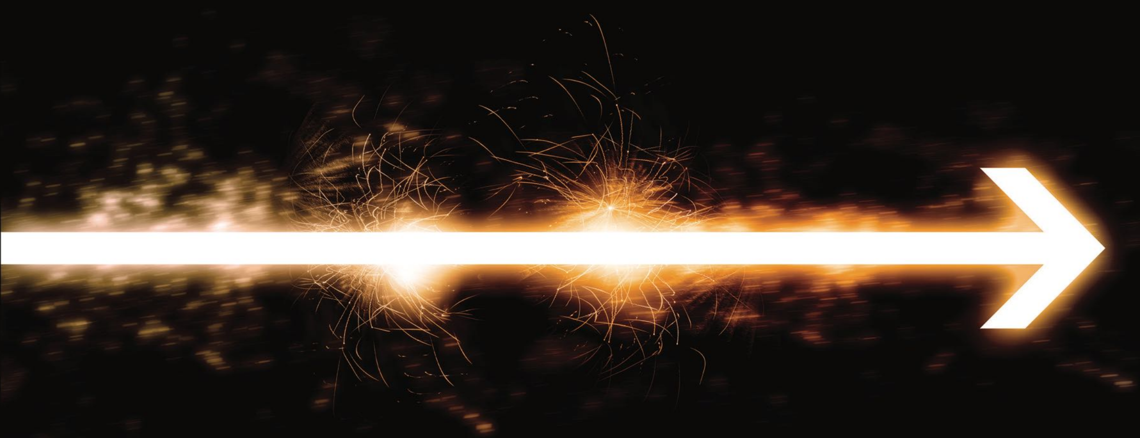
The Philadelphia Contributionship

271st Annual Report

2023



ENERGY AND PERSISTENCE
CONQUER ALL THINGS

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.

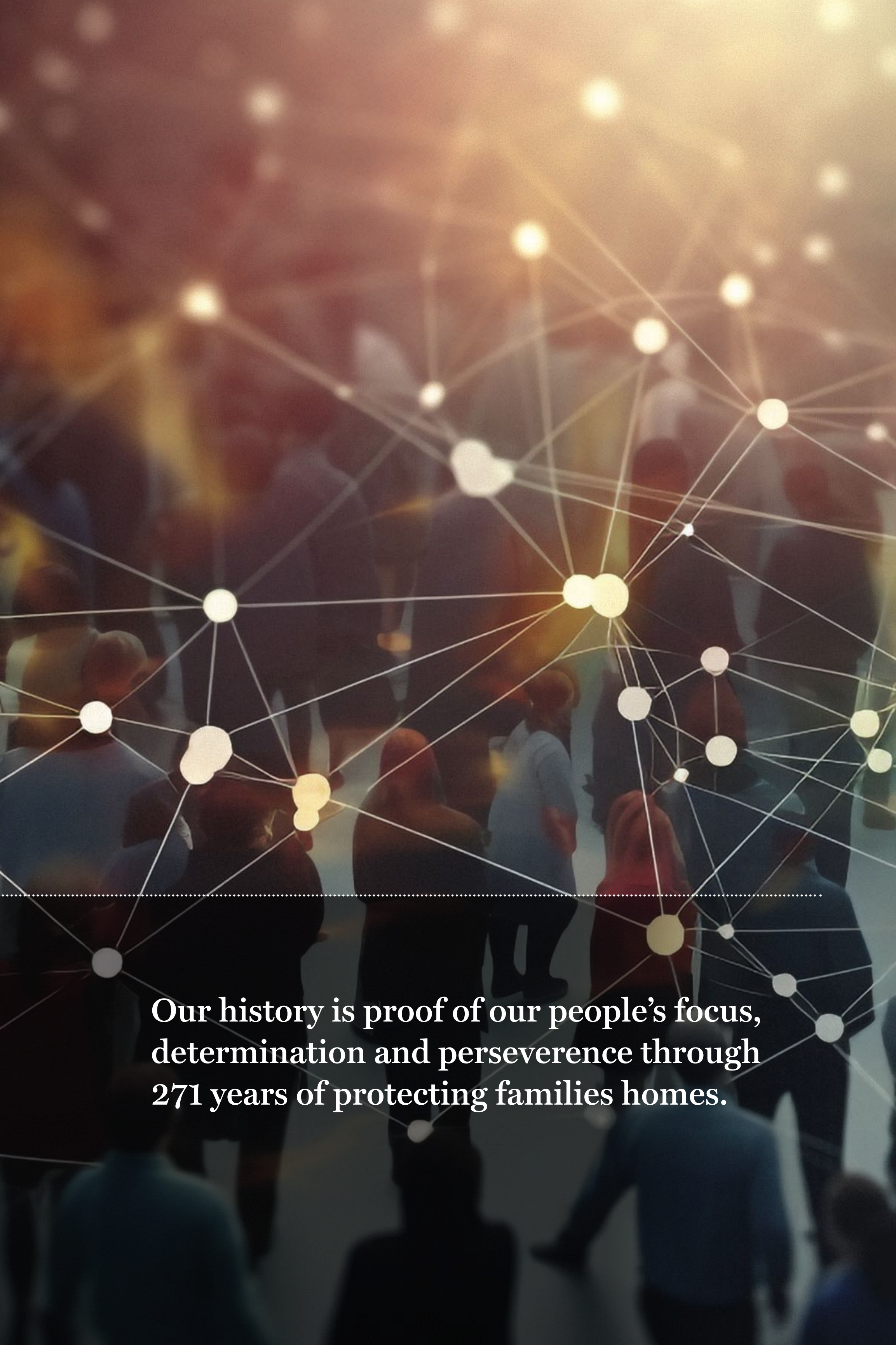
The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire, Inc. is the oldest successful property and casualty insurance company in the United States, having been founded in 1752. The company was converted from a mutual company to a stock company in 2009.

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 over 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 MISSION:

To be the most reliable partner for people seeking to protect their *homes and their futures*. We provide insurance protection that puts *people first*, through uniquely personal service, strong partnerships and an unmatched history of financial stability.



Our history is proof of our people's focus, determination and perseverence through 271 years of protecting families homes.

Letter to Policy Holders

272 years ago, The Philadelphia Contributionship (TPC) began as the vision of Benjamin Franklin and a group of business owners, neighbors, and friends in Philadelphia. Together, they set out to offer a service that could protect the people of their community against the ravages of fire. They founded TPC back in 1752, and people have been the driving force behind the company ever since.

We spent much of 2023 with people in mind – strategizing and planning to ensure that TPC continues to evolve and meet the needs of its policyholders and customers in this ever-changing world. We have placed an emphasis on stronger customer focus, product add-ons and enhancements, and new tools and value-added services.

