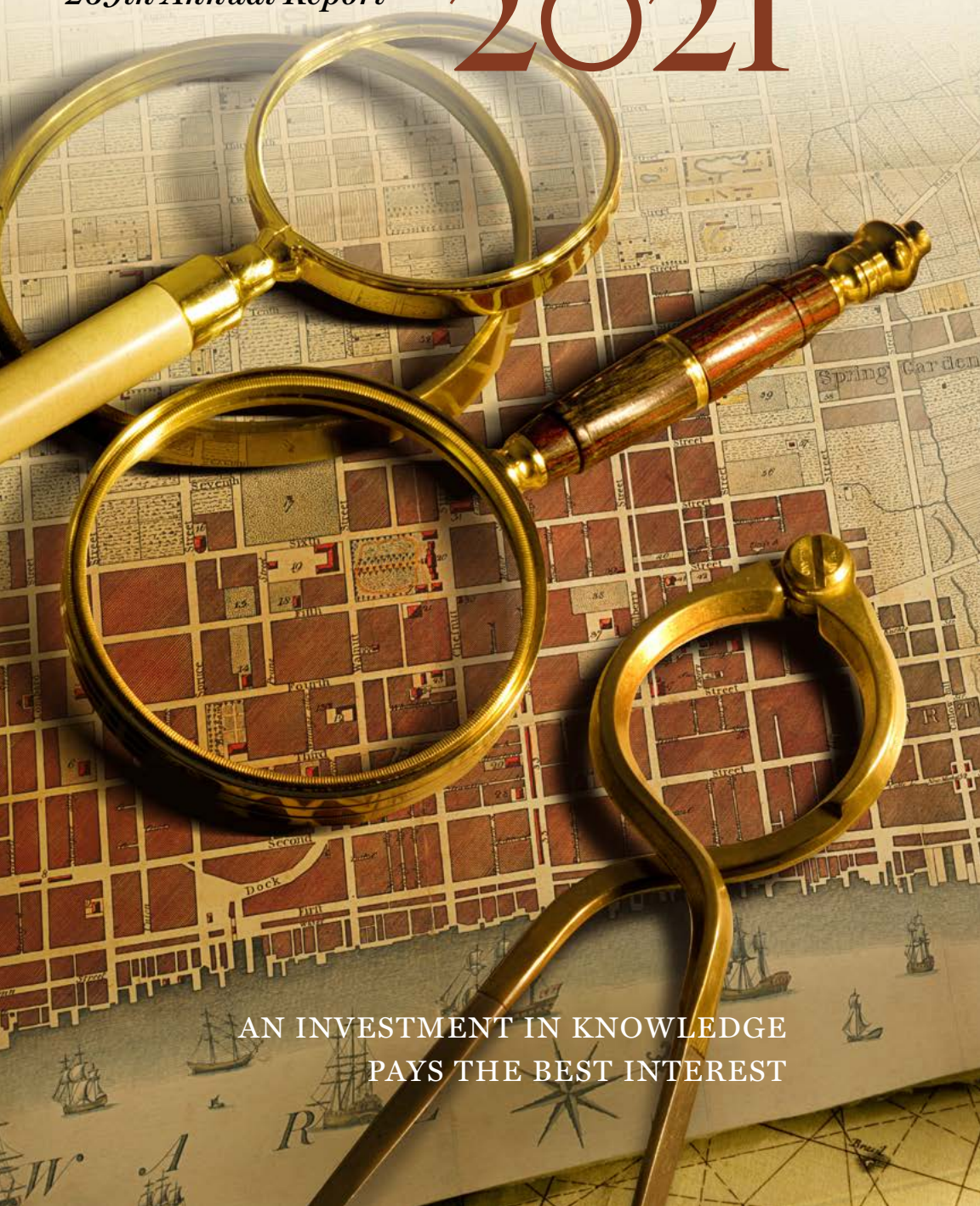


The Philadelphia Contributionship

269th Annual Report

2021



AN INVESTMENT IN KNOWLEDGE
PAYS THE BEST INTEREST

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

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 urban and suburban 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 A- rating or higher from A.M. Best Company for almost 100 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. The Vector Security Networks Division operates exclusively in the commercial space offering electronic security services, as well as, customized managed network services including broadband and broadband-enabled services, SD-WAN, network deployment, network management and mobile applications.

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.





LETTER TO POLICY HOLDERS

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A business can only survive if it can adapt to the changing world around it. As we enter our 270th year in operation, the history of The Philadelphia Contributionship (TPC) is proof of our commitment to continuously provide protection to our members' valuable assets - their homes. We view the homes we insure as more than just buildings. We see them as investments in the future for families, where they put down roots and become part of a community.

Ben Franklin was one of the founders of TPC. Many of his quotes are still relevant today, one of which helped define our past 269 years in operation - "An Investment in Knowledge Pays the Best Interest". We faced many challenges in 2021 including the ongoing pandemic, labor shortages, adapting to changes in customer needs and, perhaps the largest obstacle we have had to overcome, ever-changing weather patterns.

To keep up with the changes, both Vector Security and TPC have implemented new processes and tools to help us better navigate the changing landscape with an eye toward improving the service we provide our members. TPC's vision is to be the most reliable partner for people seeking to protect their homes and their futures - and we are investing in the tools to honor that commitment.

INSURANCE GROUP OPERATIONS

Insurance operations were challenged this past summer. On the evening of August 31st, our geographic territory experienced Hurricane Ida. Industry experts project it is the second costliest catastrophe to insurance carriers in history, the first being Hurricane Katrina in 2005. Ida produced more than 2,600 claims for a net loss of \$14.2 million. Overall, we were impacted by sixteen weather catastrophes in 2021, which resulted in more than 4,100 reported claims and generated an estimated \$28.1 million in losses.

Direct written premium was \$152.1 million in 2021, down 9.2% from 2020. Net premiums earned decreased 8.3% to \$134.2 million. Gross investment income for the year was \$10.1 million, down 2.1% from 2020. Net gains on investments were \$75.1 million, bringing total revenue from insurance operations for the year to \$219.5 million.

4 Losses and loss adjustment expenses, at \$106.6 million, improved 15.1% compared to 2020. This, despite elevated catastrophe losses, underscores the continued improvement in the underlying fundamentals of our business. Underwriting expenses were slightly lower, consistent with our reduction in policy counts. In total, losses and expenses were \$150.0 million for the year. Overall, after paying \$0.9 million of dividends to our members, the insurance operation produced income before income taxes of \$68.5 million.

