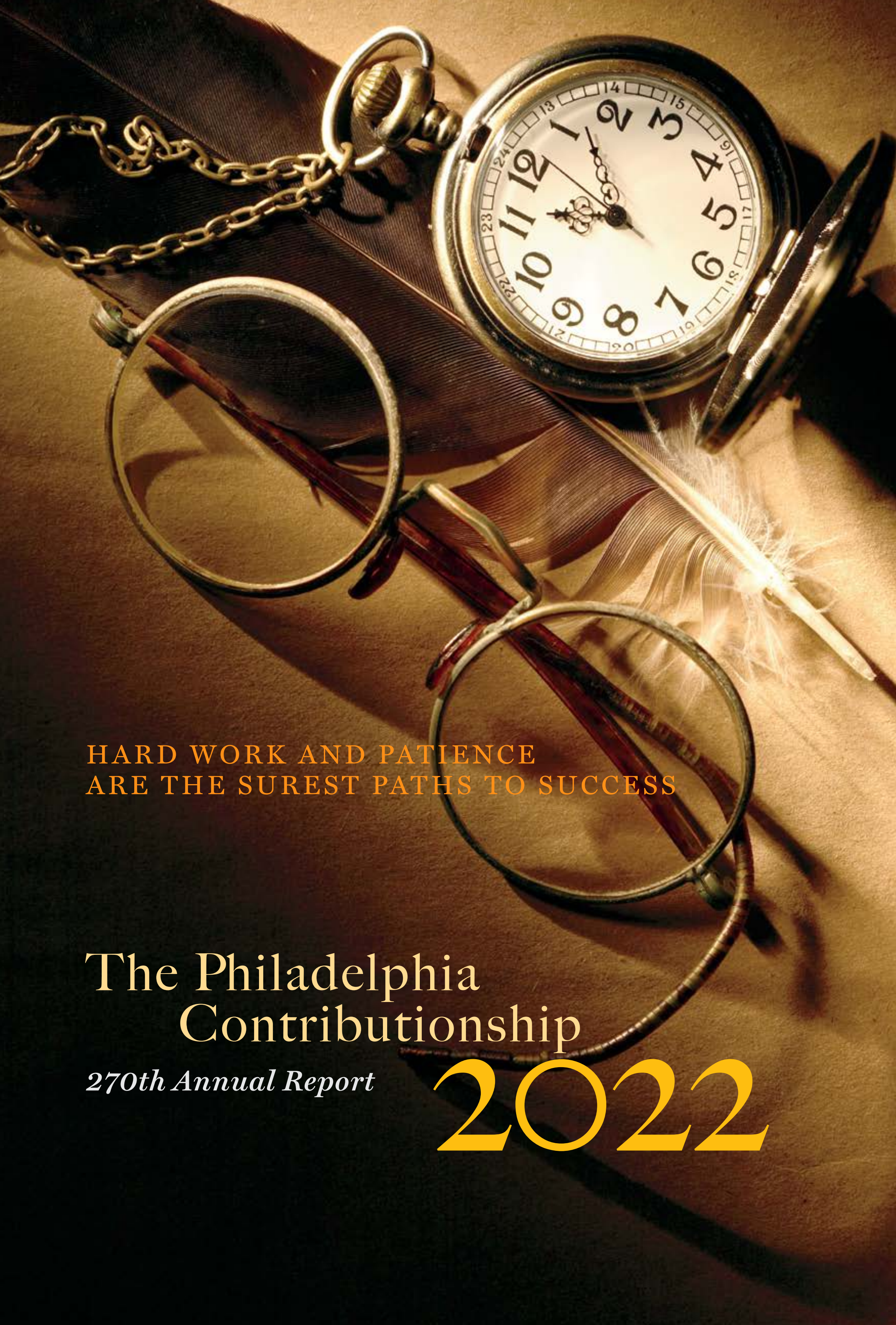

HARD WORK AND PATIENCE
ARE THE SUREST PATHS TO SUCCESS

The Philadelphia Contributionship

270th Annual Report

2022

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

The Philadelphia Contributionship's (TPC) Vision has always been to be the most reliable partner for people seeking to protect their homes and futures. We take great pride in having earned that distinction and have spent 271 years ensuring we consistently deliver that experience to our customers.

One of the founders of TPC, Ben Franklin, has a famous quote embodying the very spirit of the people who work here: "Hard work and patience are the surest paths to success." Having faced unforeseen challenges in 2020 and 2021, we followed these wise words, identifying solutions and then making the necessary adjustments. As a result, we were able to realize the benefits of those actions throughout 2022 while continuing to meet the challenges of new obstacles.

Among our more significant challenges, changing weather patterns have become the new normal. With the inability to rely on what has historically, to some extent, been predictable, we have had to create new ways to ensure TPC has sufficient resources when our customers need us most. While we have embraced and implemented cutting-edge technology, newer technology is constantly emerging, requiring us to look for cost-effective solutions to keep up. And a challenging economy continues to impact the rising costs in home repairs.

Driven by these issues and our determination to best serve our customers, both Vector Security and TPC continually modify our business practices. Our focus is and always will be to provide an outstanding customer experience and create value for the products and services we provide to meet our customers' needs.

Insurance Group Operations

Insurance operations were ahead of plan due in part to a less severe hurricane season until late in December when Winter Storm Elliott blanketed the region in snow, freezing temps and high winds. On December 24th, Elliott hit our region and was eventually described as a bomb cyclone, an uncommon weather term that has been emerging over the last decade. This storm produced more than 300 claims for a net loss of $5.7 million. Overall, we were impacted by twenty weather catastrophes in 2022, which resulted in more than 1,300 reported claims and generated an estimated $18.0 million in losses.

Direct written premium was $141.1 million in 2022, down 7.0% from 2021. Net premiums earned decreased 8.6% to $122.7 million. Gross investment income for the year was $10.1 million, consistent with 2021. Net losses on investments were $60.2 million, bringing total revenue from insurance operations for the year to $72.6 million.

Losses and loss adjustment expenses, at $86.6 million, improved 18.8% compared to 2021. This 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 $128.1 million for the year. Overall, after paying $0.8 million of dividends to our members, the insurance operation produced loss before income taxes of $56.2 million.

