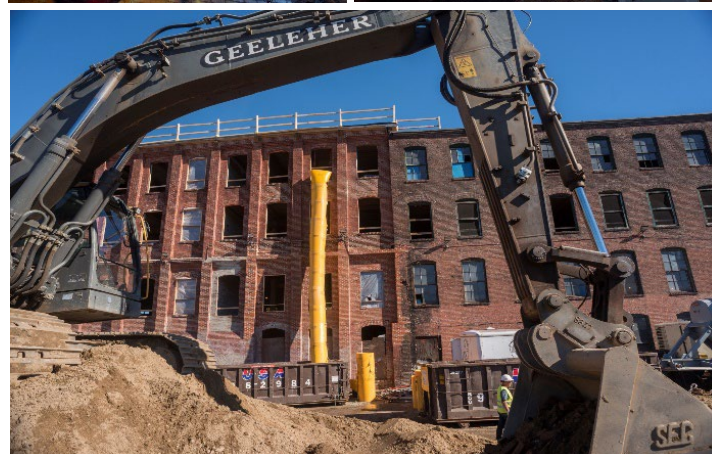
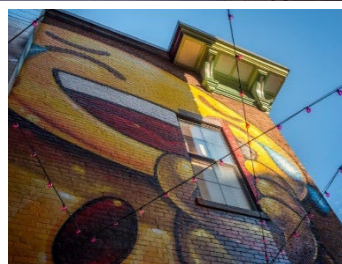




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2022: Year in Review



2022 was a year of investment for PCI. PCI members reaffirmed their commitment to using their capital to generate the highest positive impact for our most vulnerable neighbors and invested in the PCI team and Fund infrastructure. Together, we defined our impact metrics and put capital to work in low-income communities across the Commonwealth.

2022 Impact & Three-Year Impact Targets

We distilled our social impact priorities into a set of Key Performance Indicators, or KPIs. These KPIs are aligned with PCI's legislative requirements and our mission and vision. We use these impact metrics and targets to drive our lending, starting with our marketing and business development efforts. Our KPIs will adapt to respond to changes in the communities we serve.

Primary Impact Key Performance Indicators (KPIs)	2022 Results	2023-2025 Targets
% of Annual Loans in Affordable Housing Sector	77%	65%
% of Annual Loans in Community Services Sector	8%	25%
% of Annual Loans in Economic Development/Small Business Sector	15%	10%
% of Annual Loans outside of Boston and Boston Metro geography	62%	67%
\$ Loans Closed	32,250,158	90,000,000
Loans Closed	13	45
Affordable Homes Created or Preserved	549	1,050
Housing units targeting very low-income households (50% AMI) (Veterans, Seniors, Disabled, Formerly Homeless)	341	525
% of AH Loans with Resident Services	40%	50%
Home Ownership Units, affordable up to 100% AMI	10	60
Children Served	-	600
Clients Served	1,500	4,500
Avg % of People Living in Poverty – Project Census Tract (target=2x state average)	22%	20%
Avg % Population of Color – Project Census Tract (target=2x state average)	58%	60%
% of Borrowers that are People of Color/Women led	23%	40%
% of non-profit borrowers	62%	65%
Permanent jobs created/retained	420	300
Small businesses directly benefiting from PCI investments	8	30
% of Projects that achieve Green Building standards (LEED, Passive, Zero Net Energy)	8%	25%

REBRANDING PCI

In 2022, we updated and refreshed PCI's logo, website (www.pcifund.com) and mission and vision statements (shared below).

Our Mission & Vision

PCI works to improve the lives of our most vulnerable neighbors by investing capital and expertise in communities to generate opportunities.

We invest in community assets that contribute to the health and well-being of all residents, especially those with low-incomes and those who have been historically marginalized by systemic racism. We focus investments where we can have significant impact:

- **Housing that is affordable and equitable** and that connects residents to jobs, schools, services and community assets that enable them to thrive and be healthy.
- **Quality community services** such as healthcare, education, childcare and social services that remove barriers to opportunity.
- **Income and wealth creating jobs and businesses**, owned by people of color, located in communities of color, that keep dollars circulating within the neighborhood.
- **Economic development projects** that enhance the quality of life for existing residents in rapidly changing neighborhoods.

THE PCI TEAM

Fay Childers, Loan Administrator

Sarah Kitterman, Senior Vice President

Mei See Law-Sandson, Senior Vice President

Sara Mubeen, Senior Accountant & Financial Analyst

Michelle Volpe, President and CEO

CUMULATIVE IMPACT ACROSS THE COMMONWEALTH

Five dollars of impact generated by every dollar invested by PCI Members

Twenty-six Property & Casualty Insurance Companies have invested \$85 million of capital into PCI over the past 23 years. PCI staff have invested and re-invested that capital more than five times, investing **\$488 million** into affordable housing, community services, small businesses and economic development. Additionally, every dollar that PCI invests attracts seven more dollars of public and private investment.

PCI provides the debt capital that is hardest to access:

82% of PCI's portfolio supports the acquisition, predevelopment, construction or bridge financing needs of our borrowers. Securing capital for the earliest stages of real estate projects is challenging, especially for organizations working in historically marginalized and under-resourced communities. PCI provides this scarce financing that facilitates the completion of critical community projects.

Affordable Housing Lending:

PCI lending has created or preserved almost **6,500 units of affordable housing**. These "units" are homes for our most vulnerable neighbors.

Community Services Lending:

Community service organizations provide the opportunities and services that families need to thrive. PCI has partnered with more than 20 non-profit organizations, lending **\$50 million** to support the following types of outcomes:

- Enhanced educational opportunities for 4,850 young people annually
- Culturally appropriate healthcare services to 90,000 patients annually
- Emergency shelter for 1,500 unhoused individuals annually
- Medically tailored meals delivered to 4,000 families annually

Economic Development and Small Business Lending:

PCI invests in mixed-income housing, Main Street commercial districts, and growing businesses to support equitable economic development across the Commonwealth. Two illustrations of PCI's work are:

- the adaptive reuse of five historic buildings in Brockton, creating new mixed-income multi-family housing that brings new residents and added vitality to the downtown neighborhood.
- a partnership with the entrepreneurs at Nubian Ascend Partners to support wealth and job creation strategies in Roxbury's Nubian Square.

AFFORDABLE HOUSING 2022

PROJECT/APPLICANT	COMMITT ED DOLLARS	TOTAL UNITS	AFFORDABLE UNITS
46 Winter Street Lodging House Caritas Communities	\$835,000	17	17
Blue Line Portfolio East Boston CDC	\$3,000,000	114	94
Salem Schools North Shore CDC	\$855,000	62	51
Lafayette Housing II North Shore CDC	\$725,000	61	61
New Point Family Apartments North Shore CDC	\$920,000	18	18
Chelsea Soldiers' Home Pennrose LLC	\$2,000,000	248	220
Knox Apartments I First Resource Companies	\$10,500,000	55	55
Knox Apartments II First Resource Companies	\$4,000,000	41	41
Windrush Commons CDC of South Berkshires/Way Finders	\$4,000,000	49	49
Woodland Cove III Dakota Partners	\$1,440,158	24	6
TOTAL	\$28,275,158	689	612

46 WINTER STREET LODGING HOUSE



Caritas Communities purchased an existing 17-unit lodging house in Quincy, preserving the affordability of these units for residents with extremely low incomes. In addition to improving the quality of the units and the common space, Caritas is providing services to residents including help with medical insurance, food benefits, employment, and rental assistance.

