The Plymouth Rock Company

2015 Annual Report

The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 8, 2016

To Our Shareholders:

Most every business experiences good years and not-so-good years. The headline news from 695 Atlantic is that 2015 provided a double-barreled encounter of the second kind. Our underwriting results were socked by extreme weather (yes, again) over the winter, and the year's investment performance rolled in a dark cloud of its own. The silver lining is that even a poor year for Plymouth Rock is not nearly as distressing as it can be for a great many other businesses. Your shareholder-owned corporation, The Plymouth Rock Company, earned barely half the net income called for by our five-year plan, and less still if unrealized investment losses are taken into account. On the other hand, despite the disappointments, our book value per share (including those unrealized losses) continued to accrete, even if more modestly than usual. I hope this provides you the same considerable comfort it gives Hal and me.

These days, you can employ an easy shortcut to understanding our financial results at the most basic level. Our Company is *omnis divisa*, like Caesar's Gaul, in three parts. The first is an investment business centered in The Plymouth Rock Company itself and its investment subsidiaries. Another is our automobile and homeowners underwriting business, with writings in three New England states. And third but not least, there is our fee-based business, mainly represented by Pilgrim Insurance Company and the much larger New Jersey auto and homeowners reciprocal management business. Among the reasons this division is convenient as an intellectual aid is that each of the three segments should contribute profits of roughly similar magnitudes to the bottom line. In a period during which equity returns run at the 10% annual rate typical of their performance over the entire twentieth century, the sum of realized and unrealized gains in the holding company equity portfolio alone should exceed \$20 million. Historically, our equities have done better than the market's 10% by a nice margin. The New England underwriting business was budgeted to return nearly \$22 million in 2015, with normal provision for weather catastrophes. The fee-based businesses were expected to provide us \$25 million in profits, excluding intracompany fees. Economic return on equity, had all this occurred as hoped, would have been in the high teens. In a year with pleasant surprises in a couple of these segments, The Plymouth Rock Company's return on shareholders' equity can exceed 20%.

The past twelve months, alas, looked nothing like that lyrical year of pleasant surprises. The overall equity markets were worse than lackluster, with the Dow Jones and the

Standard & Poor's indices each closing the year below their starting levels. As weak as the market averages were, our own equity portfolio underperformed them as the result of one regrettable investment decision. The winter's weather had axe-murdered the dream of strong New England underwriting results by mid-February. Only the two fee-based businesses met their contribution expectations. It has long been comforting for me to consider our business as generally occupying a rate of return corridor bordered on the bountiful side by 20% and on the infelicitous side by 10%. This past year we busted through the wall in the uglier direction. Our gain in book value per share, plus dividends paid out, represented only a 3.1% return. That number looks more like 4.9% if the $6.6 million in tax-adjusted gains on our real estate holdings determined by appraisal (but unreflected in standard financial statements until realized) are added to income. And, while one might insist that the $5 million premium over book value we paid out in another repurchase of our own shares isn't really lost and could also be tacked on to calculate true economic return, I won't argue for that extra point. The increment wouldn't take us in any event near the double-digit advance to which we are accustomed.

The financial statements display $29.3 million in net income for the shareholder group, which compares with $29.2 million last year. Plymouth Rock's book value now stands at $3,139 per share. While these results chop another two-tenths of a point from the cumulative annual book value rate of return since 1983, that number still exceeds 18%. Fully consolidated net income for the whole group, including the net income of the New Jersey reciprocal, was $53.1 million. While this, too, appears to be in excess of last year's number, don't be fooled. Comprehensive income, which correctly reflects our 2015 unrealized securities portfolio losses, is a fraction of the prior period's number.

Premiums written rose in both of our major markets. The New Jersey uptick of close to 3% came entirely from rate increases and the skillful purchase of a small competitor's renewals, while the New England companies enjoyed 8% growth, mainly from rate increases. The group's underwritten and managed premium volume now rounds to $1.2 billion. We continued our stock buyback initiative in 2015. Although the timing may not have been ideal in the short run, we continue to think these repurchases constitute sound long-term decisions and, just as important, our initial investor welcomed a little increase in liquidity after a patient 32-year holding period. We purchased close to 5% of the Company's aggregate outstanding shares from Central Securities in 2015, reducing Central's stake in Plymouth Rock to 23%, about three-fifths of what it was a few years back. To that end, we ratcheted our recent collateralized bank loan back up to the $35 million level. My aversion to borrowing is as strong as ever, but it is not so absolute that valid purpose and absurdly low interest rates can't overcome it a while longer.

The New England experience provided the most drama this past year, not much of it pleasurable. New England president Chris Olie's characteristic optimism was dashed earlier than usual in 2015. Whereas it was a polar vortex in the preceding year that had brought Massachusetts its coldest winter in decades, the foe this time was snow. And more snow. The winter had started gently, with an uncharacteristically mild December and early January. Then the skies opened on January 26, and the snow just wouldn't stop. By March, nine feet of snow had fallen on Boston, garnering national news attention and setting a record for the whole 143 prior years of reliable Boston weather data. My family will remember this as the year that our dog Duke could go outside every morning from the second floor of our house, which delighted him no end. For Plymouth Rock, the ever-rising white drifts presaged ice dams on insured roofs as the snow cycled through melts and freezes, and, sure enough, those claims arrived in droves. Direct costs to our Bunker Hill homeowners business consequent to the omnipresent ice, slush, and snow exceeded $30 million. While we recovered a good bit of that in reinsurance and taxes, it still handed Bunker Hill one of its worst years ever. The 2015 combined ratio at Bunker Hill was over 115%, dragging that company well into the red for the year. It is scant consolation that several of our Massachusetts peers were hit even harder.

Ordinarily, we might figure that homeowners losses of this magnitude and origin would be partially recompensed by reduced automobile claims as sensible commuters left their cars in their garages and traveled to work by public transportation. That simply wasn't an option in February of 2015. The arctic conditions savaged and crippled the entire rapid transit system, and even sensible commuters found themselves reluctantly driving to work on obstructed, crowded, and slippery roads. Our automobile loss ratio, instead of easing matters, added to winter's sting. Hal, Chris, and I can recount without hesitation our pride in the way the New England claims departments cheerfully and effectively handled their auto and homeowners loads, and I am well aware that customers buy our product largely because these kinds of events can occur, but it certainly would have been nicer if 2015 had compensated for a too-wintry 2014 rather than piling on.

When the ice and snow finally melted, the remainder of the seasons transpired without any new shocks, although auto property claim indicators appear to be heating up just enough to raise concerns. By yearend, we were recording a New England automobile combined ratio of 103%, only slightly better than we showed the prior year. On the good news side of the ledger, our joint marketing program with AARP continues to grow in scale, and our recently implemented new automobile product offering -- referred to around here as Prime -- is boosting new business volume even more than anticipated. With auto cost trends rising, though, we have to watch that the hot business flow doesn't signal that our attractive rate revisions overshot their mark. It helps that independent agency relationships are healthier than ever, with agents particularly happy that we are teaching them (or maybe, more accurately, learning together with them) about rapidly evolving modern marketing tools.