Notable 2021 Events:

- TPC's financial strength rating from A.M. Best was affirmed at A- (Excellent).
- TPC was again named to Philly.com's list of Top Workplaces. This distinction is based solely on employee feedback and confirms that TPC remains an employer of choice, which is particularly important given the competitive nature of the insurance labor market.
- TPC partnered with outside vendors to assist with spikes in claim volume due to the increase in weather related catastrophes.

SECURITY GROUP OPERATIONS

The Vector Security and ADS Security branches serve the residential, commercial, and regional multi-site businesses. Many of the offerings include home automation functionality (locks, doorbells, garage door controls, thermostats, cameras, and lighting) with life safety and security equipment. Our commercial product offerings include intrusion protection, fire monitoring, access control and video monitoring. Vector Security Networks, our national account brand, is a leader in the retail, quick-serve convenience stores, restaurants, and health care industries. Services provided to these markets include network services, intrusion protection, fire monitoring, access control, video monitoring, environmental and shooter detection. As much of the country experienced in 2021, Vector also faced product shortages and supply chain issues with some of their devices. This was mitigated by anticipating potential shortages and pre-ordering products while increasing inventories whenever possible.

Vector Security, Inc. produced earnings before interest, taxes, depreciation, and amortization of \$53.2 million, \$0.7 million above 2020. Total revenues for the year were \$383.5 million, \$28.2 million more than 2020. Revenue increased due to higher demand for security services by our national customers and our entrance into the supply chain vertical. Residential growth was also positive as the demand for integrated home automation drove sales in this segment. Vector Security continues to be a strong contributor to our consolidated operation.

CONSOLIDATED BALANCE SHEET

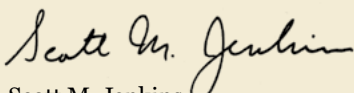
Total assets as of December 31, 2021, are \$1,064.7 million, up 3.1% from 2020. Total liabilities decreased 1.4% to \$643.1 million. Total equity as of December 31, 2021, is \$421.6 million, up 10.8% from 2020. The strength of TPC's financial condition is intact and the company is well-positioned to meet our commitments for the long run.

On February 23, 2021, the Board appointed a new director. Pamela Petrow, President and CEO of Vector Security, Inc. is a welcome addition and brings many years of leadership experience to TPC's Board.

IN MEMORIAM

In April of 2021, the Board of Directors suffered a sad loss with the passing of Andrew L. Lewis, IV. Andy joined the Board in 2012 when he agreed to serve on several Committees. Most notably, he served as the Investment Committee Chair. He led a life committed to public service, and he touched the lives of many. He was a trusted advisor to this Board, and he will be greatly missed.

The Directors, officers, and employees of The Philadelphia Contributionship and Vector Security thank you for your support. We will continue to strive to be the most reliable partners for people seeking to protect their homes, their property, and their futures.


Scott M. Jenkins
Chairman of the Board

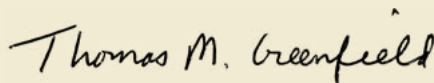

Thomas M. Greenfield
President and Chief Executive Officer

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CONSOLIDATED FINANCIAL STATEMENTS



To the Board of Directors of The Philadelphia Contributionship Mutual Holding Company

Opinion

We have audited the consolidated financial statements of The Philadelphia Contributionship Mutual Holding Company and its subsidiaries (the Contributionship), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, comprehensive (loss) income and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Contributionship as of December 31, 2021 and 2020 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for 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.

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

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the certain information for years 2013-2020 related to the Contributionship's liability for unpaid losses and loss expenses, included in Note 4 on pages 34-36 supplement the 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 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 financial statements, and other knowledge we obtained during our audit of the basic 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.



Philadelphia, Pennsylvania

March 3, 2022

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2021 AND 2020

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

ASSETS	2021	2020
INSURANCE GROUP ASSETS		
Investments:		
Fixed income securities	\$ 161,627	\$ 157,605
Convertible bonds	24,076	22,528
Preferred stocks	495	395
Convertible preferred stocks	1,164	1,407
Common stocks	372,991	320,443
Other invested assets	41,424	39,026
	<u>601,777</u>	<u>541,404</u>
Cash and cash equivalents	24,088	24,555
Reinsurance recoverable and receivable	23,649	17,911
Prepaid reinsurance premiums	4,547	4,838
Premiums receivable	5,489	9,594
Accrued income from investments	1,346	1,414
Income tax recoverable	2,518	10,122
Deferred acquisition costs	15,000	16,494
Property and equipment, net	2,259	2,518
Prepaid pension	-	1,622
Other assets	3,423	1,533
	<u>684,096</u>	<u>632,005</u>
Total Insurance Group assets		
SECURITY GROUP ASSETS		
Current assets:		
Cash and cash equivalents	827	529
Trade accounts receivable, less allowance for doubtful accounts of \$1,939 in 2021 and \$1,727 in 2020	29,395	34,417
Unbilled revenue	29,655	13,040
Contract assets	1,328	1,310
Inventories	7,562	7,800
Prepaid expenses and other current assets	3,082	2,401
Income taxes receivable	10,184	9,255
	<u>82,033</u>	<u>68,752</u>
Total current assets		
Property and equipment, net	36,036	38,861
Intangible assets, net	102,204	118,894
Goodwill, net	109,105	127,483
Deferred income taxes	29,908	25,659
Contract assets, noncurrent	1,935	2,137
Other noncurrent assets	1,439	2,270
Deferred charges	17,991	17,124
	<u>380,651</u>	<u>401,180</u>
Total Security Group assets		
Total assets	<u>\$ 1,064,747</u>	<u>\$ 1,033,185</u>

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CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2021 AND 2020

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

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LIABILITIES AND EQUITY	2021	2020
INSURANCE GROUP LIABILITIES		
Unpaid losses and loss adjustment expenses	\$ 115,309	\$ 118,072
Unearned premiums	79,826	87,206
Advance premiums	2,925	1,967
Deposit premiums	14,743	14,811
Deferred income taxes	44,665	35,584
Ceded premium payable	1,506	1,161
Other liabilities	13,279	13,299
Total Insurance Group liabilities	272,253	272,100
SECURITY GROUP LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	3,890	5,222
Accounts payable and accrued expenses	56,941	46,156
Customer deposits	1,177	934
Unearned revenue	22,076	21,963
Contract liabilities	168	156
Purchase holdbacks	1,580	1,511
Interest rate swap payable	1,248	2,603
Total current liabilities	87,080	78,545
Long-term debt, less current maturities	269,873	288,057
Unearned revenue	2,308	1,920
Contract liabilities, noncurrent	204	207
Interest rate swap payable, noncurrent	503	2,268
Other long-term liabilities	10,885	9,411
Total Security Group liabilities	370,853	380,408
Total liabilities	643,106	652,508
EQUITY		
Unassigned equity	417,931	376,390
Accumulated other comprehensive income	3,710	4,287
Total equity	421,641	380,677
Total liabilities and equity	\$ 1,064,747	\$ 1,033,185