Notable 2022 Events:

- TPC's financial strength rating from A.M. Best was once again affirmed at A- (Excellent).
- TPC received an A- rating from Kroll Bond Rating Agency.
- 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 home inspections and automating mortgage changes.

Security Group Operations

The Vector Security and ADS Security branches serve residential, commercial, and regional multi-site businesses. Residential offerings include smart devices for homes (locks, doorbell cameras, garage door controls, thermostats, external cameras, and lighting) integrated with life safety and security equipment. Our commercial product offerings include intrusion and fire detection, access control, video monitoring and integration with other onsite systems such as HVAC and lighting. Vector Security Networks, our national account brand, is a leader in the retail, quick-serve convenience stores, restaurants, and distribution centers. Services provided to these markets include network services, intrusion protection, fire monitoring, access control, video monitoring, environmental and shooter detection.

Vector Security, Inc. produced earnings before interest, taxes, depreciation, and amortization of $49.0 million. Total revenues for the year were $402.7

million, $19.2 million more than 2021. 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. Lower earnings were due to inflation impact on costs to deliver our services, as well as, longer term investments being made as part of our Business Transformation Project. Vector Security continues to be a strong contributor to our consolidated operation.

Consolidated Balance Sheet

Total assets as of December 31, 2022, are $958.2 million, down 10.0% from 2021. Total liabilities decreased 4.6% to $613.4 million. Total equity as of December 31, 2022, is $344.8 million, down 18.2% from 2021. The strength of TPC's financial condition is intact and the company is well positioned to meet our commitments for the long run.

It is the end of an era at The Philadelphia Contributionship. After 48 years with the Company, our Archivist/Historian, Carol Smith, will be retiring from TPC in early 2023. She has provided such a wealth of history and expertise that has helped guide this company since 1975. Carol's passion for the job was evident whenever she provided tours to groups or individuals and she brought the history of the Company alive. We thank her for her many decades of service and wish her well in the next chapter of her life.

On May 3, 2022, the Board appointed three new directors: Patrick P. Coyne, II, Retired President/CEO of Delaware Investments and Founder/Partner of Windy Bay Partners, Caroline De Marco, Vice President, Genentech and Susan H. McEvoy, CFP, Managing Director, Investment Officer, Hirtle, Callaghan & Co. They all bring a wealth of experience in various aspects of business and are welcome additions to the Board.

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

Scott M. Jenkins
Chairman of the Board

Thomas M. Greenfield

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, 2022 and 2021, and the related consolidated statements of operations, comprehensive (loss) income, equity 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, 2022 and 2021 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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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 incurred and paid claims development information, and the historical claims duration information related to Note 4 on pages 34–36 be presented to supplement the basic 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

Baker Tilly US, LLP

Philadelphia, Pennsylvania

March 3, 2023

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

(In Thousands, Unless Otherwise Noted)

ASSETS	2022	2021
INSURANCE GROUP ASSETS		
Investments:		
Fixed income securities	**$ 139,223**	$ 161,627
Convertible bonds	**23,663**	24,076
Preferred stocks	**370**	495
Convertible preferred stocks	**1,109**	1,164
Common stocks	**312,504**	372,991
Other invested assets	**41,375**	41,424
	518,244	601,777
Cash and cash equivalents	**28,390**	24,088
Reinsurance recoverable and receivable	**26,575**	23,649
Prepaid reinsurance premiums	**4,216**	4,547
Premiums receivable	**5,310**	5,489
Accrued income from investments	**1,362**	1,346
Income tax recoverable	**1,430**	2,518
Deferred acquisition costs	**14,514**	15,000
Property and equipment, net	**2,280**	2,259
Other assets	**3,084**	3,423
Total Insurance Group assets	**605,405**	684,096
SECURITY GROUP ASSETS		
Current assets:		
Cash and cash equivalents	**2,944**	827
Trade accounts receivable, less allowance for doubtful accounts of $1,779 in 2022 and $1,939 in 2021	**36,392**	29,395
Unbilled revenue	**33,181**	29,655
Contract assets	**1,252**	1,328
Inventories	**9,650**	7,562
Prepaid expenses and other current assets	**3,852**	3,082
Interest rate swap receivable	**1,227**	–
Income taxes receivable	**–**	10,184
Total current assets	**88,498**	82,033
Property and equipment, net	**32,851**	36,036
Intangible assets, net	**86,124**	102,204
Goodwill, net	**90,727**	109,105
Deferred income taxes	**25,918**	29,908
Contract assets, noncurrent	**1,657**	1,935
Right-of-use assets – operating leases, net	**6,138**	–
Other noncurrent assets	**1,833**	1,439
Deferred charges	**19,068**	17,991
Total Security Group assets	**352,814**	380,651
Total assets	**$ 958,219**	$ 1,064,747

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

LIABILITIES AND EQUITY	2022	2021
INSURANCE GROUP LIABILITIES		
Unpaid losses and loss adjustment expenses	**$ 110,282**	$ 115,309
Unearned premiums	**74,949**	79,826
Advance premiums	**2,943**	2,925
Deposit premiums	**14,900**	14,743
Deferred income taxes	**28,878**	44,665
Ceded premium payable	**1,214**	1,506
Other liabilities	**14,630**	13,279
Total Insurance Group liabilities	**247,796**	272,253
SECURITY GROUP LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	**5,358**	3,890
Accounts payable and accrued expenses	**58,130**	56,941
Customer deposits	**1,203**	1,177
Unearned revenue	**22,959**	22,076
Contract liabilities	**104**	168
Purchase holdbacks	**1,547**	1,580
Interest rate swap payable	**–**	1,248
Total current liabilities	**89,301**	87,080
Long-term debt, less current maturities	**258,653**	269,873
Unearned revenue	**2,597**	2,308
Contract liabilities, noncurrent	**197**	204
Interest rate swap payable, noncurrent	**–**	503
Other long-term liabilities	**14,900**	10,885
Total Security Group liabilities	**365,648**	370,853
Total liabilities	**613,444**	643,106
EQUITY		
Unassigned equity	**349,059**	417,931
Accumulated other comprehensive (loss) income	**(4,284)**	3,710
Total equity	**344,775**	421,641
Total liabilities and equity	**$ 958,219**	$ 1,064,747