PROJECT: 46 Winter Street Lodging House

BORROWER: 46 Winter St., LLC

SPONSOR: Caritas Communities

TYPE OF INVESTMENT: Acquisition

REGION: Greater Boston

QUALIFICATION: Affordable Housing

OUTSTANDING BALANCE @ 12.31.22: \$835,000

CARITAS COMMUNITIES

\$835,000

QUINCY

BLUE LINE PORTFOLIO ACQUISITION



121 Cottage Street



31 W. Eagle Street



261 Havre Street

East Boston Community Development Corporation purchased a 36-building scattered-site apartment portfolio from a private seller in East Boston. With significant support from public and private funders, this portfolio of 114 units will become affordable to low and moderate-income renters, helping to combat the housing crisis and displacement in this neighborhood. An innovative ownership model gives the community an ongoing stake in the portfolio of properties. PCI is participating with Eastern Bank.

PROJECT: Blue Line Portfolio Acquisition

BORROWER: EBNT Holding LLC

SPONSOR: East Boston CDC

TYPE OF INVESTMENT: Acquisition Loan

REGION: Greater Boston

QUALIFICATION: Affordable Housing

OUTSTANDING BALANCE @ 12.31.22: \$3,000,000

EAST BOSTON CDC

\$3,000,000

EAST BOSTON

SALEM SCHOOLS



Predevelopment funding supports the historic rehabilitation and adaptive reuse of two existing vacant school buildings in Salem. The two school buildings will be converted into multi-family rental housing, creating a total of 62 units, 51 of which will be affordable. This project will target low-income seniors and low-income artists.

NORTH SHORE CDC

\$855,000

SALEM

PROJECT: Salem Schools

BORROWER: North Shore CDC, Inc.

SPONSOR: North Shore CDC

TYPE OF INVESTMENT: Predevelopment Loan

REGION: Northeast

QUALIFICATION: Affordable Housing

OUTSTANDING BALANCE @ 12.31.22: \$520,503

LAFAYETTE HOUSING II



Lafayette Housing II (LH II) involves the renovation of an existing 61-unit rental project in The Point neighborhood of Salem, which has reached the end of its LIHTC affordability period. PCI financing supports North Shore CDC's plans to increase the long-term affordability restrictions with deepened affordability, adding additional 30% AMI and 50% AMI units and converting unrestricted units to deed-restricted affordable units. Included in this portfolio are three fully accessible apartments and 41 large family units.

PROJECT: Lafayette Housing II
BORROWER: North Shore CDC, Inc.
SPONSOR: North Shore CDC
TYPE OF INVESTMENT: Predevelopment Loan
REGION: Northeast
QUALIFICATION: Affordable Housing
OUTSTANDING BALANCE @ 12.31.22: \$427,868

NORTH SHORE CDC

\$725,000

SALEM

NEW POINT FAMILY APARTMENTS



37 WARD STREET



96 CONGRESS STREET



52 PEABODY STREET

NSCDC purchased three properties in 2017 and 2018 in the heart of The Point neighborhood in Salem, a priority area for the CDC. The buildings are three-story, brick walk-ups, and include nine 2-bedroom units and nine 3-bedroom units. NSCDC will redevelop the buildings, creating 18 units of permanent, supportive housing reserved for unhoused families earning no more than 50% of the area median income (AMI), with 10 of those units reserved for families at or below 30% of AMI. All tenants at New Point Family Apartments will be offered supportive services through the NSCDC's Family Resource Center (FRC), Espacio.

PROJECT: New Point Family Apartments

BORROWER: North Shore CDC, Inc.

SPONSOR: North Shore CDC

TYPE OF INVESTMENT: Predevelopment Loan

REGION: Northeast

QUALIFICATION: Affordable Housing

OUTSTANDING BALANCE @ 12.31.22: \$418,635

NORTH SHORE CDC

\$920,000

SALEM

CHELSEA SOLDIERS' HOME



Sargents Hall



Power Plant



Laundry Building/
Vinnie's Place



Williams House

Pennrose was selected to redevelop the Chelsea Soldiers' Home domiciliary campus. The campus will create a welcoming and attractive home for veteran families, senior veterans, and individual veterans. Veterans face a unique set of issues, including mental health conditions, substance abuse disorder, physical injuries and disabilities, legal concerns, and a need for job training. The centerpiece of Pennrose's redevelopment plan is the Veterans' Resource Center - a "hub" of gathering spaces at the heart of the campus, which also allows partners to come onto the campus and provide services to the residents and other veterans in the community. These comprehensive services will support the residents of the 248 new units of housing, affordable from 30% of AMI to 120 % of AMI.

PROJECT: Chelsea Soldiers' Home

BORROWER: CSH Phase I LLC

SPONSOR: Pennrose LLC

TYPE OF INVESTMENT: Predevelopment Loan

REGION: Northeast

QUALIFICATION: Affordable Housing

OUTSTANDING BALANCE @ 12.31.22: \$492,109

PENNROSE LLC

\$2,000,000

CHELSEA

KNOX APARTMENTS I



In this first phase of the adaptive reuse of the Knox Automobile Company complex, First Resource Companies is creating 55 new affordable units which, together with the 41 new affordable units in Phase II, will result in a community of 96 total units in renovated buildings in the Mason Square neighborhood of Springfield. PCI is participating with MHIC.

PROJECT: Knox Apartments I

BORROWER: Knox Residences I Limited Partnership

SPONSOR: First Resource Companies

TYPE OF INVESTMENT: Construction

REGION: Western

QUALIFICATION: Affordable Housing

OUTSTANDING BALANCE @ 12.31.22: \$4,526,366

FIRST RESOURCE COMPANIES

\$10,500,000

SPRINGFIELD

KNOX APARTMENTS II



In this second phase of the adaptive reuse of the Knox Automobile Company complex, First Resource Companies is creating 41 new affordable units which, together with the 55 new affordable units in Phase I, will result in a community of 96 total units in the renovated factory buildings in the Mason Square neighborhood of Springfield. PCI is participating in Phase I and II with MHIC.

PROJECT: Knox Apartments II

BORROWER: Knox II Limited Partnership

SPONSOR: First Resource Companies

TYPE OF INVESTMENT: Construction

REGION: Western

QUALIFICATION: Affordable Housing

OUTSTANDING BALANCE @ 12.31.22: \$648,990

FIRST RESOURCE COMPANIES

\$4,000,000

SPRINGFIELD

WINDRUSH COMMONS



Two non-profit developers have teamed up to create 49 units of affordable rental housing in five townhouse-style buildings in Great Barrington's Smart Growth Overlay District (40R district), which was created in 2017 to increase density to create more affordable housing. All units will be restricted to households at or below 60% of AMI, with 30% of the units restricted at 30% of AMI. Four of the units will be handicap accessible. PCI is participating with The Life Initiative.