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2021 AND 2020

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

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	2021	2020
INSURANCE GROUP		
Revenue:		
Net premiums earned	\$ 134,220	\$ 146,320
Gross investment income	10,148	10,368
Net realized and unrealized gains on investments	75,086	37,823
Total revenue	219,454	194,511
Losses and expenses:		
Losses and loss adjustment expenses	106,589	125,545
Underwriting expenses	40,280	42,177
Investment expenses	3,084	3,063
Total losses and expenses	149,953	170,785
Income before other (loss), dividends to policyholders, and income tax expense (benefit)	69,501	23,726
Other loss, net	(168)	(39)
Dividends to policyholders	(867)	(870)
Insurance Group income before income tax expense	68,466	22,817
SECURITY GROUP		
Revenue	383,466	355,248
Cost of sales	227,529	206,634
Gross profit	155,937	148,614
Operating expenses:		
Selling, general, and administrative	102,459	96,181
Depreciation	13,524	12,553
Amortization and impairment of intangible assets and goodwill	49,118	49,405
Total operating expenses	165,101	158,139
Operating loss	(9,164)	(9,525)
Other:		
Interest expense	(9,729)	(12,217)
Other (expense) income, net	(280)	59
	(10,009)	(12,158)
Security Group loss before income tax benefit	(19,173)	(21,683)
Income before income tax expense (benefit)	49,293	1,134
Income tax expense (benefit)	7,752	(5,798)
Net income	\$ 41,541	\$ 6,932

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2021 AND 2020

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

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	2021	2020
Net income	<u>\$ 41,541</u>	<u>\$ 6,932</u>
Other comprehensive (loss) income, net of tax:		
Unrealized (losses) gains on securities available-for-sale:		
Unrealized net holding (losses) gains arising during the year (net of tax of (\$902) in 2021 and \$803 in 2020)	(3,392)	3,021
Less reclassification adjustment for net realized gains included in net income (net of tax of \$24 in 2021 and \$102 in 2020)	92	383
	<u>(3,484)</u>	<u>2,638</u>
Cash flow hedge:		
Change in fair value of cash flow hedge (net of tax of \$125 in 2021 and (\$1,149) in 2020)	470	(4,323)
Less reclassification adjustment for settlement of cash flow hedge included in net income (net of tax of (\$489) in 2021 and (\$516) in 2020)	(1,839)	(1,941)
	<u>2,309</u>	<u>(2,382)</u>
Defined benefit pension plan:		
Change in actuarial assumptions	—	768
Asset gain (loss) and amortization of net loss	598	(72)
Experience loss	—	(91)
	<u>598</u>	<u>605</u>
Defined benefit pension plan, net actuarial gain arising during the year (net of tax of \$159 in 2021 and \$161 in 2020)	598	605
Other comprehensive (loss) income	<u>(577)</u>	<u>861</u>
Comprehensive income	<u>\$ 40,964</u>	<u>\$ 7,793</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF EQUITY
YEARS ENDED DECEMBER 31, 2021 AND 2020

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

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	Unassigned Equity	Accumulated Other Comprehensive Income	Total
BALANCE, JANUARY 1, 2020	\$ 369,458	\$ 3,426	\$ 372,884
Net Income	6,932	—	6,932
Other comprehensive income, net of tax	—	861	861
BALANCE, DECEMBER 31, 2020	376,390	4,287	380,677
Net income	41,541	—	41,541
Other comprehensive loss, net of tax	—	(577)	(577)
BALANCE, DECEMBER 31, 2021	\$ 417,931	\$ 3,710	\$ 421,641

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	\$ 41,541	\$ 6,932
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(75,086)	(37,823)
Depreciation, amortization and impairment	64,769	63,977
Deferred income taxes	4,708	4,457
Gains on disposals of property and equipment	333	(227)
Change in assets and liabilities, net of effects of acquisitions:		
Reinsurance recoverable and receivable	(5,738)	2,211
Prepaid reinsurance premiums	291	(1,674)
Premiums receivable	4,105	194
Accrued income from investments	68	79
Deferred acquisition costs	1,494	1,421
Unpaid losses and loss adjustment expenses	(2,763)	3,908
Unearned premiums	(7,380)	(1,556)
Advance premiums	958	(68)
Deposit premiums	(68)	(477)
Other liabilities	325	3,670
Income taxes and other receivables	6,675	(12,775)
Prepaid expenses and other assets	1,218	(401)
Trade accounts receivable, unbilled revenue, and inventories	(11,171)	2,203
Accounts payable, accrued expenses and purchase holdbacks	12,259	(4,213)
Unearned revenue and customer deposits	753	(6)
Deferred charges	(867)	(138)
Net cash provided by operating activities	36,424	29,694

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2021 AND 2020

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

	2021	2020
CASH FLOW FROM INVESTING ACTIVITIES		
Cash paid for acquisitions, net of cash received	(13,981)	\$ (13,346)
Purchases of property, plant and equipment	(9,239)	(12,254)
Proceeds from disposals of property and equipment	257	256
Purchases of fixed income securities	(38,279)	(26,845)
Purchases of convertible bonds	(17,583)	(19,866)
Purchases of common stocks	(23,232)	(80,165)
Purchases of convertible preferred stocks	(720)	(705)
Purchases of other invested assets	—	(5,000)
Proceeds from sales of fixed income securities	3,223	27,378
Proceeds from sales of convertible bonds	18,419	3,313
Proceeds from maturities/calls of fixed income securities	25,359	25,950
Proceeds from the sales of common stocks	39,623	96,705
Proceeds from the sales of convertible preferred stocks	1,262	127
Proceeds from the sales of other invested assets	24	—
Net cash used in investing activities	(14,867)	(4,452)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from revolving credit agreements	168,551	164,421
Payments on revolving credit agreements	(187,523)	(177,973)
Principal payments on capital leases	(2,754)	(2,337)
Net cash used in financing activities	(21,726)	(15,889)
Net (decrease) increase in cash and cash equivalents	(169)	9,353
CASH AND CASH EQUIVALENTS, BEGINNING	25,084	15,731
CASH AND CASH EQUIVALENTS, ENDING	\$ 24,915	\$ 25,084
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	\$ 8,553	\$ 11,364
Income taxes paid	\$ 2,000	\$ —
SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
In conjunction with acquisitions, the Security Group:		
Recorded purchase holdbacks	\$ 1,212	\$ 930
Capital leases	\$ 2,210	\$ 3,130

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Note 1 Nature of Operations and 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., Vector Intelligent Solutions, LLC (VIS), and ADS Security, LLC (ADS) (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 136,000 policyholders at December 31, 2021.