Pilgrim Insurance Company, which services other insurers for a fee, continues to face headwinds from the shrinkage of the private passenger residual market upon which its original business was built, but it progressed despite the challenging environment. Its revenues were $14 million in 2015, up 20% from the prior year, and it provided over $2 million of the Company's net income. The new year promises to be even better. Plymouth Rock's New Hampshire operation suffered from the same winter conditions that clobbered Massachusetts, though the snow was not as bad there and people in the Granite State are a bit more prepared to handle it. The net income impact of that state's $20 million book of business was a bit short of breakeven. Connecticut is a more interesting story. We have never done well there, but a sophisticated product management team has narrowed our losses considerably and assures us we are headed for profits there by 2017. Premium volume in Connecticut was $30 million in 2015, up just a bit from the year before that, but whereas the net income impact of Connecticut was negative by $2.8 million in 2014, the drag was less than half that this past year.

Our New Jersey business was born proudly as Palisades, an independent agency carrier. The independent agency channel, now branded as Plymouth Rock, is as important to us today as ever. It represents about $250 million in premium volume, a number that grew by 5% this past year. The threat from direct response companies, which now write a higher share of the total business in New Jersey than in any other state, continues unabated. In a state where personal lines insurance was once dominated by agents, only Travelers, Progressive, and our company can still be considered large and successful independent agency players. Our exclusive agency business in the Garden State is written through the Prudential agent network, via a long-standing contract extended just this year through 2020. We have never found a way to grow this book, though its overall profitability is strong and consistent. The exposure count of automobiles insured through Pru shrank during 2015 by 3.5%, which is doubly painful because seasoned business has been much more favorable than our new writings in this channel. And our arrangement with Pru doesn't give us access to their new homeowners business there. The count of insured homes under the Pru contract, a particularly valuable contributor to our results, has inexorably declined over time. This past year it fell by 9%, a rate of diminution that Gerry Wilson and his team would dearly like to slow.

If we assume that the New Jersey exclusive agency channel will continue to contract gradually until we find new magic, and that independent agents will have trouble reversing the direct response conquests, Gerry's best growth opportunity may be in his direct channel. With determined leadership in place, that business continues to expand and improve. Its premium in force has just passed $100 million, and its combined ratio improves over time as scale benefits the expense ratio, more of the book matures to become seasoned renewal business, and our skills are enhanced by learning. The improvement in 2015 was a modest point and a half, bringing the combined ratio below 108% and within modern-weapon shooting distance of profitability. Note for perspective that the improvement over the last two years is about 13 points, and the net loss suffered by that channel has been more than halved. As scale and skills continue to grow, there are good prospects for taking this channel into the black. The direct team foresees the red ink nearly gone by the end of the current year. Not that there should be any doubt of this, but let me be clear that Gerry, Hal, and I remain fully committed to service excellence and profitability in all three of our New Jersey channels. We like the multi-channel platform for that state. And entering a new state in that region is always a possibility.

Net income in New Jersey, taking the reciprocal and the management company together, was $48 million in 2015, including some well-aged capital gains harvested at yearend. The loss ratio has deteriorated a bit, while the expense ratio has improved by nearly the same amount. Neither year's bottom-line number matches what I'd ideally like to see for New Jersey profits, but we'd beat both outcomes easily if the automobile line could be made to earn a fit return. The 2015 result, though, is satisfactory -- a statement I only wish I could make about investments or the New England underwriting experience.

Last year's report talked about two important new initiatives that call for an update at this time. One was a campaign to lower Plymouth Rock's overall expense ratio by a full two points over two years. In both New Jersey and New England, the first year's task has been successfully accomplished, for which congratulations to Gerry, Chris, IT chief Paul

Luongo, and all the vice presidents are in order. The second year's point will be harder to capture. The other, and longer-term, initiative described last year was the creation of a national insurance brokerage firm. In addition to potentially making a healthy profit for our group, we see that effort as likely to sharpen our whole group's marketing savvy -- and particularly so with respect to Internet selling. I may sound like a broken record on this score, but I'll say again that the Internet is an inevitable destination for virtually all retail marketing. My prediction is that insurance sales for many customers will require an element of personal contact and counseling as well, but even this relationship piece can be built around an Internet platform and the devices people use to stay connected. Our brokerage firm, InsuraMatch, handled about $32 million in premium volume for a variety of carriers in 2015, including local premium we had already secured at our traditional in-house agency. Its countrywide expansion plans from here are ambitious.

This brings me to the investment story. Two equity investment decisions, only one of them propitious, had disproportionate impacts on our year's portfolio tally. No one should be surprised to read that our highly conservative holdings of high-grade, short-maturity bonds returned us little once again. In keeping with long-held preference, we decreased our allocation to corporate and municipal bonds in 2015. Even anticipated boosts in yield, driven by an emerging shift in Federal Reserve policy, won't make them worth their risks. We searched for an alternative destination for the bond sale proceeds where they could be safely retained as our capital base enlarges and our capacity for common stock holdings increases. In step with numerous sophisticated investors, we satisfied ourselves that Master Limited Partnerships, financing oil and gas pipelines, were a safe and stable substitute for stocks and bonds. We had recently experienced success with one MLP investment. So, we bought $62 million worth of similar MLP interests for our group of companies in 2014 and 2015.

As promised, the three selected MLP's came with generous dividend yields and an advantaged tax status to boot. The theory of the investment was that their values would be secure as long as no less oil and gas made its way through pipelines. Thus, it seemed, lower oil prices wouldn't hurt them -- and might even increase the demand for fuels. But oil prices fell precipitously and it hurt them plenty. Two flaws in the logic have become obvious in retrospect. One was that some MLP's expanded into operation of upstream facilities that did in fact depend for their profits on oil prices. At least as important, all of the MLP interests bore market prices inflated by predictions of the future growth in pipeline transmissions that would accompany a domestic production boom. Lower oil prices took the wind out of those future expectations, and our MLP positions lost $17 million in after-tax value for the group during 2015 as a consequence. Much of the loss appears on our comprehensive financials as diminution of unrealized gains, and not yet on the income statement. Those are the losses I referred to earlier when I said that our net income failed to tell the whole story. Jim Bailey and I, who must accept primary responsibility for the investment decision, believe that today's low prices represent an overreaction to fundamental forces, so we are not immediately inclined to sell our MLP positions. Hold or sell, though, the money is lost, at least for now. The MLP's were actually not a suitable investment for us -- because we didn't sufficiently understand their businesses or obtuse financial reports at the start in the manner our investment philosophy requires. A lesson here is not to rely so readily on outside experts when our investment successes have all come from doing the work ourselves. We should never buy a security, even as a temporary holding, because we think someone else understands it.