PROJECT: Windrush Commons

BORROWER: Windrush Commons Limited Partnership

SPONSOR: Community Development Corporation of South Berkshire, Inc. & Way Finders

TYPE OF INVESTMENT: Construction

REGION: Western

QUALIFICATION: Affordable Housing

OUTSTANDING BALANCE @ 12.31.22: \$2,053,244

CDC OF SOUTH BERKSHIRE & WAY FINDERS

\$4,000,000

GREAT BARRINGTON

WOODLAND COVE III

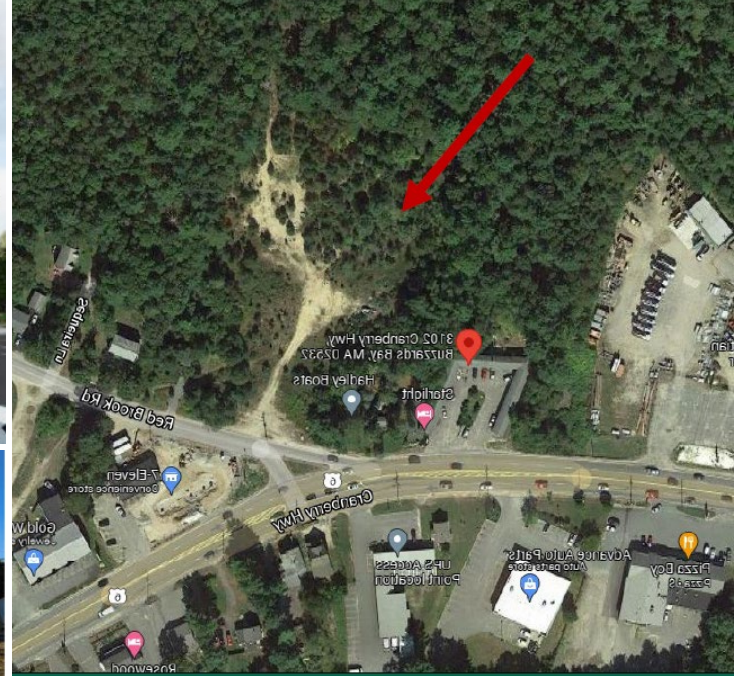
Rendering



Project Site



Project Site



Woodland Cove is a 150 mixed-income rental development being constructed in several phases. In all, the site will include 5 three-to-four-story elevator buildings. Phase III consists of the new construction of 24 affordable units, 6 of which are affordable at 80% AMI and 18 are affordable at 90% AMI. PCI is participating with Brookline Bank.

PROJECT: Woodland Cove III

BORROWER: WC3 Owner, LLC

SPONSOR: Dakota Partners

TYPE OF INVESTMENT: Construction

REGION: Southeast

QUALIFICATION: Affordable Housing

OUTSTANDING BALANCE @ 12.31.22: \$422,966

DAKOTA PARTNERS

\$1,440,158

WAREHAM

COMMUNITY SERVICES LENDING 2022

PROJECT/APPLICANT	COMMITTED DOLLARS	CLIENTS SERVED ANNUALLY	AFFORDABLE UNITS
Father Bill's & MainSpring	\$400,000	500+	32

Father Bill's & MainSpring - The Brockton Housing Resource Center Predevelopment Loan	\$400,000
TOTAL	\$400,000

THE BROCKTON HOUSING RESOURCE CENTER



Rendering



Project Site



Project Site

PCI financing supported predevelopment expenses for the Brockton Housing Resource Center, which will include 128 shelter beds, an on-site health clinic, an expanded 24/7 homeless service center, and 32 studio apartments with supportive services for formerly homeless individuals at or below 30% of area median income. The Resource Center will transform the way Father Bill's & MainSpring serves Brockton area individuals at risk of, or experiencing homelessness by emphasizing comprehensive, collaborative services as a first response.

PROJECT: The Brockton Housing Resource Center

BORROWER: Father Bill's & MainSpring, Inc.

SPONSOR: Father Bill's & MainSpring, Inc.

TYPE OF INVESTMENT: Predevelopment

REGION: Greater Boston

QUALIFICATION: Communities Services

OUTSTANDING BALANCE @ 12.31.22: \$137,462.39

FATHER BILL'S & MAINSPRING

\$400,000

BROCKTON

ECONOMIC DEVELOPMENT/ SMALL BUSINESS 2022

PROJECT/APPLICANT	COMMITTED DOLLARS	SQUARE FEET	PROJECTED JOBS CREATED/RETAINED
700 Harrison Retail & Parking	\$4,000,000	38,848	20
Nubian Square Ascends	\$575,000	200,000	400
TOTAL	\$4,575,000	238,848	240

700 HARRISON RETAIL & PARKING



700 Harrison is a mixed-use, mixed-income development in Boston's South End neighborhood. It includes 84 units of mixed-income for-sale housing, 6,400 SF of retail space, 160 garage parking spaces, and an 8,400 square foot community garden.

PCI's financing helped stabilize the retail/commercial component of the project after COVID significantly and negatively impacted the retail tenants – a bi-lingual preschool and an immigrant owned-restaurant.

PROJECT: 700 Harrison Retail & Parking

BORROWER: 700 Harrison Retail & Parking, LLC

SPONSOR: Mitchell Properties

TYPE OF INVESTMENT: Term Loan

REGION: Greater Boston

QUALIFICATION: Economic Development

OUTSTANDING BALANCE @ 12.31.22: \$3,850,000

MITCHELL PROPERTIES

\$4,000,000

BOSTON

NUBIAN SQUARE ASCENDS



Nubian Square Ascends will convert the Blair parking lot in the heart of the Nubian Square neighborhood in Roxbury into a vibrant center of community interaction, artistic and cultural activity, culinary marketplace and restaurant, culinary training, life science training center, affordable artist condos, and artist studio and collaboration spaces. It will also create a 300-space parking garage. PCI is participating with a coalition of lenders, led by BlueHub Loan Fund.

PROJECT: Nubian Square Ascends

BORROWER: Nubian Ascends Partners, LLC

SPONSOR: Nubian Square Development, LLC

TYPE OF INVESTMENT: Predevelopment Loan

REGION: Greater Boston

QUALIFICATION: Economic Development

OUTSTANDING BALANCE @ 12.31.22: \$280,891

NUBIAN SQUARE DEVELOPMENT, LLC

\$575,000

ROXBURY

REGIONAL DISTRIBUTION OF INVESTMENTS @ 12.31.22

The MOBD regions were redefined by the Commonwealth in 2017. We are presenting PCI's regional distribution of investments using both the historic MOBD definition in use when PCI was founded in 1999 and the "new" 2017 MOBD definitions.