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 367,000 residential and commercial customers as of December 31, 2021. No such customer accounted for more than 10 percent of the December 31, 2021 and 2020 trade accounts receivable balance as of 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

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, 2021 or 2020.

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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, 2021 and 2020 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 expected loss ratio method, loss development methods, frequency-severity methods, and the Bornhuetter-Ferguson (B-F) 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 reserves, new claims, changes to existing case reserves and paid claims with respect to the current and prior years.

Fixed Income Securities

All fixed income securities 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 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 noncredit related portion of the loss. The credit related portion is recorded as a charge in the consolidated statement of operations while the noncredit related portion is recorded through other

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20 comprehensive income and included as a component of accumulated other comprehensive income in the consolidated balance sheets.

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.

Interest income is 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.

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 and unrealized gains on investments in the consolidated statements of operations.

Preferred & Common stocks

Preferred and common stocks are carried at estimated fair value, with changes in estimated fair value reported in net realized and unrealized gains on investments in the consolidated statements of operations.

Other Invested Assets

Other invested assets consist of investments in limited partnerships that invest in oil and gas interests, commercial and residential real estate and equity and debt securities of public and privately held companies. These investments are carried at fair value and the changes in estimated fair value are reported in net realized and unrealized gains on investments on the consolidated statements of operations.

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 \$16,350 and \$15,931 at December 31, 2021 and 2020, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of depreciable assets. Estimated useful lives range from 3 to 15 years with the exception of buildings, which are depreciated over approximately 25 years. Land is not subject to depreciation. Depreciation expense for the years ended December 31, 2021 and 2020 was \$419 and \$507, respectively.

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.

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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.

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Balances consist of the following as of December 31:

	2021	2020
Land	\$ 200	\$ 200
Buildings and improvements	6,667	7,082
Home security package systems	43,875	40,787
Furniture and fixtures	5,106	5,805
Vehicles and equipment	38,151	37,180
Construction-in-progress	76	175
	<u>94,075</u>	<u>91,229</u>
Less accumulated depreciation	<u>(58,039)</u>	<u>(52,368)</u>
Total property and equipment	<u>\$ 36,036</u>	<u>\$ 38,861</u>

Revenue Recognition

Vector's major sources of revenue are equipment sales, installation, monitoring and managed network services. 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) No. 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, it offers 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. 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. Under these arrangements, Vector's performance obligations include monitoring and related services (such as maintenance agreements) as well as a right to use the security system. Revenue associated with the monitoring and related service performance obligation is recognized as those services are provided. Revenue associated with the right to use the security system is recognized over the life of the contract.

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In transactions in which the security system is sold outright to the customer, Vector's performance obligations include monitoring and related services as well as the sale and installation of the security system. For such arrangements, Vector allocates the transaction price to each performance obligation based on a relative standalone selling price. Revenue associated with the sale and installation of security system performance obligation is recognized as the installation is completed. Revenue associated with the monitoring and related service performance obligation is recognized as those services are provided.

As part of its managed network service offerings, Vector's performance obligations include provision of internet access and network management services, as well as installation of computer and communications equipment to customers. For such arrangements, Vector allocates the transaction price to each performance obligation based on a relative standalone selling price. Revenue associated with the sale and installation of equipment is recognized as the installation is completed. Revenue associated with the network management services is recognized as those services are provided.

Vector incurs certain incremental contract costs (primarily sales commissions) related to acquiring customers and records these costs as deferred charges in its consolidated balance sheet. Amortization expense relating to these deferred charges was \$6,572 and \$6,817 for the years ended December 31, 2021 and 2020, respectively, and is included in selling, general and administrative expense on the consolidated statements of operations.

Inventories

Inventories, consisting primarily of security and home automation products, are stated at the lower of average cost and net realizable value.

Intangible Assets

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.

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 \$444 and \$517 during 2021 and 2020, respectively.

Customer service agreements include newly acquired customer service agreements, that have been purchased through Vector's authorized dealer program or through other acquisitions and are being amortized on a straight-line basis over periods ranging from seven to thirteen years, which reflects Vector's historical attrition rates.

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.

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Technology, which was recorded in connection with acquisitions, is 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.

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 percent 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, 2021 or 2020.

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.

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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 debt insurance costs 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.

Accumulated 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 sheets. Such items, along with net income, are components of comprehensive income and are reflected in the consolidated statements 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, 2020	\$ 5,822	\$ (1,193)	\$ (1,203)	\$ 3,426
Other comprehensive income (loss) before reclassifications	3,021	(441)	696	3,276
Amounts reclassified from accumulated other comprehensive income (loss)	(383)	(1,941)	(91)	(2,415)
Balance, December 31, 2020	8,460	(3,575)	(598)	4,287
Other comprehensive income (loss) before reclassifications	(3,392)	4,148	598	1,354
Amounts reclassified from accumulated other comprehensive (loss) income	(92)	(1,839)	—	(1,931)
Balance, December 31, 2021	\$ 4,976	\$ (1,266)	\$ —	\$ 3,710

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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.

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	AMOUNT RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME		AFFECTED LINE ITEM IN THE CONSOLIDATED STATEMENT OF OPERATIONS
	2021	2020	
Unrealized gain on securities available-for-sale:			
Realized gains on sale of securities	\$ 116	\$ 484	NET REALIZED GAINS ON INVESTMENTS
Gain on cash flow hedges:			
Interest rate derivative contracts	2,328	2,457	INTEREST EXPENSE
Change in retirement plan liabilities adjustment:			
Amortization of actuarial losses	—	115	(a)
Total reclassifications before income tax expense	2,444	3,056	
Less Income tax expense	513	641	
Total reclassifications net of income tax expense	\$ 1,931	\$ 2,415	

(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 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, 2022. The Company is currently assessing the effect that this ASU will have on its results of operations, financial position and cash flows

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 2022, with early adoption is permitted. The Company is in the process of assessing the impact this ASU will have on its consolidated financial statements.

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Subsequent Events

In preparing these consolidated financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 3, 2022, the date the consolidated financial statements were available to be issued.

