector's existing revolving credit facility and $300 in the form of a purchase holdback. The payment of the purchase holdback is contingent upon attrition of accounts over the first year with any payment to be made in the second quarter of 2018.

Security Associates, LLC

On August 9, 2017, Vector acquired selected assets and assumed certain liabilities of Security Associates, LLC (Security Associates) located in Maryland for a purchase price of $10,392. The results of Security Associates have been included in the consolidated financial statements since the acquisition date. The assets acquired represent approximately 9,000 customer accounts. The transaction was accounted for as an asset acquisition.

The aggregate purchase price of $10,392 included $10,923 of intangible assets and $63 of tangible and current assets and $43 of noncurrent assets, net of $637 in current liabilities. Of the $10,923 of intangible assets, $10,873 was assigned to customer service agreements, which are amortized over 13 years, and $50 was assigned to covenants not to compete, which are amortized over 5 years.

Funding for the acquired assets and assumed liabilities consisted primarily of $8,763 in borrowings on Vector's existing revolving credit facility and $1,629 in the form of a purchase holdback. The payment of the purchase holdback is contingent upon attrition of accounts over the first year with any payment to be made in the third quarter of 2018.

Others

Vector acquired selected accounts from various Company authorized dealers located in various states. The total purchase price for these accounts was $12,532 and $13,107 in 2017 and 2016, respectively. The revenue and associated costs from the monitoring contracts acquired in these transactions have been included in the consolidated financial statements since the acquisition dates. The assets acquired represent approximately 8,700 accounts in 2017 and 9,900 accounts in 2016. The entire aggregate purchase price was assigned to customer service agreements, which are amortized over 7 years. Substantially all accounts are subject to a one year holdback period of approximately 10% of the purchase price. The transaction was accounted for as an asset acquisition.

Los Angeles Divestiture

On February 29, 2016, Vector sold certain assets and property of its Los Angeles branch location. Pursuant to the asset purchase agreement, Vector sold the interests of accounts receivable with a net book value of $315, inventory and work in process with a net book value of $432 and property and equipment with a net book value of $51 as of the closing date for a total purchase price of $3,198. Furthermore, in connection with the divestiture, Vector wrote off the remaining net book value of customer intangible assets that were established at the date of the original acquisition of this branch location in the amount of $1,228, as well as liquidated certain liabilities in the amount of $27. As a result of the sale of certain assets and property, Vector recorded a gain of $1,199, which is recorded within gain on branch divestiture in the accompanying consolidated statements of operations and comprehensive loss.

Note 9: Borrowings and Credit Arrangements

Long-term debt as of December 31 consists of the following:

	2017	2016
Revolving credit facility - variable interest rate (approximately 2.9% and 2.4% as of December 31, 2017 and 2016, respectively)	**$ 144,944**	$ 155,100
Capital leases - bearing interest at rates ranging from 3% to 7% as of December 31, 2017 and 2016	**3,133**	3,649
	148,077	158,176
Less current maturities	**(1,750)**	(1,700)
Total long-term debt	**$ 146,327**	$ 157,049

During 2016, Vector refinanced its existing debt by obtaining a $300,000 revolving credit facility that permits Vector to borrow, on a revolving basis, through November 9, 2021. Interest on the entire $300,000 credit facility is computed at either a base rate or LIBOR rate plus a scaling interest rate spread based upon a total consolidated indebtedness to eligible recurring monthly revenue ratio (Leverage Ratio), as defined in the agreement. Borrowings under this loan agreement are collateralized by Vector's assets, including the customer service agreements.

On August 1, 2012, Vector entered into a 47-month interest rate swap agreement with a notional amount of $90,000. This derivative was designated as a cash flow hedge and is recognized on the consolidated balance sheet at its fair value. Changes in fair value are recorded in other comprehensive income, net of taxes. Under the terms of the swap agreement, Vector receives variable-rate interest payments based on 30 day LIBOR and makes fixed-rate payments of 0.835%. The interest rate swap agreement matured in June 2016, and therefore the fair value of the swap as of December 31, 2016 was zero.

On January 13, 2017, Vector entered into a 48-month interest rate swap agreement with a notional amount of $70,000. This derivative was designated as a cash flow hedge and is recognized on the consolidated balance sheet at its fair value. Changes in fair value are recorded in other comprehensive income, net of taxes. Under the terms of the swap agreement, Vector receives variable rate interest payments based on 30 day LIBOR and makes fixed rate payments of 1.81%. The fair value of the swap as of December 31, 2017 was $467, and was recorded as an asset in the consolidated financial statements.

