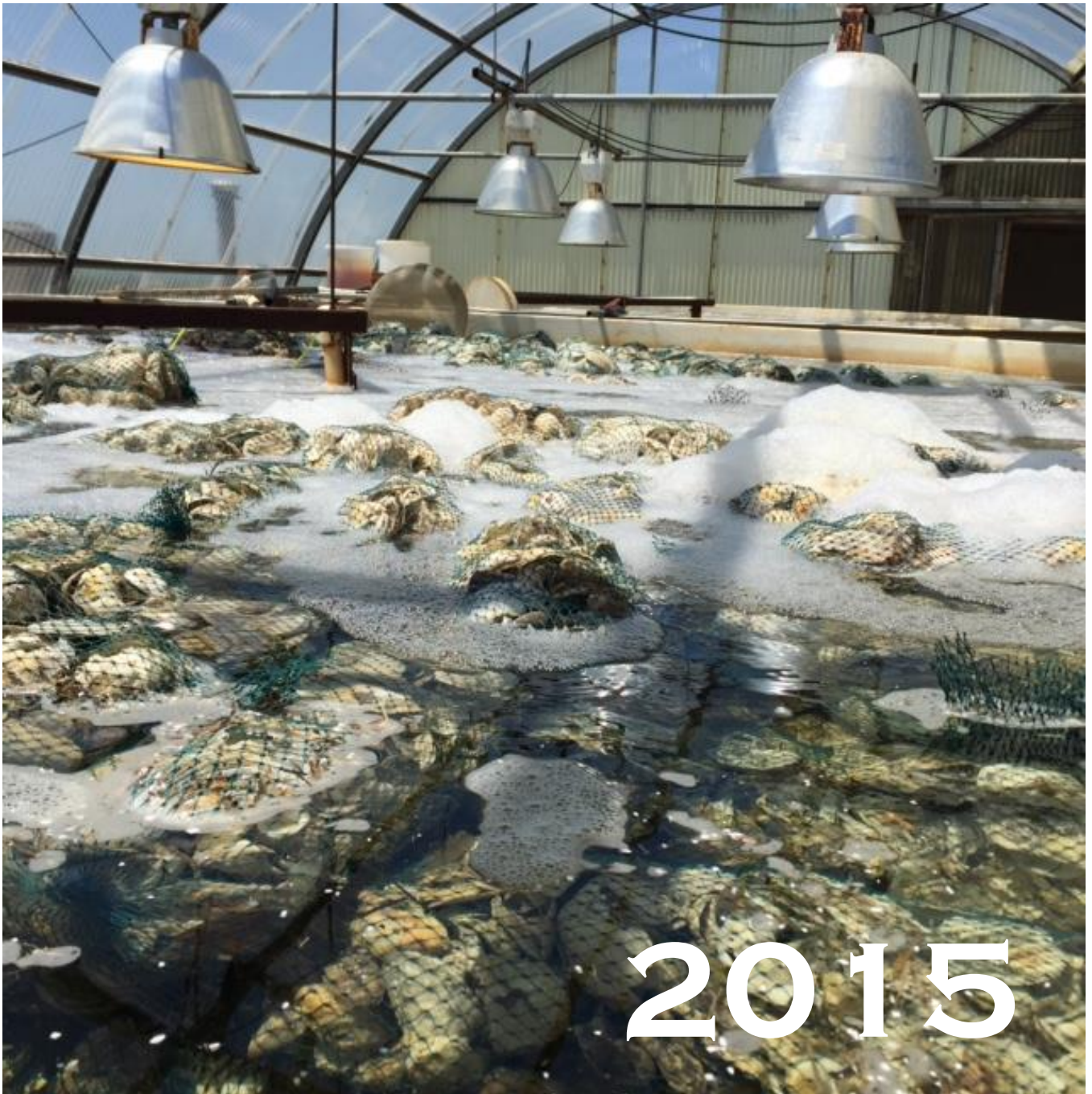


PCI

THE PROPERTY AND CASUALTY INITIATIVE



2015

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MISSION STATEMENT

The Property and Casualty Initiative, LLC (PCI), is a Limited Liability Corporation established by a consortium of Massachusetts-based property and casualty insurance companies.

The goal of PCI is to make sound and prudent investments in organizations and companies that promote economic development, create employment opportunities for low and moderate-income residents, increase or maintain the availability of affordable housing, and expand access to healthcare and social services.

2015 YEAR IN REVIEW

One of the missions of PCI is to fill the financing gap between what traditional lenders can provide and what borrowers need. Since the 2009 financial crisis PCI has seen increased demand in all of our markets in response to the tightening of credit from the traditional lending institutions. We experience unprecedented loan volume until last year when the continued improvement in the overall financial climate encouraged the banks to return to their normal lending practices.