Note 2 Investments

The cost or amortized cost and estimated fair values of investments at December 31 are as follows:

	2021			
	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	\$ 5,752	\$ 76	\$ (3)	\$ 5,825
Obligations of states and political subdivisions	42,368	2,969	(112)	45,225
Corporate securities	66,370	2,206	(619)	67,957
Mortgage-backed and asset- backed securities	41,135	1,609	(124)	42,620
Total fixed income securities	155,625	6,860	(858)	161,627
Preferred stocks	473	22	—	495
Common stocks	157,474	216,609	(1,092)	372,991
Total	\$ 313,572	\$ 223,491	\$ (1,950)	\$ 535,113
	2020			
	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	\$ 754	\$ 122	\$ —	\$ 876
Obligations of states and political subdivisions	42,353	4,125	(12)	46,466
Corporate securities	55,983	3,550	(10)	59,523
Mortgage-backed and asset- backed securities	48,096	2,823	(179)	50,740
Total fixed income securities	147,186	10,620	(201)	157,605
Preferred stocks	334	138	(77)	395
Common stocks	151,142	169,426	(125)	320,443
Total	\$ 298,662	\$ 180,184	\$ (403)	\$ 478,443

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Convertible securities carried at fair value in the consolidated balance sheet as follows:

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	COST		ESTIMATED FAIR VALUE	
	2021	2020	2021	2020
Convertible bonds	\$ 21,463	\$ 19,238	\$ 24,076	\$ 22,528
Convertible preferred stocks	\$ 1,128	\$ 1,259	\$ 1,164	\$ 1,407

Other investments in limited partnerships carried at fair value in the consolidated balance sheet as follows:

	COST		ESTIMATED FAIR VALUE	
	2021	2020	2021	2020
Other invested assets	\$ 45,216	\$ 45,240	\$ 41,424	\$ 39,026

The amortized cost and estimated fair value of fixed income securities and convertible bonds at December 31, 2021, 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	\$ 17,353	\$ 17,755
Due after one year through five years	56,760	60,073
Due after five years through ten years	37,471	39,882
Due after ten years	24,369	25,373
	135,953	143,083
Mortgage-backed and asset-backed securities	41,135	42,620
Total	\$ 177,088	\$ 185,703

Net realized and unrealized gains on investments consisted of the following:

	2021	2020
Realized gains on sales of investments	\$ 27,534	\$ 20,999
Realized losses on sales of investments	(478)	(15,258)
Change in fair value of convertible securities	(698)	1,088
Change in fair value of equity securities	46,323	36,894
Change in fair value of other invested assets	2,422	(5,492)
Other-than-temporary impairment charges	(17)	(408)
	\$ 75,086	\$ 37,823

The Company had on deposit, as required by various state regulatory agencies, fixed income securities with a fair value of \$2,842 and \$2,869 and cash equivalents of \$1,053 and \$924 at December 31, 2021 and 2020, respectively.

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As of December 31, 2021 and 2020, the Company's fixed income portfolio had gross unrealized losses of \$858 and \$201, 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, 2021:						
Fixed income securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 4,995	\$ (3)	\$ —	\$ —	\$ 4,995	\$ (3)
Obligations of states and political subdivisions	2,352	(100)	413	(12)	2,765	(112)
Corporate securities	3,693	(609)	214	(10)	3,907	(619)
Mortgage-backed and asset-backed securities	10,089	(97)	3,185	(27)	13,274	(124)
Total fixed income securities	\$ 21,129	\$ (809)	\$ 3,812	\$ (49)	\$ 24,941	\$ (858)

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
December 31, 2020:						
Fixed income securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Obligations of states and political subdivisions	135	(12)	—	—	135	(12)
Corporate securities	240	(10)	—	—	240	(10)
Mortgage-backed and asset-backed securities	2,099	(72)	3,910	(107)	6,009	(179)
Total fixed income securities	\$ 2,474	\$ (94)	\$ 3,910	\$ (107)	\$ 6,384	\$ (201)

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.

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30 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, 2021 and 2020, the fair value using net asset value for the Company's other invested assets were \$41,424 and \$39,026, respectively.

At December 31, 2021 and 2020, one investment in a limited partnership included in other invested assets comprising 42 percent and 43 percent, respectively, 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 percent 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.

At December 31, 2021 and 2020, one investment in a limited partnership included in other invested assets comprising 11 percent and 15 percent, respectively, 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 5 percent early withdrawal charge. Withdrawals made by the Company more than 36 months and less than 72 months from initial contribution are subject to a 3 percent 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.

At December 31, 2021 and 2020, one investment in a master limited partnership included in other invested assets comprising 31 percent and 23 percent, respectively, of other invested assets contains a stipulation that redemptions by the Company within 12 months following its initial investment are subject to a 1 percent early withdrawal charge. This restriction may be waived by the managing member. The Company can make a withdrawal as of the last

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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.

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At December 31, 2021 and 2020, one investment in a limited partnership included in other invested assets comprising 11 percent and 14 percent, respectively, of other invested assets has a term of seven years after the final closing, with an option for up to three additional one year periods at the discretion of the general partner.

At December 31, 2021 and 2020, one investment in a limited partnership included in other invested assets comprising 3 percent and 4 percent, respectively, 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 percent 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.

At December 31, 2021 and 2020, one investment in a limited partnership included in other invested assets comprising 2 percent and 1 percent, respectively, of other invested assets in a note structure with a term of 5 years after the final closing with an option for up to two additional one year period at the discretion of the general partner.

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The following table summarizes fair value measurements by level within the fair value hierarchy at December 31, 2021 and 2020 for assets and liabilities measured at fair value on a recurring basis:

2021				
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	\$ 5,825	\$ 5,825	\$ —	\$ —
Obligations of states and political subdivisions	45,225	—	45,225	—
Corporate securities	67,957	—	67,957	—
Mortgage-backed and asset-backed securities	42,620	—	42,620	—
Total fixed income securities	161,627	5,825	155,802	—
Convertible bonds	24,076	—	5,296	18,780
Preferred stocks	495	—	—	495
Convertible preferred stocks	1,164	—	1,164	—
Common stocks	372,991	372,861	—	130
Total bonds and stocks	\$ 560,353	\$ 378,686	\$ 162,262	\$ 19,405

2020				
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	\$ 876	\$ 876	\$ —	\$ —
Obligations of states and political subdivisions	46,466	—	46,466	—
Corporate securities	59,523	—	59,523	—
Mortgage-backed and asset-backed securities	50,740	—	50,740	—
Total fixed income securities	157,605	876	156,729	—
Convertible bonds	22,528	—	3,247	19,281
Preferred stocks	395	—	—	395
Convertible preferred stocks	1,407	—	421	986
Common stocks	320,443	320,331	—	112
Total bonds and stocks	\$ 502,378	\$ 321,207	\$ 160,397	\$ 20,774

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.