Vector must pay a quarterly commitment fee based on the Leverage Ratio that ranges from 0.2% to 0.3%. At December 31, 2017, Vector was paying a quarterly commitment fee of approximately 0.2% on the available unused portion of the revolving credit facility. As of December 31, 2017, the available unused portion of the revolving credit facility was $152,729.

Under Vector's revolving credit facility, approximately $2,471 were committed for outstanding letters of credit as of December 31, 2017 and 2016. There were no amounts drawn on the letters of credit as of December 31, 2017 and 2016.

The credit agreement contains covenants with respect to, among other things, the maintenance of specified financial ratios. These provisions, if violated, could terminate the agreement and cause an acceleration of the maturity date. As of December 31, 2017 and 2016, the Company was in compliance with all such covenants.

The aggregate maturities of debt principal for Vector as of December 31, 2017 are as follows:

2018	$ 1,750
2019	1,094
2020	422
2021	144,811
Total	$ 148,077

Note 10: Leases

Vector has various capital leases for equipment (Note 9) that expire at various dates during the next 40 months. Amortization of assets held under capital leases is included with depreciation expense.

Vector leases certain equipment and office space under various operating leases. The future minimum rental commitments for all such noncancelable leases as of December 31, 2017 are as follows:

2018	$ 3,508
2019	2,566
2020	1,856
2021	1,222
2022	1,154
Thereafter	1,039
Total	$ 11,345

Rent expense for leased equipment and office space totaled $6,438 and $5,835 for the years ended December 31, 2017 and 2016, respectively.

Note 11: Income Taxes

Income tax (benefit) expense for the years ended December 31 consists of:

2017			2016		
CURRENT	**DEFERRED**	**TOTAL**	CURRENT	DEFERRED	TOTAL
$ 7,314	**$ (6,942)**	**$ 372**	$ 1,967	$ (1,144)	$ 823

The expected income tax (benefit) expense for the years ended December 31 differed from the amounts computed by applying the U.S. federal income tax rate of 35% as follows:

	2017	2016
Computed "expected" income tax expense	**$ 8,158**	$ 1,988
Increase (decrease) in income taxes resulting from:		
Tax-exempt interest	**(621)**	(562)
Dividends received deduction	**(813)**	(752)
State taxes, net of federal benefit	**(110)**	169
Provision to return adjustments	**(42)**	(504)
Change in federal income tax rate	**(6,325)**	–
Other, net	**125**	484
	$ 372	$ 823

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31 are as follows:

	2017	2016
Insurance Group:		
Deferred income tax asset components:		
Unearned premiums and advance premiums	**$ 3,230**	$ 5,111
Unpaid losses and loss adjustment expenses	**1,035**	1,334
Other-than-temporary impairments	**965**	2,063
Accrued pension liability	**528**	1,021
Deferred compensation	**835**	972
Other	**153**	195
Total deferred income tax asset	**6,746**	10,696
Deferred income tax liability components:		
Deferred acquisition costs	**(3,322)**	(5,212)
Unrealized investment gains	**(23,295)**	(28,479)
Unrealized investment gains on convertible securities	**(341)**	(371)
Other	**(1,728)**	(1,953)
Total deferred income tax liability	**(28,686)**	(36,015)
Net deferred income tax liability	**$ (21,940)**	$ (25,319)
Security Group:		
Deferred income tax asset components:		
Accrued expenses	**$ 2,198**	$ 4,109
Deferred rent	**57**	103
Inventories and accounts receivable	**890**	1,575
Intangible assets	**21,920**	29,201
HSS deferred revenue	**877**	783
Total deferred tax asset	**25,942**	35,771
Deferred income tax liability components:		
Unbilled revenue	**(2,544)**	(3,902)
Interest rate swap	**(98)**	–
Plant and equipment	**(3,328)**	(4,522)
HSS deferred charges	**(2,632)**	(2,992)
Total deferred income tax liability	**(8,602)**	(11,416)
Net deferred income tax asset	**$ 17,340**	$ 24,355

On December 22, 2017, H.R.1, "An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018" (the "Act"), was enacted by the U.S. federal government. The Act provides for significant changes to corporate taxation including the decrease of the corporate tax rate to 21%. The Company has accounted for the material impacts of the Act by remeasuring its deferred tax assets/(liabilities) at the 21% enacted tax rate.