Once again in a fully competitive market we only committed \$14 million to new projects, but closed and funded \$30.7 million from the previous year. This year's projects included the renovation of two vacant mills located in Lowell and Haverhill. Together they created 88 housing units and 4,050 square feet of commercial space. We were also able to participate in the financing of a new hatchery for Aquacultural Research Corporation in Dennis, which provides 90% of the wholesale shellfish seed in Massachusetts.

By the end of 2015, we had closed 80 housing loans and 77 commercial loans, and had invested \$284 million in 62 towns across the Commonwealth.

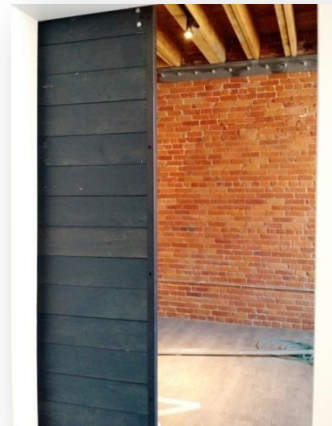


JM LOFTS, HAVERHILL

2015 AFFORDABLE HOUSING SUMMARY

New Commitments

		<u>Units</u>	<u>Affordable</u>
		<u>Total</u>	
Mass Mills III	\$6,166,050	70	57
Total:	\$6,166,050	70	57



JM LOFTS, HAVERHILL

MASS MILLS III



Over twenty years ago, The Mullins Company acquired and renovated two mill buildings, Mass Mills I & II, on a complex known as Massachusetts Mills. The complex is located at 169.5 Bridge Street, in the northeast section of Lowell, bordered by the Concord River to the east, the Merrimack River to the north and Bridge Street to the west. Along with Boston Private Bank and Massachusetts Housing Investment Company, PCI is providing The Mullins Company with construction financing to renovate Mass Mills III, the last phase in the Mass Mills complex. Mass Mills III involves the conversion of the former Picker Building into 116,000 square feet with 70 apartment units and 70 surface parking spaces. The development will also feature a 1,100 square foot lobby area with a vestibule, a small seating area, a mail room, common meeting room and a lavatory.

Of the 70 new units, 81% will be affordable – 10% at 30% of AMI and 71% will be affordable to households earning up to 60% of area median income. The remaining 153 units will be rented at market rate. When complete the Mass Mills complex will house 352 households in renovated mill buildings.

\$6,166,050

MM PICKER LLC
1695 Bridge Street
Lowell, MA 01854

MOBD Region:	Northeast
Type of Investment:	Senior Construction Loan
Investment Qualification:	Low and Moderate-income Housing
% Low/Moderate Income Residents Served	20%
Outstanding @ 12.31.15:	\$1,238,861

2015 ECONOMIC DEVELOPMENT/ SMALL BUSINESS SUMMARY

- Aquacultural Research Corporation (ARC) \$ 500,000
- Egleston Center \$1,100,000
- J.M. Lofts \$3,395,100

Total: \$4,995,100



AQUACULTURAL RESEARCH CORPORATION (ARC)



ARC is one of New England's largest commercial suppliers of wholesale shellfish seed, producing over 90 percent of shellfish seed (quahog, scallops, razor clam etc.) used in Massachusetts. They provide and wholesale shellfish to all 15 towns on Cape Cod and throughout Massachusetts, New England, Atlantic Midwest and in other countries. ARC consistently produces an annual output of all other New England hatcheries of 100 million oyster seeds and 30 million quahog.

The founders and owners of the Aquacultural Research Corporation instituted a plan to ensure the continuation of this 50+ year old shellfish hatchery which involved the sale of the business, replacing the existing 1960's era facility with a modern efficient one, and placing a conservation restriction on the business's pristine waterfront land. With a new facility, ARC will have the expanded capacity to produce more shellfish, decrease energy expenses, and provide a safer working environment for employees.

PCI partnered with two Cape Cod banks on this loan transaction which totaled \$1.5 million.