REGIONAL DISTRIBUTIONS 2022

REGION	AMOUNT OF INVESTMENT	% OF TOTAL
BOSTON	\$244,300,000	50%
CENTRAL	\$39,600,000	8%
NORTHEAST	\$47,600,000	10%
SOUTHEAST	\$63,400,000	13%
WESTERN	\$87,500,000	18%
STATEWIDE	\$5,900,000	1%
TOTAL	\$488,300,000	100%

NEW REGIONAL DISTRIBUTIONS 2022

REGION	AMOUNT OF INVESTMENT	% OF TOTAL
GREATER BOSTON	\$222,150,000	45%
CENTRAL	\$32,590,000	7%
METRO WEST & MERRIMACK VALLEY	\$73,680,000	15%
NORTHEAST	\$32,460,000	7%
SOUTHEAST	\$30,720,000	6%
WESTERN	\$87,550,000	18%
STATEWIDE	\$9,150,000	2%
TOTAL	\$488,300,000	100%

QUALIFIED INTERIM INVESTMENTS

2022

At December 31, 2022, the total interim investments of The Property and Casualty Initiative, LLC were as follows:

BANK DEPOSITS	\$36,532,072
TOTAL INTERIM INVESTMENTS	\$36,532,072

At December 31, 2022, PCI had commitments to lend of approximately \$18,500,000 to projects that had not yet fully funded.

PUBLIC MEETINGS 2022

Information regarding the annual meetings held in each of the MOBD regions.

REGION	DATE	PLACE REPRESENTED	HOST
Central	12/2/2022	Worcester	Worcester Common Ground, Mass Development
Greater Boston	5/31/2022	Brockton	City of Brockton, Father Bill's & MainSpring
Metro West & Merrimack Valley	7/21/2022	Lawrence	Lawrence Community Works
Northeast	11/18/2022	Salem	North Shore Community Development Coalition
Southeast	10/17/2022	New Bedford	North Star Learning Centers
Western	9/1/2022	Holyoke, Northampton	Way Finders

MEMBER COMPANIES

Arbella Group

- Arbella Mutual Insurance Company
- Arbella Protection Insurance
- Arbella Indemnity Insurance Company

Arrow Mutual Liability Insurance Company

Associated Industries of MA Mutual Insurance Company

Barnstable County Group

- Barnstable County Mutual Insurance Company
- Barnstable County Insurance Company

Country Mutual Insurance Company *(formerly Holyoke Mutual)*

Coverys

- Medical Professional Mutual Insurance Company
- ProSelect Insurance Company

Electric Insurance Company

Liberty Mutual Group

- Liberty Mutual Insurance Company
- Liberty Mutual Fire Company

Nationwide Group

- Harleysville Worcester Insurance Company
- Berkshire Mutual Insurance Company

Norfolk & Dedham Group

- Norfolk & Dedham Mutual Fire Insurance Company
- Dorchester Mutual Insurance Company
- Fitchburg Mutual Insurance Company

OneBeacon Group

- Atlantic Specialty Insurance Company

Plymouth Rock Group

- Plymouth Rock Assurance Corp
- Plymouth Rock Home Assurance Corporation
- Pilgrim Insurance Company

Quincy Mutual Fire Insurance Company

The Premier Insurance Company of Massachusetts

Tower Group

- Massachusetts Homeland Insurance Company

2022 CAPITAL CONTRIBUTIONS

	Cumulative 2022 Capital Contributed or Returned	Cumulative Aggregate Capital Contributed	Actual Proportionate Share
Arbella Indemnity Insurance Company		\$92,100	0.112%
Arbella Mutual Insurance Company		\$1,959,900	2.384%
Arbella Protection Insurance		\$564,700	0.687%
Arrow Mutual Liability Insurance Company		\$157,700	0.192%
Associated Industries of MA Mutual Ins. Co.		\$500,200	0.608%
Atlantic Specialty Insurance Company	-\$704,790	\$11,276,640	13.717%
Barnstable County Insurance Company		\$28,200	0.034%
Barnstable County Mutual Insurance Co.		\$81,100	0.099%
Berkshire Mutual Insurance Company*		\$74,120	0.090%
County Mutual Insurance Company		\$357,000	0.434%
Dorchester Mutual Insurance Company		\$102,500	0.125%
Electric Insurance Company		\$2,946,000	3.584%
Fitchburg Mutual Insurance Company		\$151,100	0.184%
Harleysville Worcester Insurance Company		\$941,200	1.145%
Liberty Mutual Fire Company		\$6,475,600	7.877%
Liberty Mutual Insurance Company		\$49,021,000	59.631%
Massachusetts Homeland Insurance Company		\$27,500	0.033%
Medical Professional Mutual Insurance Co.		\$4,041,100	4.916%
Norfolk & Dedham Mutual Fire Insurance Co.		\$483,400	0.588%
Pilgrim Insurance Company		\$19,000	0.023%
Plymouth Rock Assurance Corp.		\$496,700	0.604%
Plymouth Rock Home Assurance Corp.		\$54,500	0.066%
ProSelect Insurance Company		\$91,400	0.111%
Quincy Mutual Fire Insurance Company		\$1,092,500	1.329%
The Premier Insurance Company of MA		\$1,171,700	1.425%
Total Capital Contributions		\$82,206,860	100.00%

2022

Audited Financial Statements



**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Contents
December 31, 2022 and 2021

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Independent Auditor's Report

To the Audit Committee, Board of Managers and Members of
The Property and Casualty Initiative, LLC and Affiliate:

Opinion

We have audited the consolidated financial statements of The Property and Casualty Initiative, LLC and Affiliate (Massachusetts limited liability companies) (collectively, PCI and the Affiliate) which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, changes in members' equity and cash flows for the years then ended, and the related notes to consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Property and Casualty Initiative, LLC and Affiliate as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PCI and the Affiliate 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.

Emphasis of Matter

As discussed in Note 7 to the consolidated financial statements, PCI and the Affiliate implemented Accounting Standards Codification (ASC) 842 to recognize lease assets and liabilities in 2022. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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, which raise substantial doubt about PCI and the Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the 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 auditor's 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 PCI and the Affiliate'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, which raise substantial doubt about PCI and the Affiliate's ability to continue as a going concern for a reasonable period of time.

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

AAFCPA, Inc.

Westborough, Massachusetts
May 3, 2023

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Consolidated Balance Sheets December 31, 2022 and 2021

Assets	2022	2021
Current Assets:		
Cash and cash equivalents	\$ 36,758,721	\$ 27,720,706
Current portion of loans receivable, net of allowance for loan losses of \$102,603 and \$219,710 as of December 31, 2022 and 2021, respectively	11,405,795	33,218,290
Accrued interest receivable on loans	164,940	249,125
Receivable from members	-	339,719
Prepaid expenses and other	49,462	41,417
Total current assets	48,378,918	61,569,257
Loans Receivable, net of current portion and allowance for loan losses of \$529,865 and \$159,469 as of December 31, 2022 and 2021, respectively	34,484,082	23,969,520
Investments in Venture Funds, net of allowance for impairment	-	260,999
Operating Right-of-Use Asset	235,690	-
Property and Equipment, net	68,625	8,623
Total assets	<u>\$ 83,167,315</u>	<u>\$ 85,808,399</u>
Liabilities and Members' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 64,651	\$ 16,690
Current portion of operating lease liability	169,293	-
Total current liabilities	233,944	16,690
Operating Lease Liability, net of current portion	72,967	-
Deposits and Escrows	269,592	265,135
Total liabilities	576,503	281,825
Members' Equity:		
Members' capital contributions	82,206,860	82,911,650
Retained earnings	383,952	2,614,924
Total members' equity	82,590,812	85,526,574
Total liabilities and members' equity	<u>\$ 83,167,315</u>	<u>\$ 85,808,399</u>

The accompanying notes are an integral part of these consolidated statements.