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Note 4 Liability for Unpaid Losses and Loss Adjustment Expenses

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

	2021	2020
Balance as of January 1	\$ 118,072	\$ 114,164
Less reinsurance recoverable	<u>(16,708)</u>	<u>(18,778)</u>
Net balance at January 1	<u>101,364</u>	<u>95,386</u>
Incurred related to:		
Current year	117,585	135,469
Prior years	<u>(10,996)</u>	<u>(9,924)</u>
Total incurred	<u>106,589</u>	<u>125,545</u>
Paid related to:		
Current year	82,720	86,749
Prior years	<u>32,349</u>	<u>32,818</u>
Total paid	<u>115,069</u>	<u>119,567</u>
Net balance as of December 31	<u>92,884</u>	101,364
Plus reinsurance recoverable	<u>22,425</u>	<u>16,708</u>
Balance at December 31	<u>\$ 115,309</u>	<u>\$ 118,072</u>

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 2021 and 2020 by \$10,996 and \$9,924, respectively. The decrease in 2021 is due to better than expected development of losses incurred, primarily in the homeowners property and special property segments, and primarily related to the 2019 and 2020 accident years. The decrease in 2020 is due to better than expected development of losses incurred, primarily in the homeowners property and special property segments, and primarily related to the 2018 and 2019 accident years.

The following tables present information about incurred and paid claims development as of December 31, 2021 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, 2021. The tables include unaudited information about incurred and paid claims development for the years ended December 31, 2013 through 2020, which is presented as required supplementary information.

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Homeowners

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

ACCIDENT YEAR	UNAUDITED									AS OF DECEMBER 31, 2021	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	TOTAL IBNR PLUS EXPECTED ON REPORTED	CUMULATIVE NUMBER OF REPORTED CLAIMS
2013	49,259	47,510	44,736	45,123	44,610	44,338	44,364	44,136	44,058	76	4,851
2014		67,879	64,035	64,722	64,678	63,785	63,662	63,477	63,377	54	7,037
2015			59,902	55,851	54,839	54,783	54,029	53,664	53,565	137	5,579
2016				51,560	51,007	49,720	50,084	48,683	48,395	326	5,457
2017					52,190	52,034	52,087	51,373	51,209	1,128	6,343
2018						78,829	78,111	76,520	75,901	1,671	10,314
2019							94,843	93,854	91,224	3,353	10,824
2020								95,093	91,720	8,777	10,747
2021									80,718	9,862	8,661
									<u>Total</u>		<u>\$600,167</u>

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

ACCIDENT YEAR	UNAUDITED									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	
2013	29,281	39,921	41,195	42,637	43,946	43,867	43,862	43,909	43,949	
2014		48,758	56,644	59,671	62,226	63,191	63,386	63,306	63,323	
2015			40,780	49,251	51,165	52,116	53,002	53,328	53,304	
2016				35,608	44,198	45,782	47,152	47,694	47,866	
2017					33,973	44,966	47,173	48,496	49,239	
2018						55,747	70,668	71,576	73,218	
2019							63,357	82,996	85,818	
2020								62,562	79,612	
2021									58,980	
								<u>Total</u>	<u>\$ 555,309</u>	
									All outstanding liabilities before 2013, net of reinsurance	<u>8,739</u>
									Liabilities for losses and loss adjustment expenses, net of reinsurance	<u>\$ 53,597</u>

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Other Liability

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

ACCIDENT YEAR	UNAUDITED									AS OF DECEMBER 31, 2021	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	TOTAL IBNR PLUS EXPECTED ON REPORTED	CUMULATIVE NUMBER OF REPORTED CLAIMS
2013	7,333	7,133	7,562	7,678	7,869	7,968	7,879	7,877	7,828	17	251
2014		6,909	8,493	10,031	10,554	10,242	9,921	9,945	9,917	37	271
2015			7,888	8,125	8,108	8,016	7,649	7,353	7,163	53	283
2016				7,264	7,171	6,851	7,279	6,755	6,577	247	239
2017					6,792	6,464	6,098	5,862	5,510	742	258
2018						6,685	6,732	7,711	7,435	2,119	270
2019							7,408	6,985	7,219	2,597	246
2020								6,204	6,304	4,903	125
2021									4,987	3,455	108
									<u>Total</u>	<u>\$ 62,940</u>	

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

ACCIDENT YEAR	UNAUDITED									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	
2013	191	770	2,357	5,473	7,282	7,800	7,800	7,802	7,802	
2014		20	1,484	4,338	8,209	9,474	9,825	9,827	9,873	
2015			174	904	3,414	5,559	7,004	7,089	7,094	
2016				167	1,146	2,819	5,220	5,992	6,150	
2017					75	770	2,425	3,533	4,208	
2018						104	869	2,650	4,151	
2019							86	479	2,178	
2020								54	328	
2021									180	
								<u>Total</u>	<u>\$ 41,964</u>	
									All outstanding liabilities before 2013, net of reinsurance	<u>2,965</u>
									Liabilities for losses and loss adjustment expenses, net of reinsurance	<u>\$ 23,941</u>

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36 The reconciliation of the net incurred and paid loss development tables to the liability for losses and loss adjustment expenses in the consolidated balance sheets is as follows:

	<u>DECEMBER 31, 2021</u>
Net outstanding liabilities	
Homeowners	\$ 53,597
Other liability	23,941
Other short-duration insurance lines	<u>9,335</u>
Liabilities for unpaid losses and allocated loss adjustment expenses, net of reinsurance	86,873
Reinsurance recoverable on unpaid claims:	
Homeowners	15,713
Other liability	2,618
Other short-duration insurance lines	<u>4,094</u>
Total reinsurance recoverable on unpaid losses	22,425
Unallocated loss adjustment expenses	<u>6,011</u>
Total gross liability for unpaid losses and loss adjustment expenses	<u><u>\$ 115,309</u></u>

The methods used to select the estimated claim reserves include the expected loss ratio method, loss development methods, frequency-severity methods, and the Bornhuetter-Ferguson (B-F) 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 ultimately closed without any loss or loss adjustment expense payments would be included in the cumulative claim frequency information shown above.

There was one change in methodology: the removal of the Berquist-Sherman (B-S) method. This change did not have a material impact on the calculation of the liability for unpaid loss and loss adjustment expenses as of December 31, 2021.