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2022 AND 2021

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

	2022	2021
INSURANCE GROUP		
Revenue:		
Net premiums earned	**$ 122,664**	$ 134,220
Gross investment income	**10,131**	10,148
Net realized and unrealized (losses) gains on investments	**(60,159)**	75,086
Total revenue	**72,636**	219,454
Losses and expenses:		
Losses and loss adjustment expenses	**86,602**	106,589
Underwriting expenses	**38,679**	40,280
Investment expenses	**2,776**	3,084
Total losses and expenses	**128,057**	149,953
(Loss) income before other income (loss), dividends to policyholders, and income tax (benefit) expense	**(55,421)**	69,501
Other income (loss), net	**77**	(168)
Dividends to policyholders	**(821)**	(867)
Insurance Group (loss) income before income tax (benefit) expense	**(56,165)**	68,466
SECURITY GROUP		
Revenue	**402,685**	383,466
Cost of sales	**243,147**	227,529
Gross profit	**159,538**	155,937
Operating expenses:		
Selling, general, and administrative	**110,518**	102,459
Depreciation	**13,247**	13,524
Amortization and impairment of intangible assets and goodwill	**46,172**	49,118
Total operating expenses	**169,937**	165,101
Operating loss	**(10,399)**	(9,164)
Other:		
Interest expense	**(11,725)**	(9,729)
Other income (expense), net	**21**	(280)
Security Group loss before income tax benefit	**(22,103)**	(19,173)
(Loss) Income before income tax expense	**(78,268)**	49,293
Income tax (benefit) expense	**(9,647)**	7,752
Net (loss) income	**$ (68,621)**	$ 41,541

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
YEARS ENDED DECEMBER 31, 2022 AND 2021

(In Thousands, Unless Otherwise Noted)

	2022	2021
Net (loss) income	**$ (68,621)**	$ 41,541
Other comprehensive loss, net of tax:		
Unrealized losses on securities available-for-sale:		
Unrealized net holding losses arising during the year (net of tax of ($2,690) in 2022 and ($902) in 2021)	**(10,121)**	(3,392)
Less reclassification adjustment for net realized gains included in net income (net of tax of $12 in 2022 and $24 in 2021)	**45**	92
	(10,166)	(3,484)
Cash flow hedge:		
Change in fair value of cash flow hedge (net of tax of $553 in 2022 and $125 in 2021)	**2,081**	470
Less reclassification adjustment for settlement of cash flow hedge included in net income (net of tax of ($24) in 2022 and ($489) in 2021)	**(91)**	(1,839)
	2,172	2,309
Defined benefit pension plan:		
Change in actuarial assumptions	**–**	–
Asset gain and amortization of net loss	**–**	598
Experience loss	**–**	–
Defined benefit pension plan, net actuarial gain arising during the year (net of tax of $0 in 2022 and $159 in 2021)	**–**	598
Other comprehensive loss	**(7,994)**	(577)
Comprehensive (loss) income	**$ (76,615)**	$ 40,964

CONSOLIDATED STATEMENTS OF EQUITY
YEARS ENDED DECEMBER 31, 2022 AND 2021

(In Thousands, Unless Otherwise Noted)

	Unassigned Equity	Accumulated Other Comprehensive Income	Total
BALANCE, JANUARY 1, 2021	$ 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**
Net loss	**(68,621)**	**–**	**(68,621)**
Adoption of accounting, standard, net of tax	**(251)**	**–**	**(251)**
Other comprehensive loss, net of tax	**–**	**(7,994)**	**(7,994)**
BALANCE, DECEMBER 31, 2022	**$ 349,059**	**$ (4,284)**	**$ 344,775**

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

(In Thousands, Unless Otherwise Noted)

	2022	2021
CASH FLOW FROM OPERATING ACTIVITIES		
Net (loss) income	**$ (68,621)**	$ 41,541
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized and unrealized gains on investments	**60,159**	(75,086)
Depreciation, amortization and impairment	**61,864**	64,769
Deferred income taxes	**(10,072)**	4,708
Gains on disposals of property and equipment	**(12)**	333
Change in assets and liabilities, net of effects of acquisitions:		
Reinsurance recoverable and receivable	**(2,926)**	(5,738)
Prepaid reinsurance premiums	**331**	291
Premiums receivable	**179**	4,105
Accrued income from investments	**(16)**	68
Deferred acquisition costs	**486**	1,494
Unpaid losses and loss adjustment expenses	**(5,027)**	(2,763)
Unearned premiums	**(4,877)**	(7,380)
Advance premiums	**18**	958
Deposit premiums	**157**	(68)
Other liabilities	**1,158**	325
Income taxes and other receivables	**11,272**	6,675
Prepaid expenses and other assets	**(835)**	1,218
Right-of-use assets, operating leases	**(6,138)**	–
Trade accounts receivable, unbilled revenue, and inventories	**(12,257)**	(11,171)
Accounts payable, accrued expenses and purchase holdbacks	**5,204**	12,259
Unearned revenue and customer deposits	**1,127**	753
Deferred charges	**(1,077)**	(867)
Net cash provided by operating activities	**30,097**	36,424