Benjamin Franklin once said, "Energy and persistence conquer all things." That sentiment embodies the employees at TPC who have been fueling the company with those two qualities since its formation over two and a half centuries ago. Twenty-three years after the establishment of The Philadelphia Contributionship, the American Revolutionary War broke out. The employees weathered that storm and so many other historical events in the ensuing years. To this day, we continue to persist in providing insurance protection and security for the homes of the people we insure.

As we look ahead to the next chapter of TPC, we are excited to continue the legacy of Benjamin Franklin and the people of Philadelphia all those years ago.

Insurance Group Operations

While claim frequency is down, we continue to experience high severity. This is partly due to the intensity of some of the weather-related events, increased costs to repair damages, litigation costs, rising reinsurance costs and higher housing costs when people are displaced from their homes.

We were impacted by twenty-three weather catastrophes in 2023, which resulted in more than 1,700 reported claims and generated an estimated $16.2 million in losses.

Direct written premium was $139.1 million in 2023, down 1.6% from 2022. Net premiums earned decreased 3.0% to $119.0 million. Gross investment income for the year was $12.9 million, up 27.1% from 2022. Net gains on investments were $27.3 million, bringing total revenue from insurance operations for the year to $159.1 million.

Losses and loss adjustment expenses, at $83.7 million, improved 3.3% compared to 2022. This underscores the continued improvement in the underlying fundamentals of our business. Underwriting expenses were 1.3% higher. In total, losses and expenses were $125.5 million for the year. Overall, after paying $0.8 million of dividends to our members, the insurance operation produced income before income taxes of $32.9 million.

Notable 2023 Events:

- TPC's financial strength rating from A.M. Best was once again affirmed at A- (Excellent).
- TPC's rating from Kroll Bond Rating Agency was also affirmed at A-.
- 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 continued to partner with outside vendors to provide product add-ons and value-added services.

Security Group Operations

The Vector Security entity employs over 1600 team members, supported by 45 authorized dealers and 600 technical service partners. These individuals deliver services to our residential and commercial regional branch footprint and our national accounts customers. Residentially, this team sells, installs and services security, fire, home automation and environmental monitoring products. Commercially, the security segment designs, sells, installs and services intrusion and fire detection, access control, video monitoring and building automation integration. Our managed network services team installs, services, and monitors data circuits, networks/network traffic, and end point devices.

Vector Security, Inc. produced earnings before interest, taxes, depreciation, and amortization of $48.0 million. Total revenues for the year were $412.4 million. Revenue was strong in our commercial segments, with continued growth in the video market. Improvements in margins throughout the organization positively contributed to earnings. Pricing seems to have stabilized and our price increases have caught up with the increased costs our vendors passed on in 2021 and 2022. We continue to move forward with our Business Transformation Project which will position us to deliver the omnichannel experience our customers expect, as well as numerous process improvements and automation of tasks. Vector Security continues to be a strong contributor to our consolidated operation.

Consolidated Balance Sheet

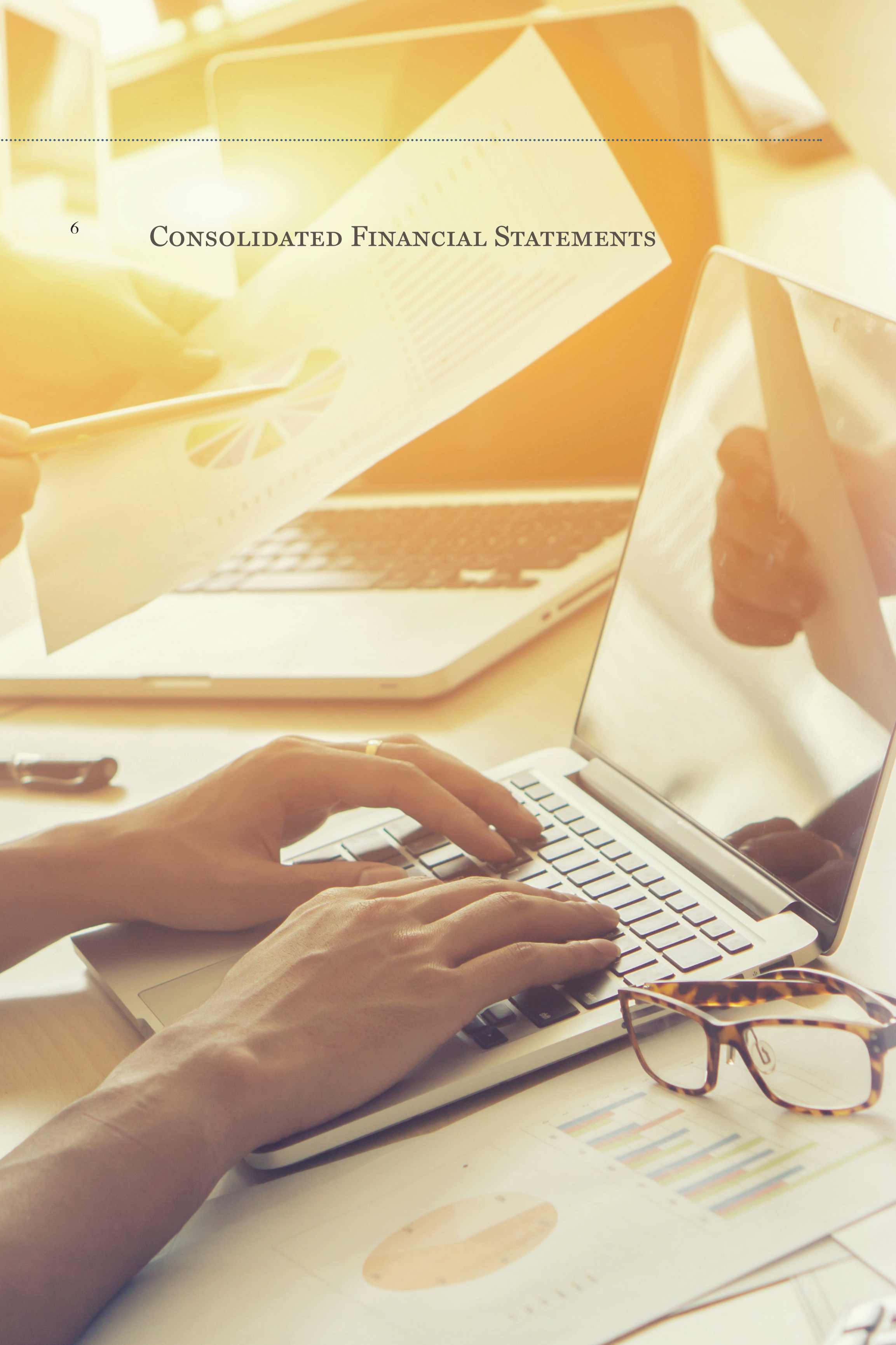
Total assets as of December 31, 2023, were $968.7 million, up 1.1% from 2022. Total liabilities decreased 0.8% to $608.4 million. Total equity as of December 31, 2023, was $360.4 million, up 4.5% from 2022. The strength of TPC's financial condition is intact and the company is well-positioned to meet our commitments for the long run.