Deferred tax assets/(liabilities) related to available for sale securities gains/(losses) that were remeasured due to the Act resulted in a stranded tax effect within Accumulated Other Comprehensive Income ("AOCI"). This is due to the effect of the tax rate change being recorded through continuing operations as required under Accounting Standards Codification 740. On February 14, 2018, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2018-02, Income Statement – Reporting Comprehensive Income (Topic

220) – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"), which allows for the reclassification of the stranded tax effects as a result of the Act from AOCI to unassigned equity and requires certain other disclosures. The Company chose to early adopt the provisions of ASU 2018-02 and recorded a one-time reclassification of $15,568 from AOCI to unassigned equity for the stranded tax effects resulting from the newly enacted corporate tax rate. The amount of the reclassification was the difference between the historical corporate tax rate and the newly enacted 21% corporate tax rate. See Consolidated Statement of Equity for details of the reclassification.

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The amount of the deferred income tax asset considered realizable; however, could be reduced in the near term if estimates of future taxable income or statutory tax rates are reduced during the carryforward period. Management has determined that it was not required to establish a valuation allowance against the net deferred income tax asset.

Vector has no remaining state net operating loss carryforwards, as they have been utilized in offsetting state taxable income as of December 31, 2017.

The Company has no unrecognized tax benefits as of December 31, 2017.

There are no tax-related interest or penalties accrued on the consolidated balance sheet at December 31, 2017 and 2016, nor has any tax related interest or penalties been recognized in the consolidated statement of operations for the years ended December 31, 2017 and 2016.

The Company's federal income tax returns for tax years ended December 31, 2013 and prior are closed to examination.

Note 12: Employee Benefit Plans

Defined Benefit Pension Plan

The Insurance Group has a defined benefit pension plan (Plan) covering all employees meeting eligibility requirements. It is the Insurance Group's policy to fund pension costs in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. The Insurance Group made $300 contributions to the Plan in both 2017 and 2016, respectively.

The components of the net periodic benefit cost are as follows:

	2017	2016
Interest cost	**$ 290**	$ 310
Expected return on plan assets	**(447)**	(441)
Amortization of net loss	**92**	92
Total net periodic benefit cost	**$ (65)**	$ (39)

On December 13, 2006, the Board of Directors of the Company voted to freeze the benefits of the participants in the Plan effective April 1, 2007.

The Insurance Group recognizes the overfunded or underfunded status of its defined benefit pension plan as an asset (other assets) or liability (other liabilities) in the consolidated balance sheet. Changes in the funded status during any given period of time are recognized as a change in other comprehensive income.

The table set forth below reconciles the defined benefit pension plan's funded status reconciled with the amount in the consolidated balance sheet as of December 31:

	2017	2016
Benefit obligation as of January 1	**$ 7,912**	$ 8,144
Interest cost	**290**	310
Distributions	**(478)**	(483)
Change due to change in assumptions and experience	**303**	(59)
Benefit obligation as of December 31	**8,027**	7,912
Plan assets as of January 1	**7,146**	6,862
Employer contributions	**300**	300
Actual return on assets	**1,062**	467
Distributions	**(478)**	(483)
Plan assets as of December 31	**8,030**	7,146
Funded status	**$ 3**	$ (766)

The net actuarial loss recognized in accumulated other comprehensive income, pre-tax in the consolidated balance sheet as of December 31 is as follows:

2017	2016
$ 2,514	$ 2,918

Assumptions used in determining the actuarial present value of the projected benefit obligation were as follows at December 31:

	2017	2016
Weighted-average discount rate	**3.35%**	3.80%
Expected long-term rate of return on assets	**6.50**	6.50
Rate of increase in compensation levels	**N/A**	N/A

The expected long-term rate of return on assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The selected rate considers the historical and expected future investment trends of the present and expected assets in the Plan.

There were $478 and $483 of benefit payments made under the Plan in 2017 and 2016, respectively. Expected payments under the Plan in future years are as follows at December 31, 2017:

2018	**$ 491**
2019	**490**
2020	**494**
2021	**503**
2022	**514**
2023 - 2027	**2,447**

The Plan had approximately 74% and 71% of its investments invested in common stocks, 17% and 19% invested in corporate bonds and the remainder invested in U.S. Government and mortgage-backed securities and cash and cash equivalents for the year ending 2017 and 2016, respectively.