The losses were partly made up for by a good call a bit earlier. In 2014, we started buying shares in Partner Re, a large and solid reinsurer selling well below book value -- when we thought it was worth more than that. Others eventually agreed, and there was a well-publicized takeover battle for control of Partner Re. The victor in the proxy battle was a company controlled by the Agnelli family, originally of Fiat fame, which paid a healthy premium for the stock. We earned nearly $12 million after taxes from our position. Given that our group's total investment portfolio is $1.9 billion, the MLP losses and the Partner Re gains taken together moved the needle by only about a half of a point of total return. The misstep deserves attention here not because it is financially stressful, but because it was embarrassing and the only loss of any scale in our whole investment history. The lack of upward movement in common stocks marketwide did us much more harm than the MLP's. Even with dividends taken into account, the Standard & Poor's 500 basket returned less than a point and a half. The common stock component of our portfolio did no better. We can hardly celebrate, but we can still note that our twenty-two year internal rate of return on common stocks remains over 15%, beating the market averages over this period by a wide margin.

Prices for Boston real estate continued their rapid upward trajectory. The combined appraisal value for our two downtown buildings, though not reflected on our financials, rose by about 12%, to a total valuation in excess of $90 million. The year was not equally kind, though, to hedge funds and private equity partnerships. Their return contribution to our portfolio slipped marginally over the line into negative territory for the first time. The data seems increasingly to suggest that the hedge fund sector as a whole has never really matched, leverage-adjusted, the mean returns of direct investments in common stocks. Private equity results are harder to measure, given more extensive use of leverage and reporting that allows wins to be announced early and losses held for long periods at unverified valuations. My guess is that private equity probably has done better than the market as a whole, benefiting hugely from this long era of low interest rates, but at some point there must be too much money and talent chasing too few deals as fiduciaries keep pouring money in that direction. Sector returns have to fall under these conditions. Only the truly talented fund managers will continue to outperform the indices. Jim, Rick Childs, and I still like our careful selection of hedge funds and private equity partnerships, but we chose them because we admire their talent and their integrity, not because we consider hedge funds or private equity mystically blessed asset classes.

You will be spared a public policy discourse this year. For this one year only, I have a better offer. Please order my pending book on that subject, *Five Easy Theses* (Houghton Mifflin Harcourt, 2016). The book deals, in five chapters, with five pressing domestic public policy issues. The first chapter is on fiscal balance, calling out some of the worst tax loopholes and sources of waste, as well as identifying the reforms needed to fortify Social Security. The second chapter is on wealth inequality, how to prevent the disappearance of the middle class, and how to halt the sequestration of wealth at the pinnacle of the economic pyramid. The third chapter, on healthcare, explains why America has the most expensive healthcare system in the world but lacks the favorable outcomes that should follow the cost. Chapter four takes on education. Grade school education should be America's strength but instead is increasingly a weakness for this country. The book lays out a reform plan, as well as a post-secondary program, to make education work for both the college-bound and work-bound young. The final chapter is on the financial sector, offering a path to curbing out-of-control banking, derivatives, and hedge fund activity, and making finance once again the servant of America's real commercial sector. My standing offer is to sign the book for anyone who likes it and to refund the purchase price for any reader who regrets having spent time on the book and returns it to me. *Five Easy Theses* will be released the first week in May but can be pre-ordered even now from Amazon and better bookstores everywhere.

There are two elephants in our living room. Each has been described in previous editions of this letter, but neither has gone away or even eyed the door. One is the specter of driverless cars, which can someday shrivel the auto insurance industry, and the other is the threat of climate change, which some see as causing a quantum jump in the severity of nature's assaults. If we paid attention only to the first elephant, one plausible response might be to phase out our auto insurance business in a planned and orderly manner in favor of property insurance -- before external vectors force that outcome. Plymouth Rock might then look more like its admirably successful offspring, Homesite. If we focused instead on the second elephant, though, we might go the opposite way, following GEICO's lead and concentrating all the more on automobile coverages. Insuring property against climate-driven catastrophes, after all, could force a company to bet the family farm every year on the outcome of a process no one fully understands -- and a game in which one uncool hand can be terminal.

No mathematically tight solution can be found to the problems these elephants pose for us. With guidance from some of you who sit on the Board, though, we are fixing our attention on a strategy that fits our position, predictions, and predilections. We have little doubt about the long-term future of automobile insurance. Even without fully driverless cars, the trend to shared and professionally driven cars and the welcome progression toward ever-safer cars should exert downward pressure on premiums -- even as increased road congestion and more expensive repairs pull in the other direction. We have no interest, though, in abandoning auto insurance as a consequence. First, the downshift will be slower than some expect. It will take several decades for premiums to decline enough to hurt our franchise. A 2015 public presentation by Progressive's management, well worth a look, laid out the lags realistically. The increasing benefits of safer cars, moreover, will presumably be reflected in lower claim costs before they work their way into rate changes, so they should actually boost profits for some years. Meanwhile, advances in telematics and driver usage feedback should allow us to ratchet up the encouragement of safe habits and rewards for responsible drivers. Finally, if our competitors fret more than we do about the future of auto insurance, gloom may abate their competitive zeal, which would delight us no end. A slow enough shrinkage of premiums and a profitable passage along the way can provide an environment quite acceptable to Plymouth Rock. We will stay the course.

As for climate change, yes, the data suggests there has been some. Although I realize that individual observations constitute scant proof, I have seen for myself some memorable ghosts of retreating glaciers. How the future course of change will be shaped by natural cycles and human behavior and what effect it will have on insured weather events remain open questions. For unrelated reasons, the prediction that homeowners premiums will continue to rise is even safer than that auto premiums will decline. Homes are getting larger, more exposed to wind and water, and more expensive to repair. Worsening weather events can be absorbed by insurers if their pace is no faster than rate trends, and future catastrophes remain close to the familiar in scale. We have determined that we should take some risk on these prophesies -- but not blindly so. We will expand our property profile carefully, bolstered by the best mathematics that can be brought to bear, well protected by reinsurance, and isolating as well as possible the rest of our business from catastrophe consequences. We haven't decided yet whether to start another company with external partners or build the line within our own shop. But growth in the homeowners book is now on the agenda. To that end, we have initiated a search for a senior executive to lead a safe and analytical expansion of those writings. Were we sufficiently spooked by both pachyderms, I suppose we could migrate toward becoming mainly an investment company -- something we have been pretty good at despite this year's misstep. As of now, though, we are not unduly alarmed by either beast. We see both of them at this point as bearing us as many opportunities as challenges.