AQUACULTURAL RESEARCH CORPORATION

99 Chapin Beach Road
Dennis, MA 02638

MOBD Region: Southeast
Type of Investment: Construction to Permanent Loan
Investment Qualification: Economic Development/Small Business
Outstanding @ 12.31.15: \$0

\$500,000

EGLESTON CENTER



\$1,100,000

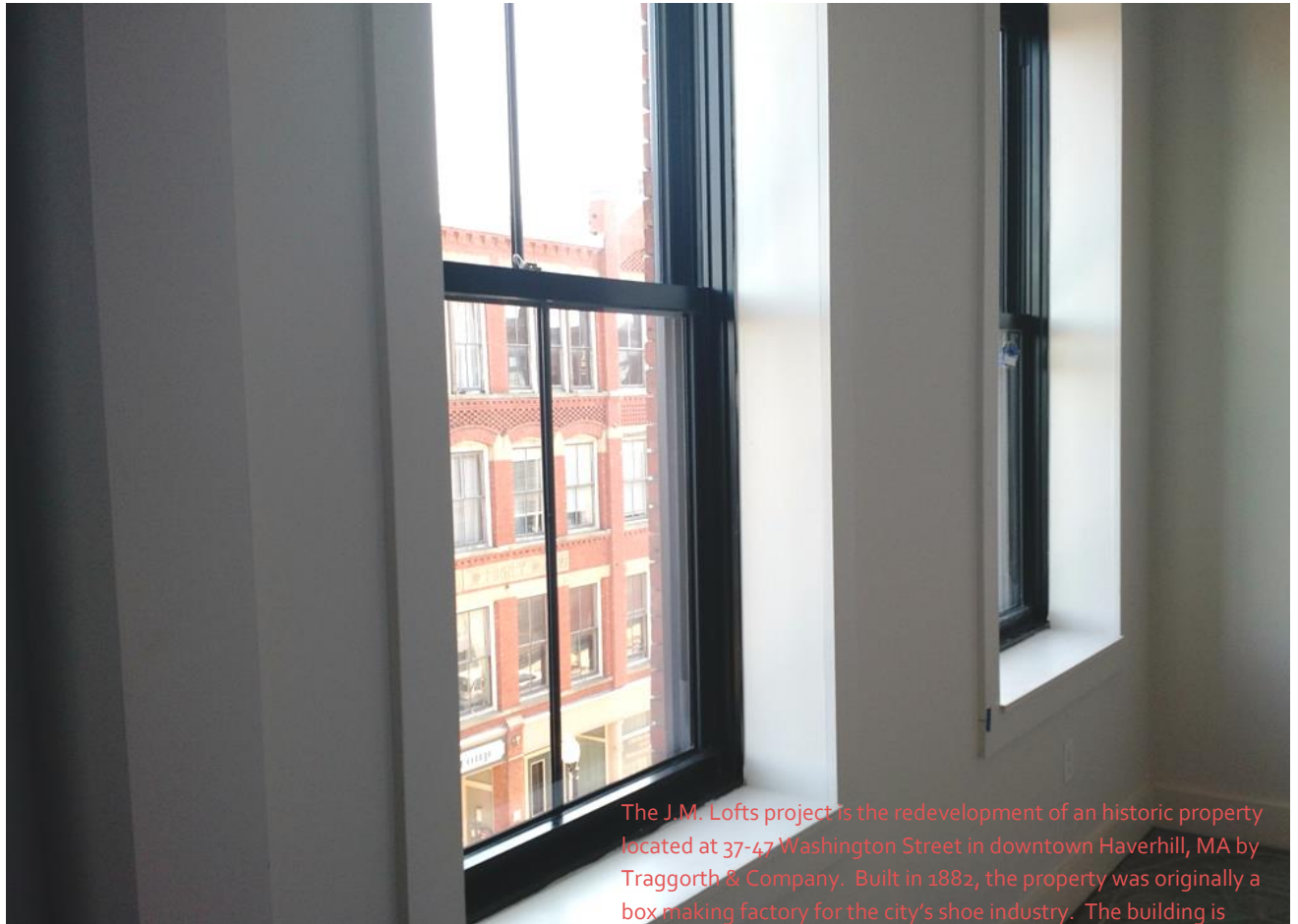
EGLESTON CENTER
URBAN EDGE HOUSING CORPORATION
3060-3070 Washington Street
Boston, MA 02119

MOBD Region: Greater Boston
Type of Investment: Permanent Loan
Investment Qualification: Economic Development
Outstanding @ 12.31.15: \$5,295,714

Egleston Center is situated on a 32,441 square foot parcel of land located at 3060-3070 Washington Street in the business district known as Egleston Square. This district is defined as the area approximately ½ mile in radius surrounding the intersection of Washington Street and Columbus Avenue. The district is home to banks, fast food restaurants and local eateries, professional offices and local retailers. In addition to the two local traffic arteries that intersect in Egleston, the district is accessible from other parts of Boston by public transportation and is convenient to many densely populated neighborhoods in Roxbury.