The following table provides the fair value measurements of the Plan assets by level within the fair value hierarchy at December 31. These assets are measured at fair value on a recurring basis.

	2017			
		FAIR VALUE MEASUREMENTS USING:		
DESCRIPTION	**TOTAL**	**QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)**	**SIGNIFICANT OTHER OBSERV-ABLE INPUTS (LEVEL 2)**	**SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)**
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 426**	**$ 426**	**$ —**	**$ —**
Obligations of states and political subdivisions	**208**	**—**	**208**	**—**
Corporate securities	**1,356**	**—**	**1,356**	**—**
Total fixed income securities	**1,990**	**426**	**1,564**	**—**
Common stocks	**5,920**	**5,920**	**—**	**—**
	$ 7,910	**$ 6,346**	**$ 1,564**	**$ —**

	2016			
		FAIR VALUE MEASUREMENTS USING:		
DESCRIPTION	TOTAL	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 275	$ 224	$ 51	$ —
Obligations of states and political subdivisions	209	—	209	—
Corporate securities	1,325	—	1,325	—
Total fixed income securities	1,809	224	1,585	—
Common stocks	5,067	5,067	—	—
	$ 6,876	$ 5,291	$ 1,585	$ —

See Note 3 for additional information regarding the Company's categorization of fair value of financial instruments.

The remainder of Plan assets not included above are comprised of cash and cash equivalents.

The objective of the portfolio is to maximize the total rate of return while controlling investment risk and to ensure sufficient funding status of the Plan as actuarially determined by the total return objective.

The Plan's investment guidelines are as follows:

- No more than 5% of fixed income securities rated below "A" by either Standard and Poor's or Moody's may be purchased. None may be rated below "Baa."
- Average duration of bonds will range from 4 to 7 years, depending on the market outlook.
- Prohibitions
    a) Unincorporated businesses
    b) Private placements or direct mortgages without approval
    c) Financial guarantees

Other Benefit Plans

The Company maintains other benefit plans, including defined contribution plans (401(k)), with a cash or deferred arrangement covering all employees meeting eligibility requirements. Participants may elect to contribute, on a pretax basis, up to the Internal Revenue Service limit. The Company's matching contributions were $2,461 in 2017 and $2,445 in 2016.

The Company has a voluntary deferred compensation plan for certain employees meeting Plan eligibility requirements (the Participants) under which salaries and annual incentive awards can be deferred. The Participants deferred receipt of $1,361 and $466 in 2017 and 2016 respectively. The Participants have the option of being paid at termination of employment or on the fifth March 1st immediately following the date on which the annual compensation or base salary would have been payable. The Company made payments of $94 in 2016. Amounts accrued under the plan were $4,519 and $3,660 as of December 31, 2017 and 2016, respectively.

The Company provides certain postretirement health care benefits. Net periodic postretirement benefit cost for 2017 and 2016 was $16 and $23, respectively.

For measurement purposes, health care cost trend increases do not affect the Company's costs due to the fact that the Company has limited the maximum dollar amount of benefits that will be paid. The weighted average discount rate used was 3.35% and 3.80% in 2017 and 2016, respectively.

BAKER TILLY

Independent Auditors' Report

Board of Directors
The Philadelphia Contributionship Mutual Holding Company

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of The Philadelphia Contributionship Mutual Holding Company and its subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Philadelphia Contributionship Mutual Holding Company and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplemental Information
Accounting principles generally accepted in the United States of America, require that certain information for years 2013-2016 related to the Company's liability for unpaid losses and loss adjustment expenses included within Note 4 on page 33-36 supplement the basic consolidated financial statements. Such information is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
February 28, 2018

an independent member of
BAKER TILLY
INTERNATIONAL

Directors & Officers

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Chairman of the Board
President, S. M. Jenkins & Co.
General Partner, Jenkins Partners, L.P.

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Vice President, CFO and Treasurer

Stephen A. McGowan,
Assistant Vice President, Controller and Assistant Treasurer

Stacey M. Manzo,
Assistant Vice President, Secretary

Annual Meeting

The 266th Annual meeting of the Members of the Company will be held on Monday, April 23, 2018, at 11:00 a.m. at the Company's office.

Design: Malish & Pagonis

The Philadelphia Contributionship

DEPENDABLE INSURANCE PARTNERS SINCE 1752

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