Looking at this tough year in perspective, you might consider this parting thought. When flooded with problems, in life or in business, one should always stop to ask whether the incoming waves are one-off surges or harbingers of more dangerous tides to follow. The latter should rightly cost sleep and alter behavior, the former not so much. The trials of 2015, which layered sorry investment performance on top of unforgettable Massachusetts snowstorms, seem relatively uninformative with respect to the future. While there is no certainty in the prediction of complex phenomena, there seems statistically little risk of a doubly bad draw of this magnitude in any given year. I see no reason to imagine, in fact, that either blizzards or down markets represent the normal state of the future. We think here in terms of decades; and, with that time scale in mind, we will continue to insure against the weather, and we will continue to invest in stocks. The last two years are already in the rear-view mirror.

James M. Stone

pwc

Independent Auditor's Report

To the Board of Directors of The Plymouth Rock Company

We have audited the accompanying consolidated financial statements of The Plymouth Rock Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, cash flows and changes in equity for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the 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 audit 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 our 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, we consider internal control relevant to the Company'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 Company'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 financial position of The Plymouth Rock Company and its subsidiaries 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.

PricewaterhouseCoopers LLP

March 1, 2016

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THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2015 and 2014
(dollars in thousands)

Assets	2015	2014
The Plymouth Rock Company and Subsidiaries		
Cash and cash equivalents	$ 88,808	$ 69,758
Investment securities	586,262	555,851
Accrued investment income	2,097	5,946
Premiums receivable	131,323	119,154
Ceded unearned premium reserves	23,383	20,488
Deferred acquisition costs	30,734	29,045
Amounts receivable from reinsurers and pools	30,998	26,739
Prepaid expenses, agent loans, and deposits	8,684	10,842
Real estate	34,799	36,077
Fixed assets	34,867	39,102
Goodwill and intangible assets	4,294	4,399
Other assets	2,845	2,825
Subtotal	979,094	920,226
Palisades Reciprocal Group		
Cash and cash equivalents	91,849	13,246
Investment securities	1,078,060	1,164,632
Accrued investment income	3,505	5,652
Premiums receivable	118,281	106,540
Ceded unearned premium reserves	7,158	18,602
Deferred acquisition costs	25,967	23,624
Amounts receivable from reinsurers and pools	34,933	51,926
Goodwill and intangible assets	12,649	13,760
Income tax recoverable	-0-	8,145
Other assets	1,663	2,880
Subtotal	1,374,065	1,409,007
Total assets	$2,353,159	$2,329,233

The accompanying notes are an integral
part of the financial statements.

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2015 and 2014
(dollars in thousands)

Liabilities	2015	2014
The Plymouth Rock Company and Subsidiaries		
Claim and claim adjustment expense reserves	$ 201,903	$ 175,565
Unearned premium reserves	223,714	203,500
Advance premiums	7,475	7,155
Commissions payable and accrued liabilities	54,490	54,524
Amounts payable to reinsurers	9,303	6,396
Deferred revenue	3,493	3,238
Unearned service fees	4,285	3,013
Secured loan	35,000	15,000
Income tax payable	8,343	129
Deferred income taxes	22,241	36,055
Other liabilities	4,627	1,884
Subtotal	574,874	506,459
Palisades Reciprocal Group		
Claim and claim adjustment expense reserves	623,545	636,891
Unearned premium reserves	288,951	277,890
Advance premiums	9,019	9,187
Commissions payable and accrued liabilities	40,055	46,323
Amounts payable to reinsurers	830	2,129
Deferred revenue	1,964	5,552
Income tax payable	2,233	-0-
Deferred income taxes	15,701	29,353
Other liabilities	1,740	2,062
Subtotal	984,038	1,009,387
Total liabilities	1,558,912	1,515,846
Equity		
The Plymouth Rock Company and Subsidiaries		
Common stock and paid-in capital	12	30
Retained earnings	335,143	335,752
Net unrealized gain on investments	50,338	62,146
The Plymouth Rock Company stockholders' equity	385,493	397,928
Palisades Reciprocal Group	408,754	415,459
Total liabilities and equity	$2,353,159	$2,329,233

The accompanying notes are an integral
part of the financial statements.

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2015 and 2014
(dollars in thousands)

Revenues	2015	2014
The Plymouth Rock Company and Subsidiaries		
Premiums earned in underwriting activities	$ 372,670	$ 355,823
Fees earned from service activities	182,531	185,818
Investment income and capital gains	20,189	22,101
Subtotal	575,390	563,742
Palisades Reciprocal Group		
Premiums earned in underwriting activities	668,357	637,718
Fees earned from service activities	691	715
Investment income and capital gains	37,742	25,583
Subtotal	706,790	664,016
Less: Intra-group transactions	173,602	177,035
Total revenues	1,108,578	1,050,723
Expenses		
The Plymouth Rock Company and Subsidiaries		
Claims and claim adjustment expenses	293,640	271,424
Policy acquisition, underwriting, and general expenses	92,986	95,062
Service activity expenses	142,865	153,111
Subtotal	529,491	519,597
Palisades Reciprocal Group		
Claims and claim adjustment expenses	477,704	446,506
Policy acquisition, underwriting, and general expenses	195,839	190,027
Service activity expenses	930	827
Subtotal	674,473	637,360
Less: Intra-group transactions	173,602	177,035
Total expenses	1,030,362	979,922
Income before income taxes	78,216	70,801
Income taxes	25,164	21,816
Fully consolidated net income	53,052	48,985
Less: Net income of Palisades Reciprocal Group	23,729	19,770
Net income of The Plymouth Rock Company and Subsidiaries	$ 29,323	$ 29,215

The accompanying notes are an integral
part of the financial statements.

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2015 and 2014
(dollars in thousands, except per share data)

	2015	2014
The Plymouth Rock Company and Subsidiaries		
Net income	$ 29,323	$ 29,215
Other comprehensive income, net of tax:		
Total unrealized gain on investment securities during the year	(9,313)	23,477
Less: Gain on investments included in net income	2,495	848
Change in net unrealized gain on investments during the year	(11,808)	22,629
Comprehensive income	17,515	51,844
Palisades Reciprocal Group		
Net income	23,729	19,770
Other comprehensive income, net of tax:		
Total unrealized gain on investment securities during the year	(13,659)	41,582
Less: Gain on investments included in net income	16,775	3,884
Change in net unrealized gain on investments during the year	(30,434)	37,698
Comprehensive income	(6,705)	57,468
Fully consolidated		
Net income	53,052	48,985
Change in net unrealized gain on investments during the year	(42,242)	60,327
Comprehensive income	$ 10,810	$109,312

The Plymouth Rock Company and Subsidiaries - Per share data

	2015	2014
Weighted average common shares outstanding	126,768	128,390
Net income per share	$ 231.31	$ 227.55
Common shares outstanding at end of year	122,823	128,823
Common stockholders' equity per share	$3,138.60	$3,088.95

The accompanying notes are an integral
part of the financial statements.