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

Scott M. Jenkins
Chairman of the Board

Thomas M. Greenfield
President and Chief Executive Officer

Consolidated Financial Statements



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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, 2023 and 2022, and the related consolidated statements of operations, comprehensive income (loss) 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, 2023 and 2022 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 controlrelated 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 the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 responses 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 5, 2024

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

(In Thousands, Unless Otherwise Noted)

ASSETS	2023	2022
INSURANCE GROUP ASSETS		
Investments:		
Fixed income securities	**$ 178,528**	$ 139,223
Convertible bonds	**24,844**	23,663
Preferred stocks	**–**	370
Convertible preferred stocks	**999**	1,109
Common stocks	**286,336**	312,504
Other invested assets	**42,778**	41,375
	533,485	518,244
Cash and cash equivalents	**35,081**	28,390
Reinsurance recoverable and receivable	**23,386**	26,575
Prepaid reinsurance premiums	**1,982**	4,216
Premiums receivable	**6,856**	5,310
Accrued income from investments	**1,727**	1,362
Income tax recoverable	**–**	1,430
Deferred acquisition costs	**14,862**	14,514
Property and equipment, net	**3,298**	2,280
Other assets	**3,138**	3,084
Total Insurance Group assets	**623,815**	605,405
SECURITY GROUP ASSETS		
Current assets:		
Cash and cash equivalents	**1,762**	2,944
Trade accounts receivable, less allowance for doubtful accounts of $2,944 in 2023 and $1,779 in 2022	**37,866**	36,392
Unbilled revenue	**32,532**	33,181
Contract assets	**519**	1,252
Inventories	**8,421**	9,650
Prepaid expenses and other current assets	**4,919**	3,852
Interest rate swap receivable	**380**	1,227
Income taxes receivable	**4,682**	–
Total current assets	**91,081**	88,498
Property and equipment, net	**45,857**	32,851
Intangible assets, net	**73,173**	86,124
Goodwill, net	**74,405**	90,727
Deferred income taxes	**27,501**	25,918
Contract assets, noncurrent	**1,238**	1,657
Right-of-use assets – operating leases, net	**10,454**	6,138
Other noncurrent assets	**1,451**	1,833
Deferred charges	**19,229**	19,068
Interest rate swap receivable, noncurrent	**528**	–
Total Security Group assets	**344,917**	352,814
Total assets	**$ 968,732**	$ 958,219

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

(In Thousands, Unless Otherwise Noted)

LIABILITIES AND EQUITY	2023	2022
INSURANCE GROUP LIABILITIES		
Unpaid losses and loss adjustment expenses	**$ 94,627**	$ 110,282
Unearned premiums	**73,715**	74,949
Advance premiums	**2,594**	2,943
Deposit premiums	**14,933**	14,900
Income tax payable	**2,488**	–
Deferred income taxes	**29,736**	28,878
Ceded premium payable	**1,286**	1,214
Other liabilities	**14,811**	14,630
Total Insurance Group liabilities	**234,190**	247,796
SECURITY GROUP LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	**4,492**	5,358
Accounts payable and accrued expenses	**65,303**	58,130
Customer deposits	**1,007**	1,203
Unearned revenue	**27,432**	22,959
Contract liabilities	**197**	104
Purchase holdbacks	**1,480**	1,547
Total current liabilities	**99,911**	89,301
Long-term debt, less current maturities	**251,464**	258,653
Unearned revenue	**2,353**	2,597
Contract liabilities, noncurrent	**224**	197
Other long-term liabilities	**20,220**	14,900
Total Security Group liabilities	**374,172**	365,648
Total liabilities	**608,362**	613,444
EQUITY		
Unassigned equity	**359,060**	349,059
Accumulated other comprehensive income (loss)	**1,310**	(4,284)
Total equity	**360,370**	344,775
Total liabilities and equity	**$ 968,732**	$ 958,219

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2023 AND 2022

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

	2023	2022
INSURANCE GROUP		
Revenue:		
Net premiums earned	**$ 119,022**	$ 122,664
Gross investment income	**12,872**	10,131
Net realized and unrealized gains (losses) on investments	**27,252**	(60,159)
Total revenue	**159,146**	72,636
Losses and expenses:		
Losses and loss adjustment expenses	**83,708**	86,602
Underwriting expenses	**39,187**	38,679
Investment expenses	**2,602**	2,776
Total losses and expenses	**125,497**	128,057
Income (loss) before other income, dividends to policyholders, and income tax expense (benefit)	**33,649**	(55,421)
Other income, net	**116**	77
Dividends to policyholders	**(844)**	(821)
Insurance Group income (loss) before income tax expense (benefit)	**32,921**	(56,165)
SECURITY GROUP		
Revenue	**412,382**	402,685
Cost of sales	**244,917**	243,147
Gross profit	**167,465**	159,538
Operating expenses:		
Selling, general, and administrative	**119,608**	110,518
Depreciation	**12,824**	13,247
Amortization and impairment of intangible assets and goodwill	**40,697**	46,172
Total operating expenses	**173,129**	169,937
Operating loss	**(5,664)**	(10,399)
Other:		
Interest expense	**(16,738)**	(11,725)
Other income, net	**144**	21
Security Group loss before income tax benefit	**(22,258)**	(22,103)
Income (loss) before income tax expense (benefit)	**10,663**	(78,268)
Income tax expense (benefit)	**662**	(9,647)
Net income (loss)	**$ 10,001**	$ (68,621)

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2023 AND 2022

(In Thousands, Unless Otherwise Noted)

	2023	2022
Net income (loss)	**$ 10,001**	$ (68,621)
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on fixed income securities:		
Unrealized net holding gains (losses) arising during the year (net of tax of $1,036 in 2023 and ($2,690) in 2022)	**3,897**	(10,121)
Less reclassification adjustment for net realized (losses) gains included in net income (loss) (net of tax of ($518) in 2023 and $12 in 2022)	**(1,949)**	45
	5,846	(10,166)
Cash flow hedge:		
Change in fair value of cash flow hedge (net of tax of $427 in 2023 and $553 in 2022)	**1,607**	2,081
Less reclassification adjustment for settlement of cash flow hedge included in net income (loss) (net of tax of $494 in 2023 and ($24) in 2022)	**1,859**	(91)
	(252)	2,172
Other comprehensive income (loss)	**5,594**	(7,994)
Comprehensive income (loss)	**$ 15,595**	$ (76,615)