Page 2

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATEConsolidated Statements of Operations
For the Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues:		
Interest on loans	\$ 1,977,361	\$ 3,027,683
Net investment income	309,241	132,273
Loan origination fees and other	118,933	144,567
Total operating revenues	2,405,535	3,304,523
Net recovery of (provision for) loan losses	(253,289)	650,290
Net operating revenues	2,152,246	3,954,813
Operating Expenses:		
Salaries, payroll taxes and fringe benefits	1,258,297	998,334
Professional fees and contract services	265,204	103,198
Occupancy costs	188,872	175,552
Insurance	23,964	29,487
Supplies and other	19,386	13,178
Telephone and utilities	8,293	8,614
Travel	4,022	10,401
Printing and postage	256	456
Depreciation	-	669
Total operating expenses	1,768,294	1,339,889
Net income	<u>\$ 383,952</u>	<u>\$ 2,614,924</u>

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Consolidated Statements of Changes in Members' Equity
For the Years Ended December 31, 2022 and 2021

	Members' Capital Contributions	Retained Earnings	Total
Balance, December 31, 2020	\$ 83,616,440	\$ 1,599,858	\$ 85,216,298
Net income	-	2,614,924	2,614,924
Distributions of earnings to members	-	(1,599,858)	(1,599,858)
Return of capital distributions	<u>(704,790)</u>	<u>-</u>	<u>(704,790)</u>
Balance, December 31, 2021	82,911,650	2,614,924	85,526,574
Net income	-	383,952	383,952
Distributions of earnings to members	-	(2,614,924)	(2,614,924)
Return of capital distributions	<u>(704,790)</u>	<u>-</u>	<u>(704,790)</u>
Balance, December 31, 2022	<u><u>\$ 82,206,860</u></u>	<u><u>\$ 383,952</u></u>	<u><u>\$ 82,590,812</u></u>

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Consolidated Statements of Cash Flows For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Net income	\$ 383,952	\$ 2,614,924
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	-	669
Net recovery of venture funds	(223,801)	(104,252)
Net (recovery of) provision for loan losses	253,289	(650,290)
Amortization of loan origination fees	(135,681)	(122,016)
Capitalized interest	(663,258)	(34,500)
Loan origination fees collected	204,079	51,738
Noncash lease expenses	181,402	-
Changes in operating assets and liabilities:		
Accrued interest receivable on loans	84,185	17,028
Prepaid expenses and other	(8,045)	6,028
Accounts payable and accrued expenses	47,961	2,449
Change in operating lease liabilities	(174,832)	-
Deposits and escrows	3,200	13,698
Net cash provided by (used in) operating activities	<u>(47,549)</u>	<u>1,795,476</u>
Cash Flows from Investing Activities:		
Issuance of loans receivable	(28,581,083)	(31,272,150)
Purchase of property and equipment	(60,002)	-
Principal payments on loans receivable	40,220,587	43,725,010
Return of capital distributions from venture funds	484,800	106,849
Net cash provided by investing activities	<u>12,064,302</u>	<u>12,559,709</u>
Cash Flows from Financing Activities:		
Escrow deposits, net	1,257	114
Return of escrows	-	(957,826)
Receivable from members	339,719	(339,719)
Return of capital distributions	(704,790)	(704,790)
Distributions of earnings to members	(2,614,924)	(1,599,858)
Net cash used in financing activities	<u>(2,978,738)</u>	<u>(3,602,079)</u>
Net Change in Cash and Cash Equivalents	9,038,015	10,753,106
Cash and Cash Equivalents:		
Beginning of year	<u>27,720,706</u>	<u>16,967,600</u>
End of year	<u>\$ 36,758,721</u>	<u>\$ 27,720,706</u>

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

1. OPERATIONS AND TAX STATUS

Operations

The Property and Casualty Initiative, LLC (PCI) is a Massachusetts limited liability company that was formed on May 18, 1999. PCI's business activities consist of making investments in accordance with Chapter 259 of the Massachusetts Acts of 1998. Chapter 259 was enacted to promote community investment by insurance companies and the equitable taxation of domestic insurance companies. As a result, PCI is required to operate under the guidelines created by this act. Qualified Chapter 259 investments are those investments in minority or women-owned businesses, small businesses, rental housing and home-ownership development projects, job creation activities, and community health centers, in low and moderate-income environments and the Community Development Finance Corporation and the Massachusetts Capital Access Program.

PCI's operating agreement originally authorized PCI to operate for a period of twenty-four years ending in May 2023. However, the Members amended the operating agreement in 2015 to allow PCI to operate for an additional ten years through May 2033 (see Note 8).

In August 2007, PCI formed PCI Property Holdings, LLC (the Affiliate), a Massachusetts limited liability company, to acquire and hold real property. PCI is the only member of the Affiliate.

Tax Status

PCI is a Massachusetts limited liability company and has elected to be treated as a partnership for income tax purposes. Items of income, loss, credits, or deductions arising from PCI are reported by the members on their respective income tax returns as allocated in accordance with the operating agreement. Accordingly, the accompanying consolidated financial statements do not reflect any provisions or credits for income taxes. The Affiliate has elected to be disregarded as a separate entity from PCI for tax purposes.

2. SIGNIFICANT ACCOUNTING POLICIES

PCI and the Affiliate prepare their consolidated financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Principles of Consolidation

The consolidated financial statements include the activities of PCI and the Affiliate. All significant intercompany balances and transactions have been eliminated.

Recently Issued Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The most significant change in the new lease guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the consolidated balance sheet. PCI elected to adopt *Topic 842* on January 1, 2022, using the optional transition method provided in ASU 2018-11. Under this transition method, financial information related to years prior to adoption was as originally reported under *Topic 840*. The adoption of *Topic 842* did not impact members' equity as of January 1, 2022. PCI elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed PCI to carry forward the historical lease classification as operating or capital leases. PCI also elected to combine lease and non-lease components and to exclude short-term leases from the accompanying consolidated balance sheet. PCI did not elect the hindsight practical expedient in determining the lease term for the existing leases as of January 1, 2022.

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

The most significant impact of adoption was the recognition of operating ROU asset and operating lease liability totaling of \$392,440 and \$401,957, respectively (see Note 7). As part of the adoption, PCI also modified its control procedures and processes, none of which materially affected the internal control over financial reporting.

Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of checking, money market and savings accounts.