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2022 AND 2021

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

	2022	2021
CASH FLOW FROM INVESTING ACTIVITIES		
Cash paid for acquisitions, net of cash received	**(11,747)**	(13,981)
Purchases of property, plant and equipment	**(9,844)**	(9,239)
Proceeds from disposals of property and equipment	**285**	257
Purchases of fixed income securities	**(23,126)**	(38,279)
Purchases of convertible bonds	**(16,513)**	(17,583)
Purchases of common stocks	**(68,587)**	(23,232)
Purchases of convertible preferred stocks	**(476)**	(720)
Purchases of other invested assets	**(626)**	–
Proceeds from sales of fixed income securities	**2,826**	3,223
Proceeds from sales of convertible bonds	**14,194**	18,419
Proceeds from maturities/calls of fixed income securities	**31,435**	25,359
Proceeds from the sales of common stocks	**70,170**	39,623
Proceeds from the sales of convertible preferred stocks	**483**	1,262
Proceeds from the sales of other invested assets	**–**	24
Net cash used in investing activities	**(11,526)**	(14,867)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from revolving credit agreements	**199,110**	168,551
Payments on revolving credit agreements	**(207,121)**	(187,523)
Principal payments on capital leases	**(2,783)**	(2,754)
Cash paid for debt issuance costs	**(1,358)**	–
Net cash used in financing activities	**(12,152)**	(21,726)
Net increase (decrease) in cash and cash equivalents	**6,419**	(169)
CASH AND CASH EQUIVALENTS, BEGINNING	**24,915**	25,084
CASH AND CASH EQUIVALENTS, ENDING	**$ 31,334**	$ 24,915
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	**$ 10,119**	$ 8,553
Income taxes paid	**$ 500**	$ 2,000
SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
In conjunction with acquisitions, the Security Group:		
Recorded purchase holdbacks	**$ 1,095**	$ 1,212

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 120,000 policyholders at December 31, 2022.

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 357,000 residential and commercial customers as of December 31, 2022. No such customer accounted for more than 10 percent of the December 31, 2022 and 2021 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.

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, 2022 or 2021.

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, 2022 and 2021 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 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 $16,651 and $16,350 at December 31, 2022 and 2021, 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, 2022 and 2021 was $301 and $419, 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.

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

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

Balances consist of the following as of December 31:

	2022	2021
Land	$ 200	$ 200
Buildings and improvements	6,639	6,667
Home security package systems	45,442	43,875
Furniture and fixtures	5,166	5,106
Vehicles and equipment	39,246	38,151
Construction-in-progress	1,604	76
	98,297	94,075
Less accumulated depreciation	(65,446)	(58,039)
Total property and equipment	$ 32,851	$ 36,036

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.

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 $7,074 and $6,572 for the years ended December 31, 2022 and 2021, 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 no impairment expense during 2022. Vector recorded impairment expense, through amortization expense, on their customer service agreements of $444 during 2021.

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.

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, 2022 or 2021.

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.

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

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 (loss) income.

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, 2021	$ 8,460	$ (3,575)	$ (598)	$ 4,287
Other comprehensive income (loss) before reclassifications	(3,392)	470	598	(2,324)
Amounts reclassified from accumulated other comprehensive income (loss)	(92)	1,839	–	1,747
Balance, December 31, 2021	4,976	(1,266)	–	3,710
Other comprehensive income (loss) before reclassifications	(10,121)	2,081	–	(8,040)
Amounts reclassified from accumulated other comprehensive loss	(45)	91	–	46
Balance, December 31, 2022	**$ (5,190)**	**$ 906**	**$ –**	**$ (4,284)**

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

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

	AMOUNT RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME		AFFECTED LINE ITEM IN THE CONSOLIDATED STATEMENT OF OPERATIONS
	2022	2021	
Unrealized gain on securities available-for-sale:			
Realized gains on sale of securities	**$ 57**	$ 116	NET REALIZED GAINS ON INVESTMENTS
Gain on cash flow hedges:			
Interest rate derivative contracts	**(115)**	(2,328)	INTEREST EXPENSE
Total reclassifications before income tax expense	**$ (58)**	$ (2,212)	
Less income tax benefit	**(12)**	(465)	
Total reclassifications net of income tax benefit	**$ (46)**	$ (1,747)	

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

Recently Adopted Accounting Pronouncements

On February 25, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016–02, Leases (ASC Topic 842). ASC Topic 842 requires lessees to recognize a right of use asset and a lease liability for substantially all leases and to disclose key information about leasing arrangements. The Company was already disclosing key information for vehicle finance leases (previously defined as "capital leases"). The impact of the adoption for the Company was the onboarding of right of use assets and lease liabilities related to real estate operating leases, as well as office equipment finance leases.

The Company adopted this standard and its related amendments effective January 1, 2022 using the modified retrospective transition method, whereby the cumulative effect of initially applying the new standard is recognized as an adjustment to the opening balance of stockholder's equity. Results for reporting periods beginning on or after January 1, 2022 are presented under this new standard, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. As part of the adoption, the Company elected lessee practical expedients to not separate non lease components from lease components for leases in the office equipment category.

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

On January 1, 2022, due to the cumulative impact of adopting ASC Topic 842, the Company recorded a net decrease to opening balance of stockholder's (deficit) equity of $251, which is net of tax of $22. The impact to the line items in the consolidated balance sheet were as follows:

	BALANCE AT DECEMBER 31, 2021	LEASE STANDARD ADOPTION ADJUSTMENT	BALANCE AT DECEMBER 31, 2022
Assets:			
Vehicles and equipment	$ 38,151	806	38,957
Accumulated depreciation	(58,039)	(476)	(58,515)
Right-of-use assets – operating leases, net	–	9,034	9,034
Deferred income taxes	29,908	(22)	(29,886)
Liabilities:			
Current maturities of long-term debt	$ 3,890	206	4,096
Accounts payable and accrued expenses	56,941	3,991	60,932
Long-term debt – less current maturities	269,873	147	270,020
Other long-term liabilities	10,885	5,249	16,134
Stockholder's (deficit) equity:			
Accumulated deficit	$ (53,931)	(251)	(54,182)

Refer to Note 10 "Leases" for further discussion related to the impact of adopting ASC Topic 842. The adoption did not have a material effect on the consolidated statements of operations or cash flows.

Subsequent Events

In preparing these consolidated financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 3, 2023, the date the consolidated financial statements were available to be issued.