The following is supplementary information about average historical claims duration as of December 31, 2021.

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

	<u>UNAUDITED</u>								
Years	1	2	3	4	5	6	7	8	9
Homeowners	70.5%	20.0%	3.3%	2.9%	2.0%	0.3%	0.0%	0.0%	0.0%
Other Liability	1.7	10.9	27.9	30.6	15.1	2.9	1.3	0.1	0.1

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 2021 and 2020 and had ceded premiums earned in 2021 and 2020 of \$25,220 and \$22,777, respectively. Losses and loss adjustment expenses are net of reinsurance recoveries of \$17,532 and \$10,377 in 2021 and 2020, respectively. Amounts paid to reinsurers related to the unexpired portion of reinsured contracts were \$4,547 and \$4,838 as of December 31, 2021 and 2020, respectively.

The Insurance Group had no significant concentration in risk from any one unaffiliated reinsurer as of December 31, 2021 and 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 6 Dividends From Subsidiaries and Statutory Financial Information

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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 2022, the maximum amount of dividends that can be paid by the Contributionship without such approval is \$38,866. The Contributionship paid no ordinary dividends during 2021 and 2020.

The surplus of the Contributionship and its subsidiaries, as determined in accordance with statutory accounting practices, is \$388,656 and \$331,974 at December 31, 2021 and 2020, respectively. The net income (loss) of the Contributionship and its subsidiaries, as determined in accordance with statutory accounting practices, is \$18,654 and (\$4,663) for the years ended December 31, 2021 and 2020, 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, 2021 and 2020, the Contributionship and its subsidiaries maintained statutory-basis surplus in excess of the minimum prescribed risk-based capital requirements. As of December 31, 2021 and 2020, 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:

	2021	2020
Balance as of January 1	\$ 127,483	\$ 145,684
Goodwill acquired during the year	—	177
Amortization	(18,378)	(18,378)
Balance as of December 31	<u>\$ 109,105</u>	<u>\$ 127,483</u>

The amortization period for goodwill is 10 years.

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

	2021		2020	
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Customer service agreements	\$ 259,370	\$ 170,678	\$ 250,966	\$ 150,591
Customer relationships	10,460	6,739	10,460	5,934
Covenants not to compete	123	71	123	62
Covenants not to solicit	2,084	2,084	2,084	1,921
Trade Names	20,150	10,411	20,150	6,381
Total	<u>\$ 292,187</u>	<u>\$ 189,983</u>	<u>\$ 283,783</u>	<u>\$ 164,889</u>

Amortization expense, excluding impairment charges, for other intangible assets was \$30,296 and \$30,510 for the years ended December 31, 2021 and 2020, respectively.

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

2022	\$ 46,601
2023	40,289
2024	30,764
2025	25,406
2026	22,676
Thereafter	<u>45,573</u>
Total	<u>\$ 211,309</u>

Note 8 Acquisitions

Vector acquired selected accounts from various Company authorized dealers located in various states. The total purchase price for these accounts was \$14,050 and \$13,462 in 2021 and 2020, 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 7,400 accounts in 2021 and 2020. 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 percent of the purchase price. The transaction was accounted for as an asset acquisition.

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Note 9 Borrowings and Credit Arrangements

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

	2021	2020
Revolving credit facility - variable interest rate (approximately 1.7% and 2.1% as of December 31, 2021 and 2020, respectively)	\$ 268,976	\$ 287,948
Capital leases - bearing interest at rates ranging from 3% to 6% as of December 31, 2021 and 2020	4,787	5,331
	273,763	293,279
Less current maturities	(3,890)	(5,222)
Long-term debt, less current maturities	\$ 269,873	\$ 288,057

Vector has a \$450,000 revolving credit facility that permits Vector to borrow, on a revolving basis, through June 3, 2024. Interest on the entire \$450,000 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.

Vector entered into a 36 month interest rate swap agreement with a notional amount of \$25,000 that expires in January 2022, and also entered into a 48 month interest rate swap agreement with a notional amount of \$100,000 that expires in June 2023. Vector had entered into a 48 month interest rate swap agreement with a notional amount of \$70,000 that expired in January 2021. These derivatives are designated as cash flow hedges and are recognized on the consolidated balance sheets at fair value. This derivative was designated as a cash flow hedge and is recognized on the consolidated balance sheets 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 ranging from 1.81 percent to 2.63 percent. The fair value of the swap as of December 31, 2021 and 2020 was (\$1,751) and (\$4,871), respectively and was recorded as a liability in the consolidated financial statements.

Vector must pay a quarterly commitment fee based on the Leverage Ratio that ranges from 0.15 percent to 0.30 percent. At December 31, 2021, Vector was paying a quarterly commitment fee of approximately 0.20 percent on the available unused portion of the revolving credit facility. As of December 31, 2021, the available unused portion of the revolving credit facility was \$179,460.

Under Vector's revolving credit facility, approximately \$1,565 and \$2,080 were committed for outstanding letters of credit as of December 31, 2021 and 2020. There were no amounts drawn on the letters of credit as of December 31, 2021 and 2020.

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, 2021 and 2020, Vector was in compliance with all such covenants.

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40 The aggregate maturities of debt principal for Vector as of December 31, 2021 are as follows:

2022	\$ 3,890
2023	1,678
2024	268,160
2025	<u>35</u>
Total	<u><u>\$ 273,763</u></u>

Note 10 Leases

Vector has various capital leases for equipment (Note 9) that expire at various dates during the next 48 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, 2021 are as follows:

2022	\$ 4,660
2023	3,228
2024	2,075
2025	705
2025	<u>359</u>
Total	<u><u>\$ 11,027</u></u>

Rent expense for leased equipment and office space totaled \$6,967 and \$6,870 for the years ended December 31, 2021 and 2020, respectively.