Egleston Center consists of a one-story, cement block, commercial building, including four storefront retail units and a parking area. The tenants are McDonalds, Santander Bank, H&R Block and Metro PCS. PCI's financing allowed Urban Edge to drop their payment and have the property become debt free in 15 years.

J.M. LOFTS



The J.M. Lofts project is the redevelopment of an historic property located at 37-47 Washington Street in downtown Haverhill, MA by Traggorth & Company. Built in 1882, the property was originally a box making factory for the city's shoe industry. The building is approximately 20,500 square feet, and up until the Borrower bought it in 2013, it was an under-utilized downtown space occupied by a used office furniture business, with retail space for the furniture sales on the ground floor, and warehouse space for the furniture on the upper three stories. Traggorth & Company are in the process of a significant renovation of the building which will result in 4,050 square feet of commercial space and 18 residential apartment units.

\$3,395,100

37 WASHINGTON STREET REDEVELOPMENT LLC

37-47 Washington Street
Haverhill, MA 01832

MOBD Region: North

Type of Investment: Permanent Loan

Investment Qualification: Economic Development

Outstanding @ 12.31.15: \$144,985

The City of Haverhill is one of the Commonwealth's Gateway Cities and this project supports the City of Haverhill's efforts to revitalize its downtown. In addition to PCI's construction and permanent financing, other project sources include State and Federal Historic tax credit equity and HDIP equity. The project also has nearly 20% in private investor funds.

REGIONAL DISTRIBUTION AT 12.31.15

Section 3 of the legislation that created PCI states that as of December 31, 2002 (and each year thereafter), PCI must certify that 25 percent of the total insurance company funds were distributed (i.e., have funds committed) among the Massachusetts Office of Business Development's five geographic regions.

The total amount of capital contributed by the participating property and casualty insurance companies at the end of 2015 was \$85,026,020, and the cumulative total of loan funds closed at December 31, 2015 was \$284,343,224.

The following table shows that PCI had exceeded its regional distribution requirement in each region as of December 31, 2015.

Region	Amount of Investments	Number of Investments
West	\$53,185,500	20
Central	\$27,857,667	15
Northeast	\$31,560,374	23
Southeast	\$42,150,900	32
Boston	\$120,588,783	47
Statewide	\$9,000,000	6
Total	\$284,343,224	143

QUALIFIED INTERIM INVESTMENTS

At December 31, 2015, the total interim investments of The Property and Casualty Initiative, LLC were as follows:

Bank Deposits	\$19,289,536.50
Fidelity Institutional Money Market Fund	\$7,939,357.11
Morgan Stanley Smith Barney	\$10,051,034.73
Total Interim Investments	\$37,279,928.34

The Fidelity and Morgan Stanley investments qualify under item (2) of the qualified interim investments provisions of Chapter 259, Taxation of Insurance Companies –Community Investment, of the Acts of 1998, because of the fundamental mechanics of the Fund and the short maturity of the holdings.

At December 31, 2015 \$15,212,000 of the total Interim Investments was committed to projects or companies, which had not yet closed or been fully funded by year end.

PUBLIC MEETINGS

During fiscal year 2015, the following meetings were held in each of the five MOBD regions:

<u>Date</u>	<u>Region</u>	<u>City</u>
3/30/15	Southeastern	Brockton
4/13/15	Northeastern	Haverhill
6/30/15	Central	Worcester
8/13/15	Boston	Boston
10/2/015	Western	Williamstown

MEMBER COMPANIES

Arbella Group

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

Arrow Mutual Liability Insurance Company

Barnstable County Group

- Barnstable County Mutual Insurance Company
- Barnstable County Insurance Company

Coverys

- Medical Professional Mutual Insurance Company
- ProSelect Insurance Company

Electric Insurance Company

Harleysville Group

- Harleysville Worcester Insurance Company
- Berkshire Mutual Insurance Company

Holyoke Mutual Insurance Company

Liberty Mutual Group

- Liberty Mutual Insurance Company
- Liberty Mutual Fire Company

Norfolk & Dedham Group

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

OneBeacon Group

- Associated Industries of MA Mutual Insurance Company
- Atlantic Specialty Insurance Company

Plymouth Rock Group

- Plymouth Rock Assurance Corp
- Pilgrim Insurance Company
- Bunker Hill Insurance Company