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

Note 2 Investments

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

	2022			
	COST OR AMORTIZED COST	**GROSS UNREALIZED GAINS**	**GROSS UNREALIZED LOSSES**	**ESTIMATED FAIR VALUE**
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 1,754**	**$ 6**	**$ (49)**	**$ 1,711**
Obligations of states and political subdivisions	**44,537**	**444**	**(3,750)**	**41,231**
Corporate securities	**64,520**	**1,882**	**(3,573)**	**62,829**
Mortgage-backed and asset-backed securities	**35,278**	**899**	**(2,725)**	**33,452**
Total fixed income securities	**146,089**	**3,231**	**(10,097)**	**139,223**
Preferred stocks	**473**	**2**	**(105)**	**370**
Common stocks	**154,486**	**159,755**	**(1,737)**	**312,504**
Total	**$ 301,048**	**$ 162,988**	**$ (11,939)**	**$ 452,097**

	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	157,543	216,540	(1,092)	372,991
Total	$ 313,641	$ 223,422	$ (1,950)	$ 535,113

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

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

	COST		ESTIMATED FAIR VALUE	
	2022	2021	**2022**	2021
Convertible bonds	**$ 22,947**	$ 21,463	**$ 23,663**	$ 24,076
Convertible preferred stocks	**$ 1,229**	$ 1,128	**$ 1,109**	$ 1,164

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

	COST		ESTIMATED FAIR VALUE	
	2022	2021	**2022**	2021
Other invested assets	**$ 44,591**	$ 45,216	**$ 41,375**	$ 41,424

The amortized cost and estimated fair value of fixed income securities and convertible bonds at December 31, 2022, 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	**$ 12,021**	**$ 12,161**
Due after one year through five years	**55,470**	**53,428**
Due after five years through ten years	**42,824**	**44,354**
Due after ten years	**23,321**	**19,491**
	133,636	**129,434**
Mortgage-backed and asset-backed securities	**35,278**	**33,452**
Total	**$ 168,914**	**$ 162,886**

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

	2022	2021
Realized gains on sales of investments	**$ 9,873**	$ 27,534
Realized losses on sales of investments	**(10,932)**	(478)
Change in fair value of convertible securities	**(2,054)**	(698)
Change in fair value of equity securities	**(57,622)**	46,323
Change in fair value of other invested assets	**576**	2,422
Other-than-temporary impairment charges	**–**	(17)
	$ (60,159)	$ 75,086

The Company had on deposit, as required by various state regulatory agencies, fixed income securities with a fair value of $2,815 and $2,842 and cash equivalents of $1,114 and $1,053 at December 31, 2022 and 2021, respectively.

(Dollars In Thousands, Unless Otherwise Noted)

As of December 31, 2022 and 2021, the Company's fixed income portfolio had gross unrealized losses of $10,097 and $858, 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, 2022:						
Fixed income securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 1,600**	**$ (49)**	**$ —**	**$ —**	**$ 1,600**	**$ (49)**
Obligations of states and political subdivisions	**4,301**	**(3,659)**	**296**	**(91)**	**4,597**	**(3,750)**
Corporate securities	**37,535**	**(3,507)**	**456**	**(66)**	**37,991**	**(3,573)**
Mortgage-backed and asset-backed securities	**29,886**	**(2,613)**	**9,676**	**(112)**	**39,562**	**(2,725)**
Total fixed income securities	**$ 73,322**	**$ (9,828)**	**$ 10,428**	**$ (269)**	**$ 83,750**	**$ (10,097)**

	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)

Note 3 Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investments carried at NAV may be adjusted based upon management's assumptions; therefore, any withdrawal, transfer, or sale of the limited partnership interest is subject to the general partner's discretion. At December 31, 2022 and 2021, the fair value using net asset value for the Company's other invested assets were $41,375 and $41,424, respectively.

At December 31, 2022 and 2021, one investment in a limited partnership included in other invested assets comprising 32 percent and 42 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, 2022 and 2021, one investment in a limited partnership included in other invested assets comprising 9 percent and 11 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, 2022 and 2021, one investment in a master limited partnership included in other invested assets comprising 40 percent and 31 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 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.

At December 31, 2022 and 2021, one investment in a limited partnership included in other invested assets comprising 12 percent and 11 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, 2022 and 2021, one investment in a limited partnership included in other invested assets comprising 4 percent and 3 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.

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

At December 31, 2022 and 2021, one investment in a limited partnership included in other invested assets comprising 4 percent and 2 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.

The following table summarizes fair value measurements by level within the fair value hierarchy at December 31, 2022 and 2021 for assets and liabilities measured at fair value on a recurring basis:

	2022			
		FAIR VALUE MEASUREMENTS USING:		
DESCRIPTION	TOTAL	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Assets				
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 1,711**	**$ 1,711**	**$ —**	**$ —**
Obligations of states and political subdivisions	**41,231**	**—**	**41,231**	**—**
Corporate securities	**62,829**	**—**	**62,829**	**—**
Mortgage-backed and asset-backed securities	**33,452**	**—**	**33,452**	**—**
Total fixed income securities	**139,223**	**1,711**	**137,512**	**—**
Convertible bonds	**23,663**	**—**	**3,510**	**20,153**
Preferred stocks	**370**	**—**	**—**	**370**
Convertible preferred stocks	**1,109**	**—**	**1,109**	**—**
Common stocks	**312,504**	**312,369**	**—**	**135**
Total bonds and stocks	**$ 476,869**	**$ 314,080**	**$ 142,131**	**$ 20,658**
Interest rate swap receivable	**$ 1,227**	**$**	**$ 1,227**	**$**

	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

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

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.

Note 4 Liability for Unpaid Losses and Loss Adjustment Expenses

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

	2022	2021
Balance as of January 1	**$ 115,309**	$ 118,072
Less reinsurance recoverable	**(22,425)**	(16,708)
Net balance at January 1	**92,884**	101,364
Incurred related to:		
Current year	**96,322**	117,585
Prior years	**(9,720)**	(10,996)
Total incurred	**86,602**	106,589
Paid related to:		
Current year	**61,356**	82,720
Prior years	**31,146**	32,349
Total paid	**92,502**	115,069
Net balance as of December 31	**86,984**	92,884
Plus reinsurance recoverable	**23,298**	22,425
Balance at December 31	**$ 110,282**	$ 115,309

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 2022 and 2021 by $9,720 and $10,996, respectively. The decrease in 2022 is due to better than expected development of losses incurred, primarily in the homeowners property and special property segments, and primarily related to the 2020 and 2021 accident years. 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 following tables present information about incurred and paid claims development as of December 31, 2022 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, 2022. The tables include unaudited information about incurred and paid claims development for the years ended December 31, 2013 through 2022, which is presented as required supplementary information.