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022

(In Thousands, Unless Otherwise Noted)

	Unassigned Equity	Accumulated Other Comprehensive Income	Total
BALANCE, JANUARY 1, 2022	$ 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**
Net income	**10,001**	**–**	**10,001**
Other comprehensive income, net of tax	**–**	**5,594**	**5,594**
BALANCE, DECEMBER 31, 2023	**$ 359,060**	**$ 1,310**	**$ 360,370**

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

(In Thousands, Unless Otherwise Noted)

	2023	2022
CASH FLOW FROM OPERATING ACTIVITIES		
Net income (loss)	**$ 10,001**	$ (68,621)
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized and unrealized gains on investments	**(27,252)**	60,159
Depreciation, amortization and impairment	**53,891**	61,864
Deferred income taxes	**(2,205)**	(10,072)
Gains on disposals of property and equipment	**(129)**	(12)
Change in assets and liabilities, net of effects of acquisitions:		
Reinsurance recoverable and receivable	**3,189**	(2,926)
Prepaid reinsurance premiums	**2,234**	331
Premiums receivable	**(1,546)**	179
Accrued income from investments	**(365)**	(16)
Deferred acquisition costs	**(348)**	486
Unpaid losses and loss adjustment expenses	**(15,655)**	(5,027)
Unearned premiums	**(1,234)**	(4,877)
Advance premiums	**(349)**	18
Deposit premiums	**33**	157
Other liabilities	**2,721**	1,158
Income taxes and other receivables	**(3,252)**	11,272
Prepaid expenses and other assets	**(1,143)**	(835)
Right-of-use assets, operating leases	**(4,316)**	(6,138)
Trade accounts receivable, unbilled revenue, and inventories	**1,556**	(12,257)
Accounts payable, accrued expenses and purchase holdbacks	**12,493**	5,204
Unearned revenue and customer deposits	**4,153**	1,127
Deferred charges	**(161)**	(1,077)
Net cash provided by operating activities	**32,316**	30,097

(IN THOUSANDS, UNLESS OTHERWISE NOTED)

	2023	2022
CASH FLOW FROM INVESTING ACTIVITIES		
Cash paid for acquisitions, net of cash received	**(11,491)**	(11,747)
Purchases of property, plant and equipment	**(21,217)**	(9,844)
Proceeds from disposals of property and equipment	**215**	285
Purchases of fixed income securities	**(84,837)**	(23,126)
Purchases of convertible bonds	**(16,867)**	(16,513)
Purchases of common stocks	**(70,093)**	(68,587)
Purchases of convertible preferred stocks	**–**	(476)
Purchases of other invested assets	**–**	(626)
Proceeds from sales of fixed income securities	**33,344**	2,826
Proceeds from sales of convertible bonds	**16,928**	14,194
Proceeds from maturities/calls of fixed income securities	**16,947**	31,435
Proceeds from the sales of common stocks	**123,677**	70,170
Proceeds from the sales of convertible preferred stocks	**694**	483
Net cash used in investing activities	**(12,700)**	(11,526)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from revolving credit agreements	**217,978**	199,110
Payments on revolving credit agreements	**(229,626)**	(207,121)
Principal payments on capital leases	**(2,459)**	(2,783)
Cash paid for debt issuance costs	**–**	(1,358)
Net cash used in financing activities	**(14,107)**	(12,152)
Net increase in cash and cash equivalents	**5,509**	6,419
CASH AND CASH EQUIVALENTS, BEGINNING	**31,334**	24,915
CASH AND CASH EQUIVALENTS, ENDING	**$ 36,843**	$ 31,334
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	**$ 15,439**	$ 10,119
Income taxes paid	**$ 3,102**	$ 500
SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
In conjunction with acquisitions, the Security Group:		
Recorded purchase holdbacks	**$ 1,106**	$ 1,095

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 the consolidated 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 111,000 policyholders at December 31, 2023.

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 344,000 residential and commercial customers as of December 31, 2023. No such customer accounted for more than 10 percent of the December 31, 2023 and 2022 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. Reinsurance recoverable is presented net of valuation allowance (if any) for uncollectible reinsurance determined based upon a review of the financial condition of reinsurers and other factors. The valuation allowance for uncollectible reinsurance is based on an estimate of the reinsurance recoverable balance that will ultimately be unrecoverable due to reinsurer insolvency. The valuation of this allowance includes several judgments including certain aspects of the allocation of reinsurance recoverable on unpaid losses and loss adjustment expenses by reinsurer and a default analysis to estimate uncollectible reinsurance. The primary components of the default analysis are reinsurance recoverable balances by reinsurer, net of collateral, and default factors used to determine the portion of a reinsurer's balance deemed uncollectible. he determination of the default factor is principally based on the financial strength rating of the reinsurer. Default factors require considerable judgment and are determined using the current financial strength rating, or rating equivalent, of each reinsurer as well as other key considerations and assumptions. No valuation allowance was deemed necessary as of December 31, 2023 and 2022, respectively.

Acquisition Costs

Acquisition costs, such as commissions, premium taxes, and certain other underwriting and agency expenses that vary with and are directly related to the successful acquisition of new and renewal business, are deferred and amortized over the effective period of the related insurance policies. The Insurance Group determines whether acquisition costs are recoverable considering future losses and loss adjustment expenses, policy maintenance costs and anticipated investment income. To the extent that acquisition costs are determined not to be recoverable, the difference is charged to income in the period identified. All deferred acquisition costs at December 31, 2023 and 2022 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 with unrealized gains, and unrealized losses due to interest rate fluctuations and other external factors reported in accumulated other comprehensive income (loss). Changes in unrealized losses due to credit impairment are recorded as realized gains (losses). Realized gains (losses) are included in net investment income on the consolidated statements of operations.

For structured securities, management projects cash flows using loss adjusted cash flows that contemplate current market factors such as prepayment assumptions, expected default assumptions and the current condition of the guarantor of the security. For structured securities, the discount rate used in the present value calculation is the security's current effective interest rate. The discount rate used for other fixed income securities is the security's effective interest rate at the date of acquisition.

The assessment of credit impairment on available-for-sale fixed income securities is performed on a security-by-security basis. In its assessment, management takes into consideration current market conditions, issuer rating changes and trends, the creditworthiness of the obligor of the security, current analysts' evaluations, failure of the issuer to make scheduled interest or principal payments, and whether the present value of the bond's remaining projected cash flows discounted at its effective interest rate is less than the amortized cost as of the consolidated balance sheets date.