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014
(dollars in thousands)

Cash flows from operating activities	2015	2014
The Plymouth Rock Company and Subsidiaries		
Gross premiums collected	$ 427,578	$ 401,039
Reinsurance premiums paid	(42,797)	(43,707)
Finance charges collected	6,091	6,294
Fees and commissions collected	187,777	186,528
Investment income and capital gains received	16,933	19,040
Gross claims and claim expenses paid	(311,626)	(263,752)
Reinsured claims and claim expenses collected	38,308	20,427
Policy acquisition, underwriting, and general expenses paid	(81,047)	(89,915)
Income taxes paid	(15,989)	(29,081)
Service activity expenses paid	(131,684)	(143,660)
Net cash provided by operating activities	93,544	63,213
Palisades Reciprocal Group		
Gross premiums collected	706,072	696,299
Reinsurance premiums paid	(28,420)	(53,711)
Finance charges collected	1,886	1,923
Fees and commissions collected	696	717
Investment income and capital gains received	44,385	32,201
Gross claims and claim expenses paid	(503,193)	(504,180)
Reinsured claims and claim expenses collected	21,429	30,858
Policy acquisition, underwriting, and general expenses paid	(207,598)	(195,935)
Income taxes recovered	4,523	12,832
Service activity expenses paid	(930)	(830)
Net cash provided by operating activities	38,850	20,174
Total net cash provided by operating activities	$ 132,394	$ 83,387

The accompanying notes are an integral part of the financial statements.

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014
(dollars in thousands)

Cash flows from financing activities	2015	2014
The Plymouth Rock Company and Subsidiaries		
Repurchase of common stock	$ (24,000)	$ -0-
Proceeds and (repayment) from (of) secured loan	20,000	(30,000)
Dividends to stockholders	(5,764)	-0-
Tax impacts of stock-based compensation	-0-	(463)
Net cash used in financing activities	(9,764)	(30,463)
Palisades Reciprocal Group		
Repayment of surplus note	-0-	(25,000)
Net cash used in financing activities	-0-	(25,000)
Total net cash used in financing activities	(9,764)	(55,463)
Net cash provided by/(used in)		
The Plymouth Rock Company and Subsidiaries	$ 83,780	$ 32,750
Palisades Reciprocal Group	$ 38,850	$ (4,826)
Total	$ 122,630	$ 27,924
Investment of net cash provided		
The Plymouth Rock Company and Subsidiaries		
Change in cash and cash equivalents	$ 19,050	$ (15,182)
Net investment activity	48,408	24,157
Net real estate activity	663	2,259
Purchases of fixed assets	15,659	21,516
Net cash related to investing activities	$ 83,780	$ 32,750
Palisades Reciprocal Group		
Change in cash and cash equivalents	$ 78,603	$ (35,439)
Net investment activity	(39,753)	30,613
Net cash related to investing activities	$ 38,850	$ (4,826)
Total net cash invested	$ 122,630	$ 27,924

The accompanying notes are an integral
part of the financial statements.

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2015 and 2014
(dollars in thousands)

	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain on Investments	Total Stockholders' Equity	Palisades Reciprocal Group	Total Equity
December 31, 2013	$ 375	$307,800	$39,517	$347,692	$357,991	$705,683
Comprehensive income	-0-	29,215	22,629	51,844	57,468	109,312
Stock-based compensation	(345)	(1,263)	-0-	(1,608)	-0-	(1,608)
December 31, 2014	$ 30	$335,752	$62,146	$397,928	$415,459	$813,387
Comprehensive income	-0-	29,323	(11,808)	17,515	(6,705)	10,810
Repurchase of common stock	-0-	(24,000)	-0-	(24,000)	-0-	(24,000)
Stock-based compensation	(18)	(168)	-0-	(186)	-0-	(186)
Dividends to stockholders	-0-	(5,764)	-0-	(5,764)	-0-	(5,764)
December 31, 2015	$ 12	$335,143	$50,338	$385,493	$408,754	$794,247

The accompanying notes are an integral
part of the financial statements.

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

The Plymouth Rock Company is a privately held company which was founded in 1982 and has been headquartered in Boston, Massachusetts since its inception. Its primary business is the ownership and management of property and casualty insurance companies, specializing in coverage for personal automobiles and homes. The Plymouth Rock Company, through a number of operating subsidiaries, insures automobiles and homes in Massachusetts, New Hampshire, and Connecticut and provides various insurance and investment management services for insurance entities in those states and other states in the northeastern United States. The Plymouth Rock Company and its wholly owned subsidiaries are generally referred to in these financial statements as "The Plymouth Rock Company and Subsidiaries".