Note 11 Income Taxes

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

2021			2020		
CURRENT	DEFERRED	TOTAL	CURRENT	DEFERRED	TOTAL
<u>\$ 3,044</u>	<u>\$ 4,708</u>	<u>\$ 7,752</u>	<u>\$ (10,255)</u>	<u>\$ 4,457</u>	<u>\$ (5,798)</u>

The expected income tax expense (benefit) for the years ended December 31 differed from the amounts computed by applying the U.S. federal income tax rate of 21 percent as follows:

	2021	2020
Computed "expected" income tax expense	\$ 10,366	\$ 242
Decrease in income taxes resulting from:		
Tax-exempt interest	(132)	(144)
Dividends received deduction	(341)	(327)
State taxes, net of federal benefit	(1,651)	(329)
Provision to return adjustments	(85)	(186)
Tax rate differential	—	(4,897)
Other, net	(405)	(157)
	<u>\$ 7,752</u>	<u>\$ (5,798)</u>

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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:

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	2021	2020
Insurance Group:		
Deferred income tax asset components:		
Unearned premiums and advance premiums	\$ 3,285	\$ 3,542
Unpaid losses and loss adjustment expenses	1,173	1,274
Other-than-temporary impairments	976	985
Accrued pension liability	—	159
Deferred compensation	1,113	1,063
Other	1,068	549
Total deferred income tax asset	7,615	7,572
Deferred income tax liability components:		
Deferred acquisition costs	(3,150)	(3,464)
Unrealized investment gains	(46,383)	(37,139)
Other	(2,747)	(2,553)
Total deferred income tax liability	(52,280)	(43,156)
Net deferred income tax liability	\$ (44,665)	\$ (35,584)
Security Group:		
Deferred income tax asset components:		
Accrued expenses	\$ 4,712	\$ 3,450
Deferred rent	—	7
Net operating loss	1,063	637
Inventories and accounts receivable	1,175	1,214
Intangible assets	31,587	28,859
Unearned revenue	553	525
Contract liabilities	869	748
Interest rate swap	502	1,286
Research & development credit	—	183
Total deferred tax asset	40,461	36,909
Deferred income tax liability components:		
Unbilled revenue	—	(635)
Plant and equipment	(41)	—
Deferred charges	(5,767)	(6,107)
Prepaid expenses	(4,745)	(4,508)
Total deferred income tax liability	(10,553)	(11,250)
Net deferred income tax asset	\$ 29,908	\$ 25,659

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.

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42 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.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits net operating loss carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows net operating losses incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Company filed a carryback claim for the 2020 net operating losses which resulted in a current income tax receivable of \$12,557 on the consolidated balance sheets. The 2020 effective tax rate benefit related to the CARES Act is \$3,099.

As of December 31, 2021 Vector has net operating loss carryforwards for state income tax purposes which begin to expire in 2024.

As of December 31, 2021 and 2020, the liability for unrecognized tax benefits was \$494 and \$450, respectively. The net change in liability was the result of Research and Development credits being claimed for the current period, as well as an associated accrual for interest. Vector recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. In 2021, Vector accrued approximately \$6 of interest (net of federal benefit) related to Research and Development credits. As of December 31, 2021 and 2020, a total of \$36 and \$63, respectively, were accrued related to interest and penalties.

There are no tax-related interest or penalties accrued on the consolidated balance sheet at December 31, 2021 and 2020, nor has any tax related interest or penalties been recognized in the consolidated statement of operations for the years ended December 31, 2021 and 2020.

The Company's federal income tax returns for tax years ended December 31, 2016 and prior are closed to examination.

Note 12 Employee Benefit Plans

Defined Benefit Pension Plan

The Insurance Group made no contributions to the Plan in 2021 and 2020, respectively.

On July 28, 2020, the Board of Directors of the Company voted to terminate the defined benefit pension plan effective October 1, 2020. Upon termination, the Company offered lump sum payments to vested former and active employees. For those electing a lump sum, payments were processed on December 18, 2020.

On January 31, 2021, an annuity payment of \$4,815 was paid to Mutual of Omaha for the remaining benefit obligation of the former vested employees and current retirees. Effective April 1, 2021, Mutual of Omaha took over the administration of the terminated defined benefit pension plan. The remaining assets of \$1,713 were transferred to the Insurance Group's thrift plan provider, Empower Retirement, to be utilized for the Company's year end profit share contributions.

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

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	2020
Interest cost	\$ 182
Expected return on plan assets	(269)
Amortization of net loss	50
Total net periodic benefit cost before settlement	(37)
Effect of settlement	81
Total net periodic benefit cost after settlement	<u>\$ 44</u>

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 sheets. 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:

	2021	2020
Benefit obligation as of January 1	\$ 4,941	\$ 6,546
Interest cost	—	182
Distributions	(4,790)	(930)
Change due to change in assumptions and experience	(151)	(857)
Benefit obligation as of December 31	<u>—</u>	<u>4,941</u>
Plan assets as of January 1	6,563	7,445
Actual return on assets	(61)	48
Distributions	(6,502)	(930)
Plan assets as of December 31	<u>—</u>	<u>6,563</u>
Funded status	<u>\$ —</u>	<u>\$ 1,622</u>

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

2020	\$ 756
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

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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 \$3,687 in 2021 and \$2,546 in 2020.

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 \$1,509 and \$2,008 in 2021 and 2020, respectively. The Participants have the option of being paid at termination of employment or on the fifth March 1 immediately following the date on which the annual compensation or base salary would have been payable. The Company made payments of \$591 in 2021 and \$579 in 2020. Amounts accrued under the plan were \$11,501 and \$9,967 as of December 31, 2021 and 2020, respectively.

The Company provides certain postretirement health care benefits. Net periodic postretirement benefit cost for 2021 and 2020 was \$31 and \$30, 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 2.08 percent and 1.56 percent in 2021 and 2020, respectively.

DIRECTORS & OFFICERS



DIRECTORS

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

Bruce M. Eckert

*Founder, Eastern Insurance
Holdings, Inc.*

Ira H. Fuchs

President, BITNET, LLC

Phoebe A. Haddon, J.D., LL.M.

*Chancellor Emerita and University
Professor of Law, Rutgers University*

Harry E. Hill, III

*President & CEO, Empire Abrasive
Equipment Company*

*President & CEO, Delaware Car
Company*

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*Chairman Emeritus, Quaker Chemical
Corporation*

Pamela J. Petrow

President & CEO, Vector Security, Inc.

Alfred W. Putnam, Jr.

*Chairman Emeritus, Faegre Drinker
Biddle & Reath LLP*

Marna C. Whittington, Ph.D.

Retired Investment Executive

HONORARY DIRECTORS

Craig N. Johnson

Ernest E. Jones, Esquire

Mary Patterson McPherson, Ph.D.

Bernard C. Watson, Ph.D.

Minturn T. Wright, III, Esquire

OFFICERS

Scott M. Jenkins

Chairman

Thomas M. Greenfield

President & CEO

Kevin L. Tate

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 270th Annual meeting of the
Members of the Company will be held
virtually on Monday, April 25, 2022,
at 11:00 a.m.*



The Philadelphia Contributionship

DEPENDABLE INSURANCE PARTNERS SINCE 1752

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