For available-for-sale fixed income securities, if the Company concludes that it does not intend to sell an impaired security and it is not more likely than not required to sell an impaired security before recovery of its amortized cost, the Company records a portion of the impairment related to credit losses (if any) in an allowance for credit losses with an offsetting entry to realized losses on the consolidated statements of income. If the Company intends to sell or will more likely than not be required to sell the security before recovering its amortized cost basis the Company first writes off any previously recognized allowance for credit losses with an offsetting entry to the security's amortized cost basis. If the allowance has been fully written off and fair value is less than amortized cost, the Company directly writes down the amortized cost of the security to its fair value with an entry to realized losses on the consolidated statements of income

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.

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

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 $16,986 and $16,651 at December 31, 2023 and 2022, 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, 2023 and 2022 was $335 and $301, 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.

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:

	2023	2022
Land	**$ 200**	$ 200
Buildings and improvements	**6,714**	6,639
Home security package systems	**46,182**	45,442
Furniture and fixtures	**5,254**	5,166
Vehicles and equipment	**44,154**	39,246
Construction-in-progress	**14,587**	1,604
	117,091	98,297
Less accumulated depreciation	**(71,234)**	(65,446)
Total property and equipment	**$ 45,857**	$ 32,851

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 $7,270 and $7,074 for the years ended December 31, 2023 and 2022, 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 2023 or 2022.

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 7 to 13 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.

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

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

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, 2023 or 2022.

Cash Equivalents
Cash equivalents consist of highly liquid short-term investments with an expected maturity at date of purchase of three months or less. Cash equivalents for the years ended December 31, 2023 and 2022 was $20,420 and $10,981, respectively.

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.

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

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

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

Deferred Financing Costs

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

Accumulated Comprehensive Income

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

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

	UNREALIZED GAINS (LOSSES) ON AVAILABLE-FOR-SALE SECURITIES	CASH FLOW HEDGE	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance, January 1, 2022	$ 4,976	$ (1,266)	$ 3,710
Other comprehensive income (loss) before reclassifications	(10,121)	2,081	(8,040)
Amounts reclassified from accumulated other comprehensive income (loss)	(45)	91	46
Balance, December 31, 2022	(5,190)	906	(4,284)
Other comprehensive income before reclassifications	3,897	1,607	5,504
Amounts reclassified from accumulated other comprehensive income (loss)	1,949	(1,859)	90
Balance, December 31, 2023	**$ 656**	**$ 654**	**$ 1,310**

(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 (LOSS)		AFFECTED LINE ITEM IN THE CONSOLIDATED STATEMENT OF OPERATIONS
	2023	2022	
Unrealized gain on fixed income securities available-for-sale:			
Realized (losses) gains on sale of fixed income securities	$ (2,467)	$ 57	NET REALIZED (LOSSES) GAINS ON INVESTMENTS
Gain on cash flow hedges:			
Interest rate derivative contracts	2,353	(115)	INTEREST EXPENSE
Total reclassifications before income tax expense	$ (114)	$ (58)	
Less income tax benefit	(24)	(12)	
Total reclassifications net of income tax benefit	**$ (90)**	**$ (46)**	

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 Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. This guidance was adopted on January 1, 2023. No allowance was deemed necessary as of January 1, 2023 or December 31, 2023.

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 JANUARY 1, 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 5, 2024, 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:

	2023			
	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	**$ 880**	**$ 7**	**$ (35)**	**$ 852**
Obligations of states and political subdivisions	**31,240**	**472**	**(1,430)**	**30,282**
Corporate securities	**71,214**	**4,278**	**(981)**	**74,511**
Mortgage-backed and asset-backed securities	**73,528**	**837**	**(1,482)**	**72,883**
Total fixed income securities	**176,862**	**5,594**	**(3,928)**	**178,528**
Common stocks	**135,962**	**154,299**	**(3,925)**	**286,336**
Total	**$ 312,824**	**$ 159,893**	**$ (7,853)**	**$ 464,864**

	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	63,264	1,882	(2,317)	62,829
Mortgage-backed and asset-backed securities	35,401	899	(2,848)	33,452
Total fixed income securities	144,956	3,231	(8,964)	139,223
Preferred stocks	473	2	(105)	370
Common stocks	154,486	159,755	(1,737)	312,504
Total	$ 299,915	$ 162,988	$ (10,806)	$ 452,097

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

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

	COST		ESTIMATED FAIR VALUE	
	2023	2022	**2023**	2022
Convertible bonds	**$ 24,234**	$ 24,080	**$ 24,844**	$ 23,663
Convertible preferred stocks	**$ 1,128**	$ 1,229	**$ 999**	$ 1,109

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

	COST		ESTIMATED FAIR VALUE	
	2023	2022	**2023**	2022
Other invested assets	**$ 45,341**	$ 44,591	**$ 42,778**	$ 41,375

The amortized cost and estimated fair value of fixed income securities and convertible bonds at December 31, 2023, 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	**$ 10,128**	**$ 10,039**
Due after one year through five years	**44,490**	**44,715**
Due after five years through ten years	**58,767**	**62,924**
Due after ten years	**14,183**	**12,811**
	127,568	**130,489**
Mortgage-backed and asset-backed securities	**73,528**	**72,883**
Total	**$ 201,096**	**$ 203,372**

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

	2023	2022
Realized gains on sales of investments	**$ 42,570**	$ 9,873
Realized losses on sales of investments	**(9,446)**	(10,932)
Change in fair value of convertible securities	**1,011**	(2,054)
Change in fair value of equity securities	**(7,536)**	(57,622)
Change in fair value of other invested assets	**653**	576
	$ 27,252	$ (60,159)

The Company had on deposit, as required by various state regulatory agencies, fixed income securities with a fair value of $2,811 and $2,815 and cash equivalents of $491 and $1,114 at December 31, 2023 and 2022, respectively.