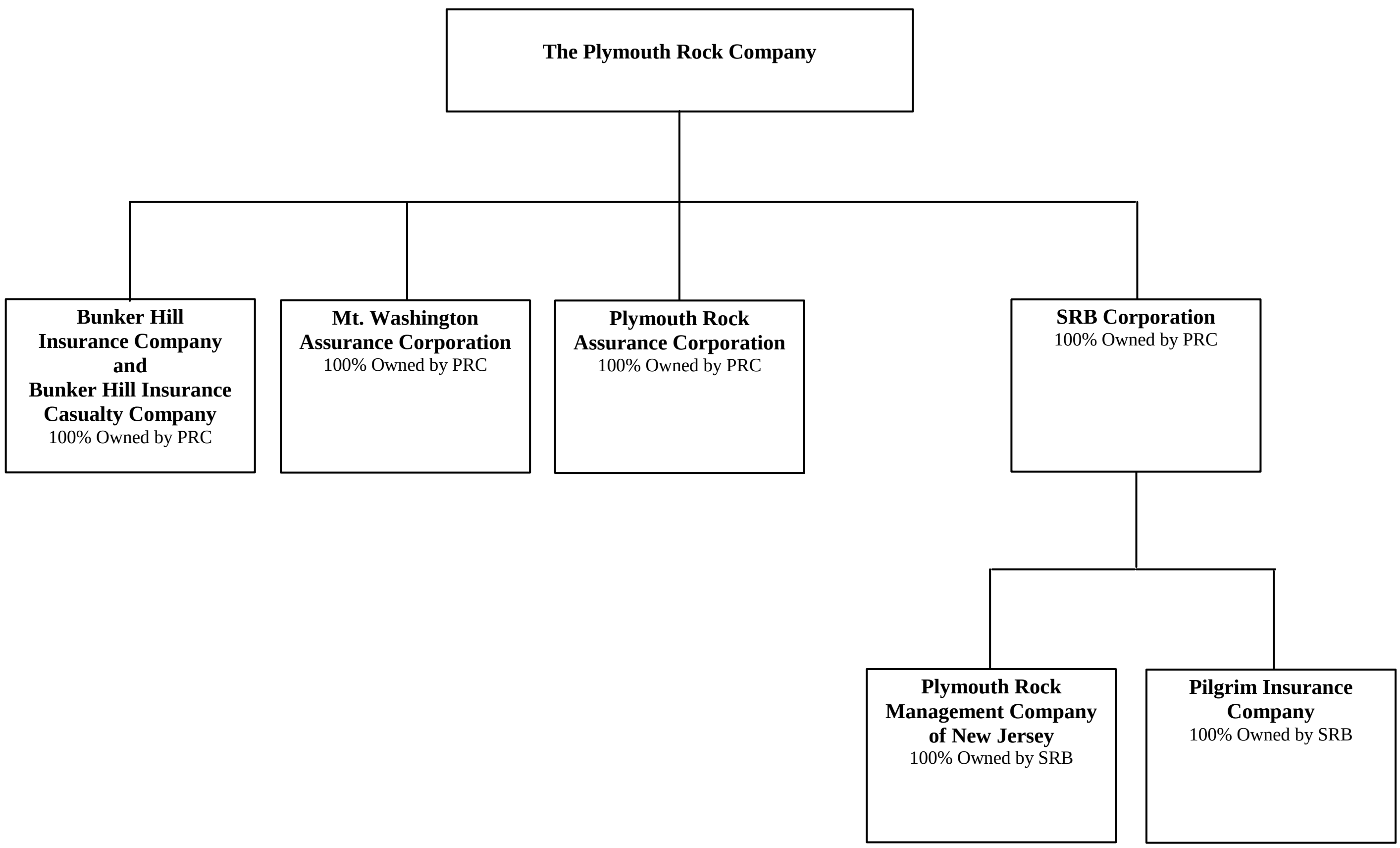
Among The Plymouth Rock Company's largest businesses is the management of a reciprocal insurance group in New Jersey, which is conducted through a subsidiary. The members of that reciprocal group of companies, which are referred to in these financial statements as the "Palisades Reciprocal Group", are not owned by The Plymouth Rock Company. They are operated in accordance with New Jersey statutes and regulations applicable to reciprocal and stock insurers. The Palisades Reciprocal Group includes Palisades Safety and Insurance Association, a New Jersey reciprocal insurance exchange, and several subsidiaries, all of which are domiciled in New Jersey and which operate only in that state. A management company, which is included in The Plymouth Rock Company and Subsidiaries in these financial statements, provides executive management, accounting, marketing, underwriting, and claim adjustment services in exchange for management fees to eight insurers listed below and to two smaller subsidiaries, all of which are included in the Palisades Reciprocal Group. This subsidiary of The Plymouth Rock Company, Plymouth Rock Management Company of New Jersey, provides services to Palisades Safety and Insurance Association, Palisades Insurance Company, Palisades Property and Casualty Insurance Company, High Point Preferred Insurance Company, High Point Safety and Insurance Company, High Point Property and Casualty Insurance Company, Twin Lights Insurance Company, and Teachers Auto Insurance Company of New Jersey. The Plymouth Rock Company also has subsidiaries that provide various insurance and investment management services to both the Palisades Reciprocal Group and other third-party clients in exchange for negotiated fees.

1. Nature of Operations, continued

The Plymouth Rock Company's financial statements consolidate the results of the members of the Palisades Reciprocal Group. Accounting Standards Update No. 2015-02 modified the framework for assessing whether a "variable interest entity" in a service relationship should be consolidated for financial reporting purposes by eliminating certain criteria in assessing whether a service arrangement is considered a variable interest and ultimately whether consolidation is required under Accounting Standards Codification Topic 810. The Plymouth Rock Company and Subsidiaries have provided capital to the Palisades Reciprocal Group in the form of surplus notes and preferred stock that account for $18.6 million, or 4.6 and 4.5 percent, of the equity of the Palisades Reciprocal Group at December 31, 2015 and 2014, respectively. As these surplus notes and preferred stock features are not typical of an ordinary service arrangement, it continues to be appropriate for The Plymouth Rock Company and Subsidiaries to consolidate the results of the members of the Palisades Reciprocal Group under the updated standard. The Plymouth Rock Company and Subsidiaries do not bear direct risk or earn direct rewards on the basis of the performance of the Palisades Reciprocal Group. The results are presented in a consolidated manner despite fundamental legal and regulatory distinctions between The Plymouth Rock Company and Subsidiaries on one hand and the Palisades Reciprocal Group on the other.

2. Organization of The Plymouth Rock Company and Subsidiaries

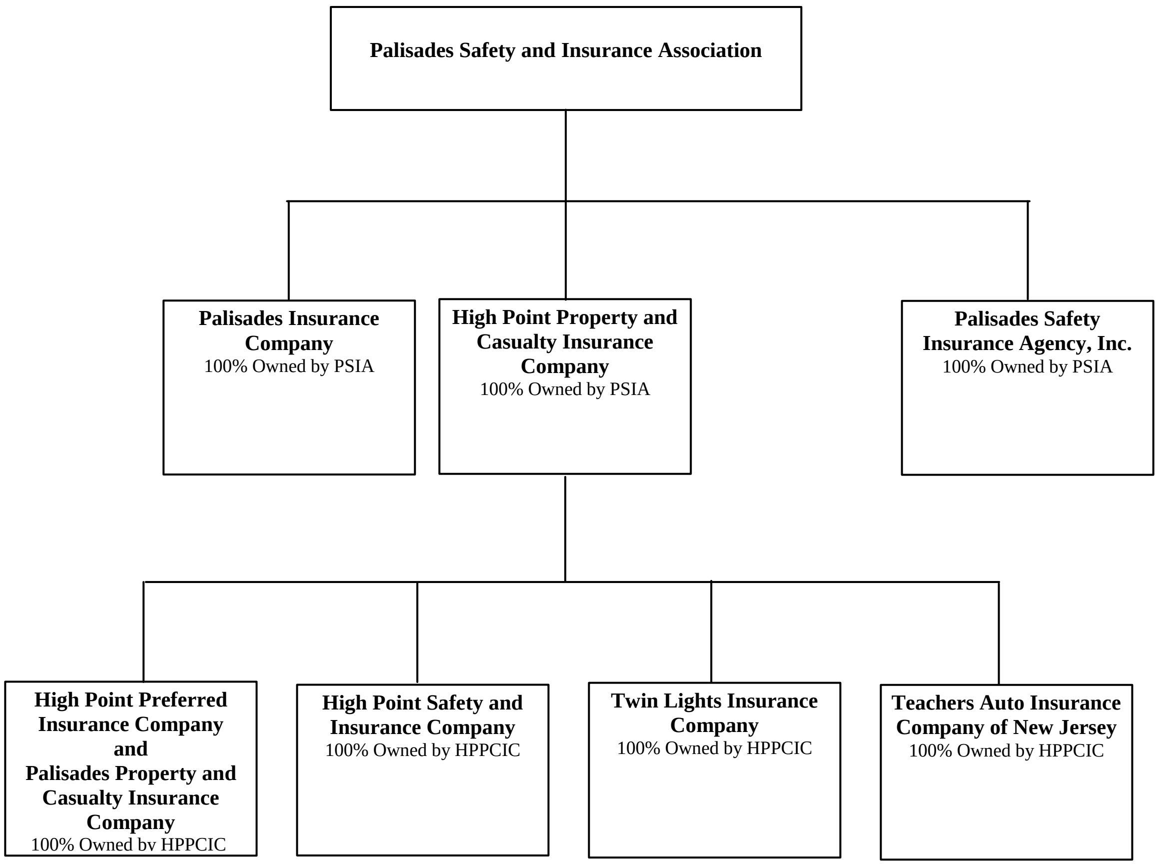
The corporate and ownership structure of The Plymouth Rock Company and principal subsidiaries is shown in the following chart:



Other subsidiaries include 99 Bedford Corporation and 695 Atlantic Avenue Company, LLC, which own real estate; Shared Technology Services Group Inc. and InsuraMatch, LLC, which are wholly owned subsidiaries of SRB Corporation; and High Point Brokerage Company, Inc. and National Atlantic Insurance Agency, Inc., which are wholly owned subsidiaries of Plymouth Rock Management Company of New Jersey.