Quincy Mutual Fire Insurance Company

The Premier Insurance Company of Massachusetts

Tower Group

- Massachusetts Homeland Insurance Company

2015 CAPITAL CONTRIBUTIONS

2015 Capital Contributions

	Cumulative Contribution	Cumulative "Proportionate Share" %**	Actual Proportionate Share
1 Arbella Indemnity Insurance Company	\$92,100	0.0921%	0.11%
2 Arbella Mutual Insurance Company	\$1,959,900	1.9599%	2.31%
3 Arbella Protection Insurance	\$564,700	0.5647%	0.66%
4 Arrow Mutual Liability Insurance Company	\$157,700	0.1577%	0.19%
5 Associated Industries of MA Mutual Ins. Co.	\$500,200	0.5002%	0.59%
6 Atlantic Specialty Insurance Company	\$14,095,800	14.0958%	16.58%
7 Barnstable County Insurance Company	\$28,200	0.0282%	0.03%
8 Barnstable County Mutual Insurance Co.	\$81,100	0.0811%	0.10%
9 Berkshire Mutual Insurance Company*	\$74,120	0.0741%	0.09%
10 Bunker Hill Insurance Company	\$54,500	0.0545%	0.06%
11 Dorchester Mutual Insurance Company	\$102,500	0.1025%	0.12%
12 Electric Insurance Company	\$2,946,000	2.9460%	3.46%
13 Fitchburg Mutual Insurance Company	\$151,100	0.1511%	0.18%
14 Harleysville Worcester Insurance Company	\$941,200	0.9412%	1.11%
15 Holyoke Mutual Insurance Company in Salem	\$357,000	0.3570%	0.42%
16 Homeland Insurance Company of New York	\$10,000,000	0.10000%	.1176%
17 Liberty Mutual Fire Company	\$6,475,600	6.4756%	7.62%
18 Liberty Mutual Insurance Company	\$49,021,000	49.0210%	57.65%
19 Massachusetts Homeland Insurance Company	\$27,500	0.0275%	0.03%
20 Medical Professional Mutual Insurance Co.	\$4,041,100	4.0411%	4.75%
21 Norfolk & Dedham Mutual Fire Insurance Co.	\$483,400	0.4834%	0.57%
22 Pilgrim Insurance Company	\$19,000	0.0190%	0.02%
23 Plymouth Rock Assurance Corp.	\$496,700	0.4967%	0.58%
24 ProSelect Insurance Company	\$91,400	0.0914%	0.11%
25 Quincy Mutual Fire Insurance Company	\$1,092,500	1.0925%	1.28%
26 The Premier Insurance Company of MA	\$1,171,700	1.1717%	1.38%
Total Capital Contributions	\$85,026,020	85.0260%	100.00%

**Based on \$100,000,000

AUDITED

FINANCIAL

STATEMENTS

DECEMBER 31, 2015



**The Property and Casualty
Initiative, LLC and Affiliate**

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

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December 31, 2015 and 2014

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Consolidated Statements of Changes in Members' Equity	4
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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:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Property and Casualty Initiative, LLC and Affiliate (Massachusetts limited liability companies) which comprise the consolidated balance sheets as of December 31, 2015 and 2014, 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.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Property and Casualty Initiative, LLC and Affiliate as of December 31, 2015 and 2014, 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.

Alexander, Brown, Penning & Co., P.C.

Boston, Massachusetts
April 16, 2015

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Consolidated Balance Sheets
December 31, 2015 and 2014

<u>Assets</u>	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash and cash equivalents	\$ 29,944,045	\$ 26,690,039
Certificates of deposit	-	3,254,619
Investments in marketable securities	7,335,883	852,307
Current portion of loans receivable, net of allowance for loan losses of \$188,086 and \$188,116 as of December 31, 2015 and 2014, respectively	13,822,684	15,786,019
Accrued interest receivable on loans	172,740	171,291
Prepaid expenses and other	<u>95,082</u>	<u>49,281</u>
Total current assets	51,370,434	46,803,556
Loans Receivable, net of current portion and allowance for loan losses of \$483,651 and \$460,561 as of December 31, 2015 and 2014, respectively	34,476,303	39,078,224
Investments in Limited Partnerships, net of allowance for impairment	779,407	969,391
Property and Equipment, net	<u>-</u>	<u>721</u>
Total assets	<u>\$ 86,626,144</u>	<u>\$ 86,851,892</u>
Liabilities and Members' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 6,698	\$ 5,907
Deposits and escrows	<u>37,805</u>	<u>86,214</u>
Total current liabilities	<u>44,503.....</u>	<u>92,121</u>
Members' Equity:		
Members' capital contributions	85,026,020	85,026,020
Retained earnings	<u>1,555,621</u>	<u>1,733,751</u>
Total members' equity	<u>86,581,641</u>	<u>86,759,771</u>
Total liabilities and members' equity	<u>\$ 86,626,144</u>	<u>\$ 86,851,892</u>