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

Homeowners

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	UNAUDITED									AS OF DECEMBER 31, 2022		
ACCIDENT YEAR	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	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	44,211	74	4,851
2014		67,879	64,035	64,722	64,678	63,785	63,662	63,477	63,377	63,344	21	7,038
2015			59,902	55,851	54,839	54,783	54,029	53,664	53,565	53,510	82	5,580
2016				51,560	51,007	49,720	50,084	48,683	48,395	48,370	97	5,464
2017					52,190	52,034	52,087	51,373	51,209	50,519	531	6,355
2018						78,829	78,111	76,520	75,901	75,637	1,066	10,341
2019							94,843	93,854	91,224	90,817	1,883	10,907
2020								95,093	91,720	88,934	4,120	10,975
2021									80,718	79,945	5,476	10,485
2022										67,988	13,663	5,193
									Total	$663,274		

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

	UNAUDITED									
ACCIDENT YEAR	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	29,281	39,921	41,195	42,637	43,946	43,867	43,862	43,909	43,949	44,042
2014		48,758	56,644	59,671	62,226	63,191	63,386	63,306	63,323	63,323
2015			40,780	49,251	51,165	52,116	53,002	53,328	53,304	53,304
2016				35,608	44,198	45,782	47,152	47,694	47,866	48,073
2017					33,973	44,966	47,173	48,496	49,239	49,612
2018						55,747	70,668	71,576	73,218	74,129
2019							63,357	82,996	85,818	87,772
2020								62,562	79,612	82,275
2021									58,980	73,076
2022										42,729
									Total	$618,334
All outstanding liabilities before 2013, net of reinsurance										6,540
Liabilities for losses and loss adjustment expenses, net of reinsurance										$ 51,480

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

Other Liability

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	UNAUDITED										AS OF DECEMBER 31, 2022	
ACCIDENT YEAR	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	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	7,806	4	251
2014		6,909	8,493	10,031	10,554	10,242	9,921	9,945	9,917	9,894	19	272
2015			7,888	8,125	8,108	8,016	7,649	7,353	7,163	7,145	36	283
2016				7,264	7,171	6,851	7,279	6,755	6,577	6,473	169	241
2017					6,792	6,464	6,098	5,862	5,510	5,364	562	261
2018						6,685	6,732	7,711	7,435	6,861	1,017	277
2019							7,408	6,985	7,219	7,336	1,661	259
2020								6,204	6,304	5,483	3,234	139
2021									4,987	6,095	2,655	136
2022										3,626	2,738	59
									Total	$66,082		

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

	UNAUDITED									
ACCIDENT YEAR	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	191	770	2,357	5,473	7,282	7,800	7,800	7,802	7,802	7,802
2014		20	1,484	4,338	8,209	9,474	9,825	9,827	9,873	9,874
2015			174	904	3,414	5,559	7,004	7,089	7,094	7,094
2016				167	1,146	2,819	5,220	5,992	6,150	6,153
2017					75	770	2,425	3,533	4,208	4,552
2018						104	869	2,650	4,151	5,101
2019							86	479	2,178	3,525
2020								54	328	1,026
2021									180	1,192
2022										10
									Total	$ 46,330
All outstanding liabilities before 2013, net of reinsurance										3,596
Liabilities for losses and loss adjustment expenses, net of reinsurance										$ 23,348

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

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:

	DECEMBER 31, 2022
Net outstanding liabilities	
Homeowners	$ 51,480
Other liability	23,348
Other short-duration insurance lines	5,705
Liabilities for unpaid losses and allocated loss adjustment expenses, net of reinsurance	80,533
Reinsurance recoverable on unpaid claims:	
Homeowners	18,204
Other liability	2,837
Other short-duration insurance lines	2,257
Total reinsurance recoverable on unpaid losses	23,298
Unallocated loss adjustment expenses	6,451
Total gross liability for unpaid losses and loss adjustment expenses	$ 110,282

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 were no changes in methodology from the prior year.

The following is supplementary information about average historical claims duration as of December 31, 2022

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

	UNAUDITED									
Years	1	2	3	4	5	6	7	8	9	10
Homeowners	70.8%	20.0%	3.3%	2.7%	1.7%	0.4%	0.1%	0.0%	0.0%	0.0%
Other Liability	1.7%	10.7%	27.9%	30.7%	15.5%	4.0%	0.0%	0.1%	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 2022 and 2021 and had ceded premiums earned in 2022 and 2021 of $23,572 and $25,220, respectively. Losses and loss adjustment expenses are net of reinsurance recoveries of $13,088 and $17,532 in 2022 and 2021, respectively. Amounts paid to reinsurers related to the unexpired portion of reinsured contracts were $4,216 and $4,547 as of December 31, 2022 and 2021, respectively.

The Insurance Group had no significant concentration in risk from any one unaffiliated reinsurer as of December 31, 2022 and 2021.

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

Note 6 Dividends From Subsidiaries and Statutory Financial Information

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

The Contributionship and its subsidiaries are restricted by law as to the amount of dividends they may pay without the approval of regulatory authorities. During 2023, the maximum amount of dividends that can be paid by the Contributionship without such approval is $34,674. The Contributionship paid no ordinary dividends during 2022 and 2021.

The surplus of the Contributionship and its subsidiaries, as determined in accordance with statutory accounting practices, is $346,737 and $388,656 at December 31, 2022 and 2021, respectively. The net income of the Contributionship and its subsidiaries, as determined in accordance with statutory accounting practices, is $1,611 and $18,654 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021, the Contributionship and its subsidiaries maintained statutory-basis surplus in excess of the minimum prescribed risk-based capital requirements. As of December 31, 2022 and 2021, 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:

	2022	2021
Balance as of January 1	**$ 109,105**	$ 127,483
Goodwill acquired during the year	**—**	—
Amortization	**(18,378)**	(18,378)
Balance as of December 31	**$ 90,727**	$ 109,105

The amortization period for goodwill is 10 years.