3. Organization of the Palisades Reciprocal Group

The corporate and ownership structure of the Palisades Reciprocal Group is shown in the following chart:



4. Summary of Significant Accounting Policies

A. Principles of Consolidation

The consolidated financial statements include the accounts of The Plymouth Rock Company and Subsidiaries as well as those of the Palisades Reciprocal Group. Significant accounts and transactions among companies within each of the two groups, as well as those between the groups, have been eliminated upon consolidation. The assets of The Plymouth Rock Company and Subsidiaries have been reduced by amounts due for services provided to the Palisades Reciprocal Group and by the value of certain surplus notes and preferred stock investments in the Palisades Reciprocal Group. The liabilities of The Plymouth Rock Company and Subsidiaries have been reduced by the amount of service fee revenue from the Palisades Reciprocal Group that has not yet been earned as of the balance sheet date. Each of the reductions to the balance sheet of The Plymouth Rock Company and Subsidiaries requires a corresponding reduction on the Palisades Reciprocal Group balance sheet. Therefore, while total assets equal the sum of total liabilities and equity, this equation will not hold within the separate groups presented in the balance sheet.

B. Stock-Based Compensation

Expenses for stock-based employee compensation plans are recorded at their fair value on the basis of an annual independent appraisal. The term “fair value” used here and throughout the notes to the financial statements means the value at which a transaction would be expected to occur between a willing buyer and seller.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These judgments affect the amounts of assets, liabilities, revenues, and expenses reported in the consolidated financial statements and the disclosure of contingent assets and liabilities in the footnotes. Actual results could differ from those estimates.

4. Summary of Significant Accounting Policies, continued

D. Cash and Investments

Cash and cash equivalents include money market funds and short-term money market instruments with maturity dates no longer than 90 days from the date of acquisition. Liabilities for outstanding checks for The Plymouth Rock Company and Subsidiaries of $2.5 million and $373,000 are included in accrued liabilities at December 31, 2015 and 2014, respectively. Liabilities for outstanding checks for the Palisades Reciprocal Group of $17.7 million and $14.7 million are included in accrued liabilities at December 31, 2015 and 2014, respectively.

Marketable fixed income and equity securities are carried at their market values. The calculation of gain or loss on the sale of marketable securities is based on specific identification at the time of sale. Net unrealized gains or losses on securities available for sale, after deduction of applicable deferred income taxes, are credited or charged directly to equity. Where a decline in the value of a marketable security is deemed other-than-temporary, the value of the security is written down to its fair value. Any portion of the decline in value of a marketable fixed income security attributable to credit quality is reported as a component of net realized capital gains, while any portion attributable to other factors, such as fluctuations in interest rates, is reported as a component of other comprehensive income. Since unrealized losses are a component of stockholders' equity, the recognition of other-than-temporary impairment losses has no effect on comprehensive income or stockholders' equity.

Alternative equity investments are valued using the equity method, which approximates fair value, with all changes in value included in net income. The values of these holdings are generally determined by the managers of the investment vehicles on the basis of information reported to them as well as their assessments of the underlying investments.

E. Real Estate and Fixed Assets

Real estate and fixed assets are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are principally provided for on the straight-line method over the estimated useful lives or the applicable lease terms. Real estate holdings are valued annually by an independent appraiser.

4. Summary of Significant Accounting Policies, continued

F. Deferred Acquisition Costs

Commissions and premium taxes are deferred and amortized pro rata over the contract periods in which the related premiums are earned. All amounts deferred as of December 31 are charged to operations in the following year as the related premiums are earned. Deferred acquisition costs are presented net of an equivalent amount of deferred commission income on ceded reinsurance, with any deferred ceding commission income in excess of the deferred acquisition costs recorded as a liability. The amortization of deferred acquisition costs and deferred ceding commission income, including any excess portion, are presented on a net basis as policy acquisition expense on the statement of comprehensive income. Net amortization associated with these deferred costs for 2015 and 2014 for The Plymouth Rock Company and Subsidiaries was $52.5 million and $53.2 million, respectively, while the 2015 and 2014 net amortization for the Palisades Reciprocal Group was $59.4 million and $47.1 million, respectively.

G. Recognition of Premium Revenues

Insurance premiums written are earned on a daily basis over the terms of the policies. Unearned premiums represent amounts that are applicable to the unexpired terms of policies in force.

Premiums receivable are net of reserves for doubtful collections. At December 31, 2015 and 2014, the reserves for doubtful collections for The Plymouth Rock Company and Subsidiaries were $983,000 and $1.1 million, respectively. The reserves for doubtful accounts of the Palisades Reciprocal Group at December 31, 2015 and 2014 were $2.8 million and $3.7 million, respectively.

H. Recognition of Fees Earned from Service Activities

The Plymouth Rock Company and Subsidiaries earn management fees from the Palisades Reciprocal Group and other unaffiliated companies for providing sales, underwriting, policy issuance, claim adjusting, accounting, and other insurance-related services. Fees from service activities are earned over the applicable policy terms. In 2015 and 2014, fees of $173.6 million and $177.0 million, respectively, earned from the Palisades Reciprocal Group are eliminated upon consolidation. The balance sheet item “other assets” includes balances with insurers for which Pilgrim Insurance Company provides services.

4. Summary of Significant Accounting Policies, continued

I. Amortization of Goodwill and Intangible Assets

The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group each carry goodwill arising from past acquisitions. This goodwill represents the excess of the purchase price over the estimated fair value of net assets acquired. Goodwill is not amortized, but instead is reviewed annually for impairment.

Past acquisitions have also resulted in intangible assets for both The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group. Intangible assets are separated into two categories. Intangible assets with indefinite lives are not amortized and are subject to annual impairment testing like goodwill. Intangible assets with finite lives are amortized using the straight-line method over the estimated useful lives of the assets.