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

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Consolidated Statements of Operations
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Interest on loans	\$ 2,551,616	\$ 2,535,491
Loan fees and other	145,860	168,724
Investment income	24,383	149,775
Loan loss recoveries	<u>-</u>	<u>120,000</u>
Total operating revenues	2,721,859	2,973,990
Less - provision for loan losses	(23,060)	(73,886)
Less - provision for impairment of investments in limited partnerships	<u>(100,000)</u>	<u>(100,000)</u>
Net operating revenues	<u>2,598,799</u>	<u>2,800,104</u>
Operating Expenses:		
Salaries, payroll taxes and fringe benefits	840,278	822,524
Occupancy costs	103,579	103,707
Professional fees	47,417	83,172
Insurance	16,606	15,117
Travel	13,760	13,372
Supplies and other	11,432	10,984
Telephone and utilities	8,343	9,085
Depreciation	1,042	1,245
Printing and postage	<u>721</u>	<u>7,147</u>
Total operating expenses	<u>1,043,178</u>	<u>1,066,353</u>
Net income	<u>\$ 1,555,621</u>	<u>\$ 1,733,751</u>

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

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Consolidated Statements of Changes in Members' Equity

For the Years Ended December 31, 2015 and 2014

	Members' Capital Contributions	Retained Earnings	Total
Balance , December 31, 2013	\$ 85,026,020	\$ 1,767,341	\$ 86,793,361
Net income	-	1,733,751	1,733,751
Distributions to members	-	<u>(1,767,341)</u>	<u>(1,767,341)</u>
Balance , December 31, 2014	85,026,020	1,733,751	86,759,771
Net income	-	1,555,621	1,555,621
Distributions to members	-	<u>(1,733,751)</u>	<u>(1,733,751)</u>
Balance , December 31, 2015	<u>\$ 85,026,020</u>	<u>\$ 1,555,621</u>	<u>\$ 86,581,641</u>

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

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:	\$ 1,555,621	\$ 1,733,751
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	721	7,147
Provision for loan losses	23,060	73,886
Amortization of loan origination fees	(145,631)	(168,423)
Loan origination fees	158,705	140,570
Realized loss on limited partnerships	42,378	-
Provision for impairment of limited partnership investments	100,000	100,000
Changes in operating assets and liabilities:		
Accrued interest receivable on loans	(1,449)	16,872
Prepaid expenses and other	(45,801)	(11,356)
Accounts payable and accrued expenses	791	2,507
Deposits and escrows	<u>(23,329)</u>	<u>50,076</u>
Net cash provided by operating activities	<u>1,665,066</u>	<u>1,945,030</u>
Cash Flows from Investing Activities:		
Issuance of loans receivable	(16,984,710)	(27,529,472)
Principal payments on loans receivable	23,513,832	21,450,383
Net (purchases) redemptions of certificates of deposit	3,254,619	(2,078,759)
Sale (purchase) of investments in marketable securities	(6,483,576)	4,258,980
Return of capital distributions from limited partnerships	<u>47,606</u>	<u>162,832</u>
Net cash provided by (used in) investing activities	<u>3,347,771</u>	<u>(3,736,036)</u>
Cash Flows from Financing Activities:		
Distributions to members	(1,733,751)	(1,767,341)
Payment of escrow deposits	<u>(25,080)</u>	<u>(577,989)</u>
Net cash used in financing activities	<u>(1,758,831)</u>	<u>(2,345,330)</u>
Net Change in Cash and Cash Equivalents	3,254,006	(4,136,336)
Cash and Cash Equivalents:		
Beginning of year	<u>26,690,039</u>	<u>30,826,375</u>
End of year	<u>\$ 29,944,045</u>	<u>\$ 26,690,039</u>

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

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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.

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.

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.

Certificates of Deposit

Investments in certificates of deposit are carried at the original cost plus contracted interest. All certificates of deposit have original maturity dates less than one year.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Marketable Securities

Investments in marketable securities are debt securities carried by PCI on a held-to-maturity basis and reported at amortized cost. Gains or losses are recognized only as realized upon sale. These securities are reported in the accompanying consolidated balance sheets as current assets based on the maturities of the underlying securities.

Management monitors the fair value of all held-to-maturity securities to determine whether any impairments considered other than temporary exist. No such impairments were recorded in 2015 or 2014.

Loans Receivable and Allowance for Loan Losses

Loans receivable are stated net of 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 such 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 *Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures* standard under U.S. GAAP.

Investments in Limited Partnerships

Investments in limited partnerships consist of PCI's non-marketable interests in local investment funds. Because PCI does not exercise significant influence over its investments in limited partnerships, it records such investments using the cost method of accounting (see Note 6). 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 partnership 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.

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.