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

As of December 31, 2023 and 2022, the Company's fixed income portfolio had gross unrealized losses of $3,928 and $8,964, respectively. The following presents information concerning investments in fixed income securities categorized as available-for-sale in unrealized loss positions for which no allowance for credit loss has been recorded:

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
December 31, 2023:						
Fixed income securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ —**	**$ —**	**$ 587**	**$ (35)**	**$ 587**	**$ (35)**
Obligations of states and political subdivisions	**222**	**(89)**	**11,291**	**(1,341)**	**11,513**	**(1,430)**
Corporate securities	**11,596**	**(154)**	**22,082**	**(827)**	**33,678**	**(981)**
Mortgage-backed and asset-backed securities	**14,781**	**(130)**	**20,746**	**(1,352)**	**35,527**	**(1,482)**
Total fixed income securities	**$ 26,599**	**$ (373)**	**$ 54,706**	**$ (3,555)**	**$ 81,305**	**$ (3,928)**

	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	(2,251)	456	(66)	37,991	(2,317)
Mortgage-backed and asset-backed securities	29,886	(2,736)	9,676	(112)	39,562	(2,848)
Total fixed income securities	$ 73,322	$ (8,695)	$ 10,428	$ (269)	$ 83,750	$ (8,964)

The unrealized losses on the Company's available-for-sale fixed income securities were caused by interest rate increases and general market fluctuations. The Company did not have the intent to sell and it was unlikely that the Company would be required to sell any investments before the recovery of its amortized cost basis, so no immediate realized loss was recorded. A review of the issuers' current credit worthiness, potential credit rating migrations, time to maturity, and the probability of default were assessed on all securities in an unrealized loss, and no allowance for credit losses was deemed necessary as of December 31, 2023.

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 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. 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, 2023 and 2022, the fair value using net asset value for the Company's other invested assets were $42,778 and $41,375, respectively.

At December 31, 2023 and 2022, one investment in a limited partnership included in other invested assets comprising 29 percent and 32 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, 2023 and 2022, one investment in a limited partnership included in other invested assets comprising 9 percent and 9 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, 2023 and 2022, one investment in a master limited partnership included in other invested assets comprising 46 percent and 40 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, 2023 and 2022, one investment in a limited partnership included in other invested assets comprising 10 percent and 12 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, 2023 and 2022, one investment in a limited partnership included in other invested assets comprising 3 percent and 4 percent, respectively, of other invested assets has a term of 10 years from the initial closing, with an option for up to two consecutive one year extensions at the general partner's election.

At December 31, 2023 and 2022, one investment in a limited partnership included in other invested assets comprising 3 percent and 3 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.

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

The following table summarizes fair value measurements by level within the fair value hierarchy at December 31, 2023 and 2022 for assets and liabilities measured at fair value on a recurring basis:

	2023			
		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	**$ 852**	**$ 852**	**$ –**	**$ –**
Obligations of states and political subdivisions	**30,282**	**–**	**30,282**	**–**
Corporate securities	**74,511**	**–**	**44,519**	**29,992**
Mortgage-backed and asset-backed securities	**72,883**	**–**	**72,883**	**–**
Total fixed income securities	**178,528**	**852**	**147,684**	**29,992**
Convertible bonds	**24,844**	**–**	**–**	**24,844**
Convertible preferred stocks	**999**	**–**	**999**	**–**
Common stocks	**286,336**	**286,213**	**–**	**123**
Total bonds and stocks	**$ 490,707**	**$ 287,065**	**$ 148,683**	**$ 54,959**
Interest rate swap receivable	**$ 908**	**$ —**	**$ 908**	**$ —**

	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	$ —

(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:

	2023	2022
Balance as of January 1	**$ 110,282**	$ 115,309
Less reinsurance recoverable	**(23,298)**	(22,425)
Net balance at January 1	**86,984**	92,884
Incurred related to:		
Current year	**92,179**	96,322
Prior years	**(8,471)**	(9,720)
Total incurred	**83,708**	86,602
Paid related to:		
Current year	**64,049**	61,356
Prior years	**33,793**	31,146
Total paid	**97,842**	92,502
Net balance as of December 31	**72,850**	86,984
Plus reinsurance recoverable	**21,777**	23,298
Balance at December 31	**$ 94,627**	$ 110,282

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 2023 and 2022 by $8,471 and $9,720, respectively. The decrease in 2023 was due to better than expected development of losses incurred, primarily in the homeowners property and special property segments, and primarily related to the 2019 and 2020 accident years. The decrease in 2022 was 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 following tables present information about incurred and paid claims development as of December 31, 2023 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, 2023. The tables include unaudited information about incurred and paid claims development for the years ended December 31, 2014 through 2023, 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, 2023	
ACCIDENT YEAR	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TOTAL IBNR PLUS EXPECTED ON REPORTED	CUMULATIVE NUMBER OF REPORTED CLAIMS
2014	67,880	64,035	64,722	64,678	63,785	63,661	63,477	63,377	63,345	63,333	10	7,037
2015		59,903	55,851	54,840	54,783	54,028	53,664	53,565	53,511	53,311	10	5,585
2016			51,560	51,008	49,720	50,084	48,683	48,395	48,370	48,205	13	5,469
2017				52,190	52,034	52,087	51,373	51,209	50,516	50,056	89	6,385
2018					78,829	78,111	76,521	75,901	75,641	74,906	258	10,395
2019						94,842	93,854	91,224	90,815	88,744	575	11,045
2020							95,093	91,720	88,932	87,731	2,490	11,253
2021								80,718	79,944	79,999	2,826	11,909
2022									67,986	66,702	3,990	6,850
2023										62,302	6,899	4,700
									Total	$ 675,289		

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

	UNAUDITED									
ACCIDENT YEAR	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2014	48,758	56,644	59,671	62,225	63,191	63,386	63,306	63,323	63,323	63,323
2015		40,780	49,251	51,165	52,116	53,002	53,328	53,304	53,304	53,301
2016			35,608	44,197	45,782	47,152	47,694	47,866	48,074	48,192
2017				33,974	44,967	47,172	48,496	49,239	49,610	49,933
2018					55,747	70,668	71,576	73,218	74,131	74,434
2019						63,357	82,996	85,818	87,772	87,697
2020							62,562	79,612	82,274	84,132
2021								58,980	73,076	75,276
2022									42,726	59,769
2023										43,050
									Total	$ 639,107
	All outstanding liabilities before 2014, net of reinsurance									6,042
	Liabilities for losses and loss adjustment expenses, net of reinsurance									$ 42,224

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

Other Liability

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	UNAUDITED									AS OF DECEMBER 31, 2023		
ACCIDENT YEAR	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TOTAL IBNR PLUS EXPECTED ON REPORTED	CUMULATIVE NUMBER OF REPORTED CLAIMS
2014	6,909	8,493	10,031	10,554	10,243	9,920	9,945	9,917	9,893	9,886	13	275
2015		7,888	8,124	8,107	8,016	7,649	7,354	7,163	7,146	7,208	89	289
2016			7,264	7,171	6,851	7,280	6,755	6,577	6,474	6,354	11	246
2017				6,792	6,464	6,097	5,861	5,510	5,365	4,993	304	279
2018					6,684	6,732	7,710	7,435	6,861	6,269	350	320
2019						7,407	6,985	7,219	7,336	6,647	550	336
2020							6,203	6,304	5,482	4,819	770	213
2021								4,987	6,093	7,206	1,707	287
2022									3,626	4,518	1,966	133
2023										3,143	2,142	63
									Total	$ 61,043		