Loans Receivable and Allowance for Loan Losses

Loans receivable are stated net of loan participations qualifying as loan sales, unamortized deferred loan origination fees and an allowance for loan losses (see Notes 3 and 4). Interest on loans is calculated by using the simple interest method on monthly balances of the principal amount outstanding. The allowance for loan losses is established through a provision for loan losses charged to operations. The allowance is an amount that management believes will be adequate to absorb expected losses on existing loans that may become uncollectible. Management evaluates loan collectability through consideration of factors, as well as previous loss experience, performance of individual loans in accordance with contract terms, financial strength and cash flows of the borrower, realizable values of collateral, and current economic conditions that may affect the borrower's ability to repay in accordance with the requirements of ASC Topic 326, *Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures* standard under U.S. GAAP.

Investments in Venture Funds

Investments in venture funds consist of PCI's non-marketable interests in local investment funds. Because PCI does not exercise significant influence over its investments in venture funds, it records such investments using the cost method of accounting (see Note 5). Under this method of accounting, PCI records its investments at initial cost and periodically assesses the possibility of the impairment of cost.

Dividends from these investments, which represent distributions of company earnings, if any, are recorded as investment income. Other distributions are recorded as return of capital and reduce investment cost. In the event of impairment, the investments are written down through an allowance for impairment to estimated net realizable value and the loss is charged to operations.

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred. Property and equipment are depreciated using the straight-line method over the following estimated useful lives and consist of the following at December 31:

	<u>Estimated Useful Lives</u>	<u>2022</u>	<u>2021</u>
Furniture and equipment	3 - 7 years	\$ 120,949	\$ 60,947
Leasehold improvements	Term of lease	<u>13,372</u>	<u>13,372</u>
		134,321	74,319
Less - accumulated depreciation		<u>65,696</u>	<u>65,696</u>
Net property and equipment		<u>\$ 68,625</u>	<u>\$ 8,623</u>

Deposits and Escrows

PCI holds funds on behalf of outside parties in escrow accounts as collateral against PCI's loans receivable.

Fair Value Measurements

PCI and the Affiliate follow the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that PCI and the Affiliate would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

PCI and the Affiliate use a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of PCI and the Affiliate. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The only assets held by PCI that are carried at fair value are cash equivalents in the form of money market accounts. Cash equivalents are considered Level 1 in the fair value hierarchy. PCI held \$6,167,493 and \$6,684,745 in money market accounts as of December 31, 2022 and 2021, respectively. Management also assesses the possible impairment of investments in venture funds using fair value assumptions based on Level 3 inputs (see Note 5).

Revenue Recognition

Revenues from interest on loans, cash, investments, and other sources are recorded as earned on the accrual basis of accounting. Loan loss recoveries are recorded in the year of recovery when cash has been received or collection is assured.

Loan origination fees, net of certain direct loan origination costs, are deferred and amortized as an adjustment to the related loan yield on a straight-line basis over the term of the loan.

Some of PCI's loans are subject to prepayment penalty clauses in the loan agreements. Prepayment penalties are recognized as revenue when prepayment occurs. In 2022 and 2021, there were no prepayments of loans that were subject to such a penalty.

Income Taxes

No income tax provision has been included in the accompanying consolidated financial statements as the income, loss and credits of PCI are reported by the members on their respective income tax returns.

PCI accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidated financial statements regarding a tax position taken or expected to be taken in a tax return. PCI has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidated financial statements at December 31, 2022 and 2021. However, PCI's income tax returns are subject to examination by the appropriate taxing jurisdictions.

Advertising Costs

PCI expenses advertising costs as they are incurred.

Subsequent Events

Subsequent events have been evaluated through May 3, 2023, which is the date the consolidated financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the consolidated financial statements.

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

3. LOANS RECEIVABLE

PCI offers the following loan products (also see Note 9):

Affordable Housing - Made to organizations that increase the availability of affordable housing to low and moderate-income households. These funds are generally used to acquire or develop residential real properties. Affordable housing loans receivable bear interest at rates ranging from 3.5% to 6.5% and mature at various dates through 2040. Principal balances range from \$54,365 to \$4,526,366. These loans are generally secured by mortgages on the properties and borrowers are required to adhere to certain affordability restrictions. PCI's five largest outstanding affordable housing loans receivable were approximately 61% and 65% of the affordable housing portfolio as of December 31, 2022 and 2021, respectively.

Commercial and Economic Development - Made to support the development and/or expansion of minority or women-owned businesses, small businesses, job creation activities, and community health centers, within low and moderate-income areas that result in job creation or retainage in Massachusetts. PCI also provides financing to small and mid-sized companies with an emphasis on companies relocating to Massachusetts and creating jobs for residents in economic target areas. Commercial and economic development loans receivable bear interest at rates ranging from 4.0% to 6.0% and mature at various dates through 2031. Principal balances range from \$97,046 to \$3,850,000. These loans are generally secured by the borrowers' business assets and real estate. PCI's five largest outstanding commercial and economic development loans receivable were approximately 80% and 81% of the commercial and economic development portfolio as of December 31, 2022 and 2021, respectively.

Loans receivable consist of the following at December 31:

	2022		2021	
	Number of loans		Number of loans	
Affordable housing	23	\$ 30,223,313	28	\$ 43,101,368
Commercial and economic development	<u>12</u>	<u>16,508,266</u>	<u>9</u>	<u>14,606,457</u>
	<u>35</u>	46,731,579	<u>37</u>	57,707,825
Less - net unamortized loan origination fees		<u>(209,234)</u>		<u>(140,836)</u>
Total loans receivable		46,522,345		57,566,989
Less - allowance for loan losses (see Note 4)		<u>(632,468)</u>		<u>(379,179)</u>
Loans receivable, net		45,889,877		57,187,810
Less - current portion		<u>(11,405,795)</u>		<u>(33,218,290)</u>
Loans receivable, less current portion		<u>\$ 34,484,082</u>		<u>\$ 23,969,520</u>

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

3. LOANS RECEIVABLE (Continued)

As of December 31, 2022 and 2021, total participations outstanding were \$3,927,328 and \$10,181,090, respectively. Given the lack of repurchase rights reserved by PCI with respect to the third-party's interest in the underlying loans receivable, the participations meet the requirements for treatment as loan sales in accordance with the U.S. GAAP criteria for ASC Topic, *Accounting for Transfers and Servicing of Assets and Liabilities*. Accordingly, loans receivable are presented net of participations in the accompanying consolidated balance sheets as of December 31, 2022 and 2021.

Future payments of principal of loans receivable for the next five years are due as follows:

2023	\$ 11,508,398
2024	\$ 23,559,741
2025	\$ 3,481,998
2026	\$ 168,313
2027	\$ 5,534,887
Thereafter	\$ 2,478,242

4. ALLOWANCE FOR LOAN LOSSES

PCI provides an allowance for expected loan losses (see Note 3). The allowance is based on PCI's loan rating policy, which is updated periodically for changes related to individual loans receivable. Loans are rated on a scale of 1 to 6. Loans rated 1 to 4 are considered performing loans and an initial loan loss allocation is assigned to them. This allocation is adjusted each year, as necessary, on each loan based on analysis of each borrower's operating performance.