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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:

	Estimated	<u>2015</u>	<u>2014</u>
	<u>Useful Lives</u>		
Furniture and equipment	3 - 7 years	\$ 64,851	\$ 64,851
Leasehold improvements	Term of lease	<u>2,030</u>	<u>2,030</u>
		66,881	66,881
Less - accumulated depreciation		<u>66,881</u>	<u>66,160</u>
Net property and equipment		<u>\$ -</u>	<u>\$ 721</u>

Depreciation expense for 2015 and 2014 was \$721 and \$7,147, respectively.

Subsequent Events

Subsequent events have been evaluated through April 4, 2016, 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.

Fair Value Measurements

PCI and 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 Affiliate would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

PCI and Affiliate uses 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 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.

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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 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 \$2,715,152 and \$5,951,908 in money markets as of December 31, 2015 and 2014, respectively.

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.

Several of PCI's loans are subject to prepayment penalty clauses in the loan agreements. Prepayment penalties are recognized as revenue when prepayment occurs. In 2015 and 2014, 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 is reported by the partners 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 statement 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, 2015 and 2014. However, PCI's income tax returns are subject to examination by the appropriate taxing jurisdictions. As of December 31, 2015, PCI's Federal and state tax returns generally remain open for the most recent three years.

Advertising Costs

PCI expenses advertising costs as they are incurred. Advertising expense for 2015 and 2014 was \$438 and \$3,450, respectively, and is included in professional fees in the accompanying consolidated statements of operations.

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3. LOANS RECEIVABLE

PCI offers the following loan products (also see Note 10):

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 2.89% to 8.0% and mature at various dates through 2030. Principal balances range from \$90,432 to \$6,810,215. 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 67% of the affordable housing portfolio as of December 31, 2015 and 2014, respectively.

Small Business – Made to support the development and/or expansion of small businesses 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. Small business loans receivable bear interest at rates ranging from 3.0% to 8.0% and mature at various dates through 2025. Principal balances range from \$105,769 to \$9,500,000. These loans are generally secured by the borrowers' business assets. PCI's five largest outstanding small business loans receivable were approximately 89% and 85% of the small business portfolio as of December 31, 2015 and 2014, respectively.

Loans receivable consist of the following at December 31:

	<u>2015</u>		<u>2014</u>	
	<u>Number of loans</u>		<u>Number of loans</u>	
Affordable housing	23	\$ 31,785,509	24	\$ 31,880,506
Small business	<u>11</u>	<u>17,378,750</u>	<u>12</u>	<u>23,812,875</u>
	<u>34</u>	49,164,259	<u>36</u>	55,693,381
Less - net unamortized loan origination fees		<u>(193,535)</u>		<u>(180,461)</u>
Total loans receivable		48,970,724		55,512,920
Less - allowance for loan losses (see Note 4)		<u>(671,737)</u>		<u>(648,677)</u>
Loans receivable, net		<u>\$ 48,298,987</u>		<u>\$ 54,864,243</u>

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3. LOANS RECEIVABLE (Continued)

As of December 31, 2015 and 2014, total participation loans outstanding were \$3,790,003 and \$335,000, 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 a loan sale 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 on the accompanying consolidated balance sheets as of December 31, 2015 and 2014.

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

2016	\$ 14,010,770
2017	\$ 17,565,359
2018	\$ 1,456,412
2019	\$ 1,315,411
2020	\$ 2,433,492

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 given 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 high 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:

<u>Category</u>	<u>Risk Rating</u>	<u>2015</u>		<u>2014</u>	
		<u>Loan Balance</u>	<u>Loan Loss Allowance</u>	<u>Loan Balance</u>	<u>Loan Loss Allowance</u>
Exceptional	1 - 2	\$ -	\$ -	\$ -	\$ -
Performing	3 - 4	44,865,123	-	51,705,392	-
Substandard	5 - 6	4,299,136	429,914	3,987,989	369,985
General Reserve		-	241,823	-	278,692
		<u>\$ 49,164,259</u>	<u>\$ 671,737</u>	<u>\$ 55,693,381</u>	<u>\$ 648,677</u>

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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:

	<u>Affordable Housing</u>	<u>Small Business</u>	<u>Total</u>
Balance , December 31, 2013	\$ 521,317	\$ 53,474	\$ 574,791
Provision for loan losses	<u>42,483</u>	<u>31,403</u>	<u>73,886</u>
Balance , December 31, 2014	563,800	84,877	648,677
Provision for loan losses	<u>15,492</u>	<u>7,568</u>	<u>23,060</u>
Balance , December 31, 2015	<u>\$ 579,292</u>	<u>\$ 92,445</u>	<u>\$ 671,737</u>

PCI reports recoveries of loans previously written off in prior years as income when the amount is collected or collection is assured. During 2014, \$120,000 was recovered on a loan previously written off during 2013. There were no recoveries during 2015.