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

	UNAUDITED									
ACCIDENT YEAR	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2014	20	1,484	4,337	8,209	9,474	9,824	9,827	9,873	9,873	9,873
2015		174	904	3,414	5,560	7,004	7,089	7,094	7,094	7,094
2016			167	1,146	2,819	5,220	5,992	6,150	6,153	6,343
2017				75	769	2,425	3,533	4,208	4,552	4,589
2018					104	869	2,650	4,151	5,101	5,462
2019						87	479	2,178	3,526	5,371
2020							54	328	1,026	2,589
2021								180	1,192	2,648
2022									11	393
2023										28
									Total	$ 44,390
All outstanding liabilities before 2014, net of reinsurance										2,624
Liabilities for losses and loss adjustment expenses, net of reinsurance										$ 19,277

(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, 2023
Net outstanding liabilities	
Homeowners	$ 42,224
Other liability	19,277
Other short-duration insurance lines	5,493
Liabilities for unpaid losses and allocated loss adjustment expenses, net of reinsurance	66,994
Reinsurance recoverable on unpaid claims:	
Homeowners	17,604
Other liability	2,389
Other short-duration insurance lines	1,784
Total reinsurance recoverable on unpaid losses	21,777
Unallocated loss adjustment expenses	5,856
Total gross liability for unpaid losses and loss adjustment expenses	$ 94,627

The methods used to select the estimated claim reserves include the loss ratio method, loss development 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 ultimated closed without any loss or loss adjustment expense payments would be included the cumulative claim frequency information shown above.

There were no changes to methodology in 2023.

The following is supplementary information about average historical claims duration as of December 31, 2023.

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	70.2%	20.9%	3.3%	2.5%	1.1%	0.5%	0.2%	0.1%	0.1%	0.1%
Other Liability	1.0%	10.9%	25.6%	29.7%	16.8%	3.8%	0.2%	1.0%	0.8%	0.6%

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 2023 and 2022 and had ceded premiums earned in 2023 and 2022 of $21,266 and $23,572, respectively. Losses and loss adjustment expenses are net of reinsurance recoveries of $7,512 and $13,088 in 2023 and 2022, respectively. Amounts paid to reinsurers related to the unexpired portion of reinsured contracts were $1,982 and $4,216 as of December 31, 2023 and 2022, respectively.

The Insurance Group had no significant concentration in risk from any one unaffiliated reinsurer as of December 31, 2023 and 2022.

(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 2024, the maximum amount of dividends that can be paid by the Contributionship without such approval is $37,245. The Contributionship paid no ordinary dividends during 2023 and 2022.

The surplus of the Contributionship and its subsidiaries, as determined in accordance with statutory accounting practices, is $372,454 and $346,737 at December 31, 2023 and 2022, respectively. The net income of the Contributionship and its subsidiaries, as determined in accordance with statutory accounting practices, is $31,949 and $1,611 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, the Contributionship and its subsidiaries maintained statutory-basis surplus in excess of the minimum prescribed risk-based capital requirements. As of December 31, 2023 and 2022, 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:

	2023	2022
Balance as of January 1	**$ 90,727**	$ 109,105
Amortization	**(16,322)**	(18,378)
Balance as of December 31	**$ 74,405**	$ 90,727

The amortization period for goodwill is 10 years.

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

	2023		2022	
	GROSS CARRYING AMOUNT	**ACCUMULATED AMORTIZATION**	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Customer service agreements	**$ 184,533**	**$ 115,194**	$ 204,508	$ 127,054
Customer relationships	**10,460**	**8,348**	10,460	7,544
Covenants not to compete	**117**	**74**	117	72
Trade Names	**20,150**	**18,471**	20,150	14,441
Total	**$ 215,260**	**$ 142,087**	$ 235,235	$ 149,111

(Dollars In Thousands, Unless Otherwise Noted)

Amortization expense, excluding impairment charges, for other intangible assets was $24,375 and $27,794 for the years ended December 31, 2023 and 2022, respectively.

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

2024	$ 33,109
2025	28,577
2026	25,969
2027	23,800
2028	21,433
Thereafter	14,690
Total	$ 147,578

Note 8 Acquisitions

Vector acquired selected accounts from various Company-authorized dealers located in various states. The total purchase price for these accounts was $11,424 and $11,672 in 2023 and 2022, 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 6,100 and 6,400 accounts in 2023 and 2022. 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:

	2023	2022
Revolving credit facility - variable interest rate (approximately 7.0% and 6.1% as of December 31, 2023 and 2022, respectively)	**$ 249,384**	$ 260,854
Capital leases, bearing interest at rates ranging from 2% to 9% as of December 31, 2023 and 2022	**6,572**	3,157
	255,956	264,011
Less current maturities	**(4,492)**	(5,358)
Long-term debt, less current maturities	**$ 251,464**	$ 258,653

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.

(Dollars In Thousands, Unless Otherwise Noted)

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 expired in June 2023. During 2023, Vector entered into a 36 month interest rate swap agreement with a notional amount of $25,000 that expires in March 2026, and also entered into a 36 month interest rate swap agreement with a notional amount of $100,000 that expires in June 2026 (the 2023 Swap Agreements). 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 2023 Swap Agreements, the Vector receives variable rate interest payments based on the rate as defined in the swap agreement and makes fixed rate payments ranging from 3.56% – 3.68%. The fair value of the swaps is recorded as an interest rate swap receivable of $908 and $1,227 on the consolidated balance sheets as of December 31, 2023 and 2022, respectively.

Vector must pay a quarterly commitment fee based on the Leverage Ratio. At December 31, 2023, the Company was paying a quarterly commitment fee of approximately 0.15% on the available unused portion of the revolving credit facility. As of December 31, 2023, the available unused portion of the revolving credit facility was $64,266.

Under Vector's revolving credit facility, approximately $1,350 and $1,450 were committed for outstanding letters of credit as of December 31, 2023 and 2022. There were no amounts drawn on the letters of credit as of December 31, 2023 and 2022.

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, 2023 and 2022, Vector was in compliance with all such covenants.

The aggregate maturities of debt principal for Vector as of December 31, 2023 are as follows:

2024	$ 1,884
2025	–
2026	–
2027	247,500
2028	–
Total	$ 249,384

Note 10 Leases

On January 1, 2022, the Company adopted ASU 2016-02, Leases, and related amendments, which 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 adopted this standard 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 deficit. As part of the adoption, the Company elected lessee practical expedients to not separate non-lease components for leases in the office equipment category. 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 adoption did not have a material effect on the consolidated statements of operations or cash flows.