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

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

	2022		2021	
	GROSS CARRYING AMOUNT	**ACCUMULATED AMORTIZATION**	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Customer service agreements	**$ 204,508**	**$ 127,054**	$ 259,370	$ 170,678
Customer relationships	**10,460**	**7,544**	10,460	6,739
Covenants not to compete	**117**	**72**	123	71
Covenants not to solicit	**–**	**–**	2,084	2,084
Trade Names	**20,150**	**14,441**	20,150	10,411
Total	**$ 235,235**	**$ 149,111**	$ 292,187	$ 189,983

Amortization expense, excluding impairment charges, for other intangible assets was $27,794 and $30,296 for the years ended December 31, 2022 and 2021, respectively.

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

2023	$ 40,979
2024	32,258
2025	27,052
2026	24,341
2027	22,173
Thereafter	30,048
Total	$ 176,851

Note 8 Acquisitions

Vector acquired selected accounts from various Company authorized dealers located in various states. The total purchase price for these accounts was $11,672 and $14,050 in 2022 and 2021, 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 6,400 and 7,400 accounts in 2022 and 2021. 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.

Note 9 Borrowings and Credit Arrangements

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

	2022	2021
Revolving credit facility - variable interest rate (approximately 6.1% and 1.7% as of December 31, 2022 and 2021, respectively)	**$ 260,854**	$ 268,976
Capital leases, bearing interest at rates ranging from 2% to 8% as of December 31, 2022 and 2021	**3,157**	4,787
	264,011	273,763
Less current maturities	**(5,358)**	(3,890)
Long-term debt, less current maturities	**$ 258,653**	$ 269,873

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

During 2022, Vector amended its revolving credit facility primarily to reduce the revolving credit commitments from $450,000 to $315,000, to transition the reference rate from LIBOR to Term SOFR, and to extend the term through December 1, 2027. Interest on the outstanding amounts under the revolving credit facility is computed at either a base rate or Term SOFR rate plus a SOFR adjustment, plus a scaling interest rate spread based upon a total consolidated indebtedness to eligible recurring monthly revenue ratio. Borrowings under the revolving credit facility are collateralized by Vector's assets, including the customer service agreements. As a result of the amendment, during 2022, Vector wrote off $599 of debt issuance costs that were deferred in connection with the previous facility. These amounts were charged to interest expense in the consolidated statements of operations and comprehensive loss.

Vector entered into a 36 month interest rate swap agreement with a notional amount of $25,000 that expired 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. These derivatives are designated as cash flow hedges and are recognized on the consolidated balance sheets at fair value. Changes in fair value are recorded in other comprehensive income, net of taxes. Under the terms of the swap agreements, Vector receives variable rate interest payments based on the rate as defined in the swap agreement and makes fixed rate payments ranging from 1.81% – 2.63%. The fair value of the swaps is recorded as an interest rate swap receivable of $1,227 on the consolidated balance sheets as of December 31, 2022. The fair value of the swaps is recorded as an interest rate swap liability of $1,751 on the consolidated balance sheets as of December 31, 2021.

Vector must pay a quarterly commitment fee based on the Leverage Ratio. At December 31, 2022, the Company was paying a quarterly commitment fee of approximately 0.20% on the available unused portion of the revolving credit facility. As of December 31, 2022, the available unused portion of the revolving credit facility was $52,696.

Under Vector's revolving credit facility, approximately $1,450 and $1,565 were committed for outstanding letters of credit as of December 31, 2022 and 2021. There were no amounts drawn on the letters of credit as of December 31, 2022 and 2021.

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, 2022 and 2021, Vector was in compliance with all such covenants.

The aggregate maturities of debt principal for Vector as of December 31, 2022 are as follows:

2023	$ 3,354
2024	–
2025	–
2026	–
2027	257,500
Total	$ 260,854

Note 10 Leases

Vector leases real estate, vehicles, and office equipment from various counterparties with lease terms and maturities through 2027 as part of normal operations. Vector's right of use assets and lease liabilities primarily represent lease payments fixed at the commencement of a lease. Lease payments are recognized as lease expense on a straight line basis over the lease term, which is determined as the non cancelable period, including periods in which termination options are reasonably certain of not being exercised, and periods in which renewal options are reasonably certain of being exercised. Right of use assets under both finance leases and operating leases are stated at the present value of minimum lease payments. The discount rate for the vehicle finance leases is determined using the rate implicit in the leases. The discount rate for the real estate and office equipment leases is determined using Vector's incremental borrowing rate coinciding with the lease term at the commencement of a lease. The following table presents the amounts reported in Vector's consolidated balance sheets related to operating and finance leases at December 31, 2022:

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

LEASES	CLASSIFICATION	AMOUNT
Assets:		
Non-current:		
Operating	Right-of-use asses, – operating Leases, net	$ 6,138
Finance	Vehicles and equipment, net (a)	3,138
Total right-of-use assets		$ 9,276
Liabilities		
Current:		
Operating	Accounts payable and accrued expenses	$ 3,296
Finance	Current maturities of long-term debt	2,004
Non-current:		
Operating	Other long-term liabilities	3,490
Finance	Long-term debt less current maturities	1,153
Total lease liabilities		$ 9,943

(a) Finance right of use assets are recorded net of accumulated depreciation of approximately $14,600 as of December 31, 2022.