Loans rated 5 and 6 have a specific reserve percentage. These loans have a higher probability of loss of interest income and principal. For these loans, the major risk factors that drive the loan loss allocation decision are:

- Borrower has a weak balance sheet and has shown consistent losses
- Cash flow may be inadequate to service the debt
- Collateral may be less than 100% of outstanding loan
- Weak management
- Credit history shows sporadic delinquencies
- Guarantor has minimal and illiquid net worth

The loan loss allowance according to PCI's risk rating policy is as follows as of December 31:

Category	Risk Rating	2022		2021	
		Loan Balance	Loan Loss Allowance	Loan Balance	Loan Loss Allowance
Exceptional	1 - 2	\$ -	\$ -	\$ -	\$ -
Performing	3 - 4	42,534,368	-	56,811,568	-
Substandard	5 - 6	4,197,211	419,721	896,257	89,626
General Reserve		-	212,747	-	289,553
		<u>\$ 46,731,579</u>	<u>\$ 632,468</u>	<u>\$ 57,707,825</u>	<u>\$ 379,179</u>

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

4. ALLOWANCE FOR LOAN LOSSES (Continued)

The loan loss allowance, which has been allocated proportionally to the long-term and current portions of the loan portfolio in the accompanying consolidated balance sheets, consists of the following:

	Commercial and Economic Development	Affordable Housing	General Reserve	Total
Balance, December 31, 2020	\$ 353,791	\$ 359,886	\$ 315,792	\$ 1,029,469
Provision for loan losses	<u>(353,791)</u>	<u>(270,260)</u>	<u>(26,239)</u>	<u>(650,290)</u>
Balance, December 31, 2021	-	89,626	289,553	379,179
Provision for (recovery of) loan losses	<u>419,721</u>	<u>(89,626)</u>	<u>(76,806)</u>	<u>253,289</u>
Balance, December 31, 2022	<u>\$ 419,721</u>	<u>\$ -</u>	<u>\$ 212,747</u>	<u>\$ 632,468</u>

PCI reports recoveries of loans previously written-off in prior years as income when the amount is collected, or collection is assured. There were no recoveries of loans previously written-off during 2022 or 2021.

Impaired Loans

PCI identifies a loan as impaired when it is probable that interest and/or principal will not be collected according to the contractual terms of the loan agreement. In accordance with guidance provided by the criteria under ASC Topic, *Impairment (Recoverability)*, management employs one of three methods to determine and measure impairment: the Present Value of Future Cash Flow Method; the Fair Value of Collateral Method; and the Observable Market Price of a Loan Method. To perform an impairment analysis, PCI reviews a loan's internally assigned risk rating, its outstanding balance, value of the collateral, guarantors, and a current report of the action being implemented. Based on the nature of the specific loan, one of the impairment methods is chosen or any impairment is determined, based on criteria established for impaired loans.

Impaired loans as of December 31, 2022 and 2021, are set forth in the tables below:

Loan Category	2022		
	Number of Impaired Loans	Amount of Impaired Loans	Allowance for Loan Losses
Commercial and Economic Development	<u>3</u>	<u>\$ 4,197,211</u>	<u>\$ 419,721</u>
Loan Category	2021		
	Number of Impaired Loans	Amount of Impaired Loans	Allowance for Loan Losses
Affordable Housing	<u>1</u>	<u>\$ 896,257</u>	<u>\$ 89,626</u>

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

4. ALLOWANCE FOR LOAN LOSSES (Continued)

Troubled Debt Restructuring

A troubled debt restructuring (TDR) occurs when a creditor, for economic or legal reasons related to a borrower's financial condition, grants a concession to the borrower that it would not otherwise consider, such as below-market interest rates, principal reductions extending the maturity of a loan, or a combination of these. As is common in the lending industry, PCI makes loan amendments in the normal course of business to extend the loan term when the take-out financing is delayed or under other similar circumstances. If PCI determines that the amendment is not due to the financial difficulties of the borrower and continues to expect full repayment of the loan, the amendment is not classified as a TDR. As of December 31, 2022 and 2021, there were no loans that met the criteria as being a TDR.

At the time a loan is modified in a TDR, PCI considers several factors in determining whether the loan should accrue interest, including:

- Cash flow necessary to pay the interest.
- Whether the customer is current on their interest payments.
- Whether PCI expects the borrower to perform under the revised terms of the restructuring.

5. INVESTMENTS IN VENTURE FUNDS

Investments in venture funds (see Note 2) include non-controlling interests in two venture fund limited partnerships as of December 31, 2022 and 2021, which meet the requirements of qualified investments in accordance with Chapter 259 of the Massachusetts Acts of 1988 (see Note 1). Each venture fund investment represents less than 20% ownership interest and PCI does not exercise control or significant influence over these venture funds.

The balance of investments in venture funds was as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Carried cost	\$ 164,039	\$ 648,839
Less - allowance for impairment	<u>(164,039)</u>	<u>(387,840)</u>
Net	<u>\$ -</u>	<u>\$ 260,999</u>

As of December 31, 2022 and 2021, management has recorded an allowance for impairment totaling \$164,000 and \$388,000, respectively, for these investments. PCI's management estimated impairment using unobservable, or Level 3, inputs under the fair value framework (see Note 2). These inputs are estimated future net cash flows based upon internal financial statements and other information received from investment fund managers.

PCI received approximately \$485,000 and \$107,000 of distributions during 2022 and 2021, respectively.

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

5. INVESTMENTS IN VENTURE FUNDS (Continued)

The carrying cost of investments in venture funds is as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Beginning Balance	\$ 648,839	\$ 758,212
Return of capital	(484,800)	(106,849)
Realized loss on sale	<u>-</u>	<u>(2,524)</u>
Ending Balance	<u>\$ 164,039</u>	<u>\$ 648,839</u>

6. RETIREMENT PLAN

PCI maintains a salary reduction plan (the Plan) under Section 401(k) of the Internal Revenue Code (IRC). The Plan covers substantially all employees who have reached the age of twenty-one and have completed 1,000 hours of service. Participants are able to defer a portion of their salary up to limits established by the IRC. Annually, PCI makes a contribution of 4% of participating employees' salaries and may make additional discretionary contributions, as determined by the Board of Managers. These contributions vest in accordance with a schedule defined in the Plan documents. PCI's contributions to the Plan, including discretionary contributions, were \$86,127 and \$73,290 for 2022 and 2021, respectively, and are included in salaries, payroll taxes and fringe benefits in the accompanying consolidated statements of operations.

7. LEASES

PCI determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be a lease or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. PCI determines if such assets are leased because PCI has the right to obtain substantially all of the economic benefits from, and the right to direct the use of, the identified asset. Assets in which the supplier or lessor has the practical ability and right to substitute alternative assets for the identified asset and would benefit economically from the exercise of its right to substitute the asset are not considered to be or contain a lease because PCI determines it does not have the right to control and direct the use of the identified asset. PCI's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating its contracts, PCI separately identifies lease and non-lease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its office buildings, apartments and vehicles. PCI has elected the practical expedient to not separate lease and non-lease components and classifies a contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the non-lease component.