Vector leases real estate, vehicles, and office equipment from various counterparties with lease terms and maturities through 2031 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 noncancelable 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.

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

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, 2023 and 2022:

LEASES	CLASSIFICATION	2023	2022
Assets:			
Non-current:			
Operating	Right-of-use assets, – operating Leases, net	**$ 10,454**	$ 6,138
Finance	Vehicles and equipment, net (a)	**6,660**	3,138
Total right-of-use assets		**$ 17,114**	$ 9,276
Liabilities			
Current:			
Operating	Accounts payable and accrued expenses	**$ 3,321**	$ 3,296
Finance	Current maturities of long-term debt	**2,608**	2,004
Non-current:			
Operating	Other long-term liabilities	**7,588**	3,490
Finance	Long-term debt less current maturities	**3,964**	1,153
Total lease liabilities		**$ 17,481**	$ 9,943

(a) Finance right-of-use assets are recorded net of accumulated depreciation of approximately $15,700 and $14,600 as of December 31, 2023 and 2022, respectively.

The components of total lease expense reflected in the consolidated statements of operations and comprehensive loss for the year ended December 31, 2023 and 2022 were as follows:

	2023	2022
Lease expense:		
Operating lease expense	**$ 3,995**	$ 4,323
Finance lease expense		
Amortization of right-of-use assets	**2,540**	2,816
Interest on lease liabilities	**229**	173
Total lease expense	**$ 6,764**	$ 7,312

The following table presents cash flow and supplemental information associated with Vector's leases for the year ended December 31, 2023 and 2022:

	2023	2022
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows – operating leases	**$ 4,565**	$ 4,586
Operating cash flows – finance leases	**229**	173
Financing cash flows – finance leases	**2,459**	2,783
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	**$ 7,918**	$ 1,252
Finance leases	**6,052**	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, 2023 and 2022:

	2023	2022
Lease term and discount rate		
Weighted average remaining term (years):		
Operating leases	**4.46**	2.44
Finance leases	**2.72**	1.72
Weighted average discount rate:		
Operating leases	**5.48%**	2.02%
Finance leases	**7.95%**	3.85%

The Following table presents the maturity analysis to Vector's operating and finance leases, including interest, as of December 31, 2023:

	OPERATING LEASES	FINANCE LEASES
Maturity of lease liabilities		
2024	$ 3,840	$ 2,978
2025	2,674	2,276
2026	2,053	1,880
2027	1,405	247
2028	972	–
Thereafter	1,604	–
Total lease payments (including interest)	12,548	7,381
Less interest	1,639	809
Total	$ 10,909	$ 6,572

Note 11 Income Taxes

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

2023			2022		
CURRENT	**DEFERRED**	**TOTAL**	CURRENT	DEFERRED	TOTAL
$ 2,530	**$ (1,868)**	**$ 662**	$ 425	$ (10,072)	$ (9,647)

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:

	2023	2022
Computed "expected" income tax expense	**$ 2,239**	$ (16,391)
Decrease in income taxes resulting from:		
Tax-exempt interest	**(56)**	(110)
Dividends received deduction	**(361)**	(369)
State taxes, net of federal benefit	**(35)**	7,925
Provision to return adjustments	**(57)**	(332)
Tax rate differential	**(1,142)**	(466)
Other, net	**74**	96
	$ 662	$ (9,647)

(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:

	2023	2022
Insurance Group:		
Deferred income tax asset components:		
Unearned premiums and advance premiums	**$ 3,122**	$ 3,094
Unpaid losses and loss adjustment expenses	**887**	1,067
Other-than-temporary impairments	**963**	970
Deferred compensation	**1,191**	1,304
Foreign tax credit carryover	**491**	1,342
Unrealized investment losses	**–**	1,178
Other	**290**	272
Total deferred income tax asset	**6,944**	9,227
Deferred income tax liability components:		
Deferred acquisition costs	**(3,121)**	(3,048)
Unrealized investment gains	**(31,378)**	(32,611)
Other	**(2,181)**	(2,446)
Total deferred income tax liability	**(36,680)**	(38,105)
Net deferred income tax liability	**$ (29,736)**	$ (28,878)
Security Group:		
Deferred income tax asset components:		
Accrued expenses	**$ 4,750**	$ 4,185
Capitalized research and development	**967**	918
Net operating loss	**1,326**	1,393
Disallowed business interest expense	**2,359**	1,906
Inventories and accounts receivable	**1,513**	1,148
Intangible assets	**32,626**	32,699
Unearned revenue	**619**	554
Contract liabilities	**981**	1,043
Operating leases	**2,773**	1,738
Research and development credit	**–**	73
Total deferred tax asset	**47,914**	45,657
Deferred income tax liability components:		
Operating leases	**(2,656)**	(1,572)
Interest rate swap	**(231)**	(314)
Fixed assets	**(4,102)**	(5,044)
Deferred charges	**(4,887)**	(4,884)
Total deferred income tax liability	**(11,876)**	(11,814)
Less: Valuation Allowance	**(8,537)**	(7,925)
Net deferred income tax asset	**$ 27,501**	$ 25,918

The valuation allowance for deferred tax assets as of December 31, 2023 and December 31, 2022 was $8,537 and $7,925, respectively. The net change in the total valuation allowance was an increase of $612 and $7,925 in 2023 and 2022, respectively. The increase in the valuation allowance during 2023 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, 2023 Vector has net operating loss carryforwards for state income tax purposes which begin to expire in 2025.

As of December 31, 2023 and 2022, the liability for unrecognized tax benefits was $191 and $375, 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 2023, Vector accrued approximately $9 of interest (net of federal benefit) related to Research and Development credits. As of December 31, 2023 and 2022, a total of $20 and $15, 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, 2023 and 2022, nor has any tax related interest or penalties been recognized in the consolidated statement of operations for the years ended December 31, 2023 and 2022.

The Company's federal income tax returns for tax years ended December 31, 2019 and prior are closed to examination.

Note 12 Employee 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 $4,321 in 2023 and $3,968 in 2022.

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 $1,360 and $1,156 in 2023 and 2022, 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 $990 in 2023 and $826 in 2022. The liability for such amounts were $14,169 and $12,549 included in other liabilities as of December 31, 2023 and 2022, respectively on the consilidated balance sheets.

The Company provides certain postretirement health care benefits. Net periodic postretirement benefit cost for 2023 and 2022 was $13 and $29, 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 4.48 percent and 4.67 percent in 2023 and 2022, respectively.

Directors & Officers

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General Partner, Jenkins Partners, L.P.

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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 272nd Annual meeting of the Members of the Company will be held virtually on Monday, April 29, 2024, at 11:00 a.m.

The Philadelphia Contributionship

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