The components of total lease expense reflected in the consolidated statements of operations and comprehensive loss for the year ended December 31, 2022 were as follows:

	2022
Lease expense:	
Operating lease expense	$ 4,323
Finance lease expense	
Amortization of right-of-use assets	2,816
Interest on lease liabilities	173
Total lease expense	$ 7,312

The following table presents cash flow and supplemental information associated with Vector's leases for the year ended December 31, 2022:

	2022
Other information:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows – operating leases	$ 4,586
Operating cash flows – finance leases	173
Financing cash flows – finance leases	2,783
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	$ 1,252
Finance leases	813

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

The following is a summary of the weighted average lease term and discount rate for operating and finance leases as of December 31, 2022:

	2022
Lease term and discount rate	
Weighted average remaining term (years):	
Operating leases	2.44
Finance leases	1.72
Weighted average discount rate:	2.02%
Operating leases	3.85%
Finance leases	

The following table presents a maturity analysis related to Vector's operating and finance leases, including interest, as of December 31, 2022:

	OPERATING LEASES	FINANCE LEASES
Maturity of lease liabilities		
2023	$ 3,379	$ 2,083
2024	2,226	945
2025	851	218
2026	460	21
2027	30	–
Total lease payments (including interest)	6,946	3,267
Less interest	160	110
Total	$ 6,786	$ 3,157

Note 11 Income Taxes

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

2022			2021		
CURRENT	**DEFERRED**	**TOTAL**	CURRENT	DEFERRED	TOTAL
$ 425	**$ (10,072)**	**$ (9,647)**	$ 3,044	$ 4,708	$ 7,752

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:

	2022	2021
Computed "expected" income tax expense	**$ (16,391)**	$ 10,366
Decrease in income taxes resulting from:		
Tax-exempt interest	**(110)**	(132)
Dividends received deduction	**(369)**	(341)
State taxes, net of federal benefit	**7,925**	—
Provision to return adjustments	**(332)**	(1,651)
Tax rate differential	**(466)**	(85)
Other, net	**96**	(405)
	$ (9,647)	$ 7,752

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

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:

	2022	2021
Insurance Group:		
Deferred income tax asset components:		
Unearned premiums and advance premiums	**$ 3,094**	$ 3,285
Unpaid losses and loss adjustment expenses	**1,067**	1,173
Other-than-temporary impairments	**970**	976
Deferred compensation	**1,304**	1,113
Foreign tax credit carryover	**1,342**	804
Unrealized investment losses	**1,178**	–
Other	**272**	264
Total deferred income tax asset	**9,227**	7,615
Deferred income tax liability components:		
Deferred acquisition costs	**(3,048)**	(3,150)
Unrealized investment gains	**(32,611)**	(46,383)
Other	**(2,446)**	(2,747)
Total deferred income tax liability	**(38,105)**	(52,280)
Net deferred income tax liability	**$ (28,878)**	$ (44,665)
Security Group:		
Deferred income tax asset components:		
Accrued expenses	**$ 4,185**	$ 4,712
Capitalized research and development	**918**	–
Net operating loss	**1,393**	1,063
Disallowed business interest expense	**1,906**	–
Inventories and accounts receivable	**1,148**	1,175
Intangible assets	**32,699**	31,587
Unearned revenue	**554**	553
Contract liabilities	**1,043**	869
Interest rate swap	**–**	502
Operating leases	**1,738**	–
Research and development credit	**73**	–
Total deferred tax asset	**45,657**	40,461
Deferred income tax liability components:		
Operating leases	**(1,572)**	–
Interest rate swap	**(314)**	–
Deferred rent	**–**	(41)
Fixed assets	**(5,044)**	(5,767)
Deferred charges	**(4,884)**	(4,745)
Total deferred income tax liability	**(11,814)**	(10,553)
Less: valuation allowance	**(7,925)**	–
Net deferred income tax asset	**$ 25,918**	$ 29,908

The valuation allowance for deferred tax assets as of December 31, 2022 and December 31, 2021 was $7,925 and $0, respectively. The net change in the total valuation allowance was an increase of $7,925 and $0 in 2022 and 2021, respectively. The increase in the valuation allowance during 2022 was related to related to the negative evidence surrounding the realizability of the state deferred tax asset, net of certain state deferred tax liabilities. For state income tax purposes, the Company has considered and weighed the available evidence, both positive and negative, to determine whether it is more likely than not that some portion, or all, of the state deferred tax assets will not be realized and has determined that it was required to establish a full valuation allowance against the state deferred tax asset.

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

As of December 31, 2022 Vector has net operating loss carryforwards for state income tax purposes which begin to expire in 2025.

As of December 31, 2022 and 2021, the liability for unrecognized tax benefits was $375 and $494, 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 2022, Vector accrued approximately $11 of interest (net of federal benefit) related to Research and Development credits. As of December 31, 2022 and 2021, a total of $15 and $36, 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, 2022 and 2021, nor has any tax related interest or penalties been recognized in the consolidated statement of operations for the years ended December 31, 2022 and 2021.

The Company's federal income tax returns for tax years ended December 31, 2018 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.

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 sent to the Insurance Group's thrift plan provider, Empower Retirement, to be utilized for the Company's year end profit share contributions.

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

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
Benefit obligation as of January 1	$ 4,941
Interest cost	–
Distributions	(4,790)
Change due to change in assumptions and experience	(151)
Benefit obligation as of December 31	–
Plan assets as of January 1	6,563
Actual return on assets	(61)
Distributions	(6,502)
Plan assets as of December 31	–
Funded status	$ –

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 $3,968 in 2022 and $3,687 in 2021.

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 $1,156 and $1,509 in 2022 and 2021, 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 $826 in 2022 and $591 in 2021. Amounts accrued under the plan were $12,549 and $11,501 as of December 31, 2022 and 2021, respectively.

The Company provides certain postretirement health care benefits. Net periodic postretirement benefit cost for 2022 and 2021 was $29 and $31, 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 4.67 percent and 2.08 percent in 2022 and 2021, respectively.

Directors & Officers

Directors

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

Patrick P. Coyne, II
Retired President/CEO Delaware Investments
Founder/Partner Windy Bay Partners

Bruce M. Eckert
Founder, Eastern Insurance Holdings, Inc.

Caroline De Marco
Vice President, Genentech

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

Susan H. McEvoy, CFP
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Pamela J. Petrow
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Alfred W. Putnam, Jr.
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Mary Patterson McPherson, Ph.D.

Bernard C. Watson, Ph.D.

Minturn T. Wright, III, Esquire

Officers

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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 271st Annual meeting of the Members of the Company will be held virtually on Monday, April 24, 2023, at 11:00 a.m.

Design: Malish & Pagonis

The Philadelphia Contributionship

DEPENDABLE INSURANCE PARTNERS SINCE 1752

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