Leases result in the recognition of ROU assets and lease liabilities on the balance sheet. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. PCI determines lease classification as operating or finance at the lease commencement date.

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

7. LEASES (Continued)

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. PCI uses the implicit rate when readily determinable.

As most of the leases do not provide an implicit rate, PCI uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments. Incremental borrowing rates used to determine the present value of lease payments were derived by reference to the secured-debt yields PCI would receive to finance each lease transaction or needed to borrow the amount of the undiscounted future payments over the term of the lease.

The lease term may include options to extend or to terminate the lease that PCI is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

PCI has elected not to record leases with an initial term of twelve months or less on the consolidated balance sheet. Lease expense on such leases is recognized on a straight-line basis over the lease term.

PCI entered into a seven-year lease agreement for office space with annual base rent starting at \$14,300 with escalating payments each year through May 2024. PCI is responsible for utilities, maintenance and real estate taxes. Termination of the lease is generally prohibited unless there is a violation under the lease agreement.

In accordance with both ASC *Topic 840, Leases*, and ASC *Topic 842, Leases* (*Topic 840* was applied through December 31, 2021, and *Topic 842* was adopted by PCI as of January 1, 2022), PCI records rent expense for their operating leases on a straight-line basis over the terms of the lease regardless of actual cash payments. Rent expense under the facility lease for the years ended December 31, 2022 and 2021, was approximately \$181,000 and \$176,000, respectively, and is included in occupancy costs in the accompanying consolidated statements of operations.

Future minimum lease payments as of December 31, 2021, under *Topic 840*, under this agreement for the remaining lease terms were as follows:

2022	\$ 174,830
2023	\$ 176,520
2024	\$ 73,550

The following summarizes the line items in the accompanying consolidated statement of operations which include the components of lease expense for the year ended December 31, 2022:

Operating lease cost included in occupancy costs	\$ 181,402
Variable lease costs included in occupancy costs	<u>7,470</u>
Total lease expense	<u>\$ 188,872</u>

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

7. LEASES (Continued)

The maturity of lease liability at December 31, 2022, is as follows:

2023	\$ 176,523
2024	<u>73,551</u>
Total future undiscounted lease payments	250,074
Less - discount to present value	<u>(7,814)</u>
Net present value of lease liability	242,260
Less - current portion	<u>(169,293)</u>
Operating lease liability, net of current portion	<u>\$ 72,967</u>

PCI's incremental borrowing rate is 4.8%. The above table does not include any option to extend. ROU asset obtained in exchange for lease liability was \$392,440 as of January 1, 2022.

8. MEMBERS' CAPITAL ACCOUNTS

Members receive "common units" in PCI in exchange for capital contributed on the basis of one unit for \$1.00. Membership is limited to \$100 million from property and casualty insurance companies in the Commonwealth of Massachusetts.

Members may receive distributions from earnings generated by PCI upon approval of the Board of Managers. It is the Board's practice to distribute all of PCI's earnings to members annually based on prior year earnings. PCI distributed \$2,614,924 and \$1,599,858 to members during 2022 and 2021, respectively. Members are prohibited from receiving distributions that would constitute return of capital for the first twenty years of PCI's existence. During 2021, PCI distributed funds totaling \$339,719 to members in excess of the required amount due to errors in the original determination of distributions of earnings. PCI has recaptured the excess distributions as a reduction of the 2022 cash distribution. This amount is reported as receivable from members in the accompanying consolidated balance sheet at December 31, 2021.

In connection with the amendment to extend the term of PCI's operations for ten years through May 2033 (see Note 1), two members with initial capital totaling \$14,095,800 opted not to participate in the extension period. PCI is making return of capital distributions to the retiring members at a rate of 5% of original capital for each of four annual payment dates from May 2019 to May 2022. During May 2023, PCI will distribute the remaining 80% of the retiring members' original capital in accordance with Chapter 259 of the Massachusetts Acts of 1998. During this redemption period, no member can request complete distribution of their remaining principal balance. The retiring members will continue to receive distributions of earnings based on their pro-rata share of ownership in PCI. As of December 31, 2022 and 2021, total return of capital was \$2,819,160 and \$2,114,370, respectively. Return of capital distributions to the two members is expected to be \$11,276,640 in 2023.

9. COMMITMENTS AND OFF-BALANCE SHEET RISK

Commitments to originate loans or subscribe to equity investments are agreements to lend money to or invest in an entity, provided that there are no violations of any conditions established in the agreements. PCI evaluates each request for financing on a case-by-case basis, including, but not limited to, eligibility as established by Chapter 259 of the Massachusetts Acts of 1998, credit worthiness, collateral obtained, and any other prevailing economic factors. Once these commitments are made, PCI is also subject to a degree of off-balance sheet risk, as PCI has committed funds to an entity and such commitment is not recorded on the consolidated balance sheets as a liability. All commitments are made on a conditional basis to allow PCI to assess the financial performance of the borrower prior to the deployment of funds.

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

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9. COMMITMENTS AND OFF-BALANCE SHEET RISK (Continued)

At December 31, 2022 and 2021, PCI had commitments to lend of approximately \$18,494,000 and \$23,996,000, respectively (see Note 3). Among the tools available to manage liquidity are anticipated loan payoffs, utilizing the line of credit (see Note 11), as well as the potential to initiate loan sales and loan participation agreements with lending partners.

10. CONCENTRATION OF CREDIT RISK

PCI maintains its cash balances in three banks in Massachusetts and is insured within limits of the Federal Deposit Insurance Corporation (FDIC) and Depositors Insurance Fund (DIF). At certain times during the year, cash balances exceeded the insured amounts. PCI has not experienced any losses in such accounts and management believes the credit risk related to PCI's cash and cash equivalents is not significant. As of December 31, 2022 and 2021, PCI's exposure for uninsured cash was \$30,340,475 and \$20,785,961, respectively. In order to minimize the credit risk for cash equivalents, management has invested the cash equivalents in highly-liquid money market and other pooled investment accounts designed to maximize FDIC coverage for the pooled investment fund.

11. LINE OF CREDIT

PCI maintains a \$15,000,000 revolving line of credit agreement with a bank. Borrowings are due on demand and interest is payable monthly with the option of a fixed rate based on the Federal Home Loan Bank (FHLB) plus 160 basis points or floating rate based on the Secured Overnight Financing Rate (SOFR) plus 170 basis points. All borrowings are secured by PCI's business assets with a specific assignment of the loan portfolio. The agreement had a two-year term through August 2022, with the option for annual two-year extension terms. The agreement term has been extended through June 30, 2024. PCI did not borrow on the line of credit during 2022 or 2021 and there are no amounts outstanding as of December 31, 2022 and 2021. As specified in the agreement, PCI must meet certain covenants. PCI was in compliance with these covenants at December 31, 2022 and 2021.