5. INVESTMENTS IN MARKETABLE SECURITIES

The amortized cost of securities (see Note 2) and their approximate fair values are as follows as of December 31, 2015:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Corporate bonds:		
Financial services	\$ 5,050,335	\$ 4,607,556
Other	<u>2,285,548</u>	<u>2,776,516</u>
	<u>\$ 7,335,883</u>	<u>\$ 7,384,072</u>

The amortized cost of securities and their approximate fair values are as follows as of December 31, 2014:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Corporate bonds:		
Financial services	\$ 652,162	\$ 657,533
Other	<u>200,145</u>	<u>200,106</u>
	<u>\$ 852,307</u>	<u>\$ 857,639</u>

As of December 31, 2014, the full amount of held to maturity securities mature within one year. During 2015, all of the securities held as of December 31, 2014, matured.

Investments are not insured and are subject to ongoing market fluctuations.

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

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6. INVESTMENTS IN LIMITED PARTNERSHIPS

Investments in limited partnerships (see Note 2) include non-controlling interests in four partnerships and limited liability companies, which meet the requirements of qualified investments in accordance with Chapter 259 of the Massachusetts Acts of 1988. All partnership investments represent less than 20% limited partner interests and PCI does not exercise control or significant influence over these partnerships.

The balance of investments in limited partnerships was as follows for 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Carried cost, beginning of year	\$ 2,044,391	\$ 2,207,223
Realized loss	(42,378)	-
Return of capital distributions	<u>(47,606)</u>	<u>(162,832)</u>
Carried cost, end of year	1,954,407	2,044,391
Less - allowance for impairment	<u>(1,175,000)</u>	<u>(1,075,000)</u>
Net	<u>\$ 779,407</u>	<u>\$ 969,391</u>

As of December 31, 2015 and 2014, management has recorded estimated allowances for impairment totaling \$1,175,000 and \$1,075,000, respectively, for two of these investments. PCI's management determined these impairment estimates 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 managers. PCI recorded provision for impairments of \$100,000 in both 2015 and 2014.

PCI received distributions of \$47,606 and \$162,832 for 2015 and 2014, respectively. During 2015, PCI also incurred a realized loss of \$42,378 which is included in investment income in the accompanying consolidated statement of operations.

7. 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 vesting schedule defined in the Plan documents. PCI's contributions to the Plan, including discretionary contributions, were \$74,949 and \$67,299 for 2015 and 2014, respectively, and are included in salaries, payroll taxes and fringe benefits in the accompanying consolidated statements of operations.

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8. LEASES

Facility

PCI leases office space in Boston, Massachusetts, under an agreement that terminates on May 31, 2017. PCI is required to make monthly rental payments, plus its proportionate share of real estate taxes and operating expense. Rent expense under the lease was \$96,528 and \$98,968 for 2015 and 2014, respectively, and is included in occupancy costs in the accompanying consolidated statements of operations.

Equipment

PCI had an equipment lease which expired in April 2014, and was renewed under the same terms through 2017. Equipment lease expense was \$1,530 and \$1,673 for 2015 and 2014, respectively. These amounts are included in supplies and other in the accompanying consolidated statements of operations.

Future minimum lease payments over the remaining lease terms are as follows:

	<u>Facility</u>	<u>Equipment</u>
2016	\$ 99,847	\$ 2,160
2017	\$ 42,179	\$ 720

9. 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 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 \$1,733,751 and \$1,767,341 to members during 2015 and 2014, respectively. Members are prohibited from receiving distributions that would constitute return of capital for the first twenty years of PCI's existence.

10. 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 sheet as a liability. The performance of these entities could adversely affect the ability of PCI to recover the committed investment. At December 31, 2015 and 2014, PCI had commitments to lend of approximately \$15,212,000 and \$23,111,000, respectively (see Note 3).

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11. CONCENTRATION OF CREDIT RISK

PCI maintains its cash, cash equivalents and certificates of deposit balances in five banks in Massachusetts and is insured within limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, cash balances exceeded the insured amounts. As of December 31, 2015, PCI's exposure for uninsured funds was approximately \$18,500,000. PCI has not experienced any losses in such accounts and management believes the credit risk related to PCI's cash, cash equivalents and certificates of deposit is not significant.

12. RECLASSIFICATION

Certain amounts in the 2014 consolidated financial statements have been reclassified to conform with the 2015 presentation.

PCI

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