No impairment of the goodwill or intangible assets with indefinite lives of either The Plymouth Rock Company and Subsidiaries or the Palisades Reciprocal Group was recorded in either 2015 or 2014.

5. Income Taxes

Income taxes on the statements of comprehensive income for 2015 and 2014 consist of:

(dollars in thousands)	2015	2014
The Plymouth Rock Company and Subsidiaries	$ 16,576	$ 14,929
Palisades Reciprocal Group	8,588	6,887
Total	$ 25,164	$ 21,816

The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group file separate federal income tax returns. The provisions for income taxes are based on income reported in the financial statements.

5. Income Taxes, continued

Deferred income taxes arise when there are differences between reported income and taxable income. The realization of deferred tax assets requires sufficient taxable income in either the allowable carryback or carryforward periods. Based upon recent profitable results and projected future profitability, the Company has determined that there will more likely than not be sufficient future taxable income at both The Plymouth Rock Company and Subsidiaries and Palisades Reciprocal Group to realize all deferred tax assets. The net unrealized gain on investments is presented in equity, net of an estimate of applicable deferred income taxes. The reported provisions for income taxes for The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group are less than those computed by applying the federal and state income tax rates for these years to income before income taxes. These differences arise principally because of the favorable federal income tax treatment of dividend income and interest from state and municipal bonds, as well as federal income tax deductions for state taxes paid by The Plymouth Rock Company and Subsidiaries.

There are no tax positions of questionable merit that require a reserve for potential disallowance. As of December 31, 2015, neither The Plymouth Rock Company and Subsidiaries nor the Palisades Reciprocal Group is subject to federal examinations for tax years prior to 2013. Examinations by state taxing authorities are presently in progress for The Plymouth Rock Company covering years 2009 through 2012. An examination by federal taxing authorities is presently in progress for the Palisades Reciprocal Group covering 2013. At this time, we are not aware of any findings that would result in a material changes to either group’s financial position.

The Plymouth Rock Company and Subsidiaries

Income taxes on the statements of comprehensive income for 2015 and 2014 consist of:

(dollars in thousands)	2015	2014
Current year federal income taxes	$19,097	$10,368
Current year state income taxes	5,106	1,113
Change in deferred federal taxes	(7,187)	2,952
Change in deferred state taxes	(440)	496
Total	$16,576	$14,929

5. Income Taxes, continued

Deferred income taxes on the balance sheets as of December 31, 2015 and 2014 consist of the net effects of these temporary differences:

(dollars in thousands)	2015	2014
Net unrealized gain on investments	$(28,130)	$(34,317)
Unearned premiums	14,546	13,312
Deferred acquisition expense	(9,534)	(9,033)
Depreciation	(9,427)	(12,457)
Compensation expense	8,106	9,437
Discounting of claim reserves	1,915	1,842
Investment and partnership timing differences	(264)	(5,705)
Other	547	866
Total	$(22,241)	$(36,055)

Palisades Reciprocal Group

Income taxes on the statements of comprehensive income for 2015 and 2014 consist of:

(dollars in thousands)	2015	2014
Current year federal income taxes	$ 5,853	$ 1,177
Current year state income taxes	2	1
Change in deferred federal taxes	2,733	5,709
Total	$ 8,588	$ 6,887

Deferred income taxes on the balance sheets as of December 31, 2015 and 2014 consist of the net effects of these temporary differences:

(dollars in thousands)	2015	2014
Net unrealized gain on investments	$(30,604)	$(46,989)
Deferred acquisition expense	(21,284)	(18,728)
Unearned premiums	20,357	18,793
Discounting of claim reserves	7,025	8,352
Investment and partnership timing differences	4,369	1,588
Guaranty fund accrual	3,520	4,328
Intangibles	725	806
AMT credit carryforward	-0-	1,905
Other	191	592
Total	$(15,701)	$(29,353)

5. Income Taxes, continued

There are no federal net operating loss carryforwards available as of December 31, 2015. The Palisades Reciprocal Group had alternative minimum tax credit carryforwards of $1.9 million as of December 31, 2014 that were fully utilized during 2015.

6. Claim and Claim Adjustment Expense Reserves

Claim reserves represent the estimated liabilities for claims that have already been reported and for claims that have been incurred but not yet reported. Claim adjustment expense reserves represent the estimated expenses that will be required to settle these claims. Claim and claim adjustment expense reserves are presented before estimated recoveries for reinsurance. The actuarial methods used for making such estimates and for establishing the resulting reserves are reviewed regularly, and any adjustments to these reserves are reflected in income currently.

The table below provides a reconciliation of the reserves for claims and claim adjustment expenses at the beginning and at the end of the year:

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	2015	2014
Balance at beginning of year	$175,565	$148,344
Claims and claim adjustment expenses incurred:		
Current year	297,396	261,997
Prior years	(3,756)	9,427
	293,640	271,424
Claims and claim adjustment expenses paid:		
Current year	195,567	171,762
Prior years	73,583	71,085
	269,150	242,847
Change in reinsurance recoverable on unpaid claims	1,848	(1,356)
Balance at end of year	$201,903	$175,565

6. Claim and Claim Adjustment Expense Reserves, continued

During the year ended December 31, 2015, reserves for claims and claim adjustment expenses for prior years developed favorably by $3.8 million. This change resulted primarily from favorable development of $2.6 million and $1.3 million in automobile and homeowners business, respectively. During the year ended December 31, 2014, reserves for claims and claim adjustment expenses for prior years developed unfavorably by $9.4 million. This change resulted primarily from unfavorable development of $9.5 million in automobile business, partially offset by favorable development of $0.1 million in homeowners business.

The amounts shown in the table above include $11.3 million and $13.5 million of estimated claim and claim adjustment expense reserves under Pilgrim's contracts with service clients as of December 31, 2015 and December 31, 2014, respectively. Offsetting amounts are included in "amounts receivable from reinsurers and pools" as assets on the balance sheet. While these policies are issued by Pilgrim, most of the underwriting results have been ceded either to its clients or to a reinsurer via quota share reinsurance arrangements such that Pilgrim retains only a relatively small amount of the underwriting risk.

Palisades Reciprocal Group

(dollars in thousands)	2015	2014
Balance at beginning of year	$636,891	$679,175
Claims and claim adjustment expenses incurred:		
Current year	502,442	469,222
Prior years	(24,738)	(22,716)
	477,704	446,506
Claims and claim adjustment expenses paid:		
Current year	247,255	235,008
Prior years	228,701	221,728
	475,956	456,736
Change in reinsurance recoverable on unpaid claims	(15,094)	(32,054)
Balance at end of year	$623,545	$636,891

6. Claim and Claim Adjustment Expense Reserves, continued

During the year ended December 31, 2015, reserves for claims and claim adjustment expenses for prior years developed favorably by $24.7 million. This change resulted primarily from favorable development of $28.4 million and $1.6 million in personal auto and homeowners business, respectively, partially offset by unfavorable development of $5.3 million in other lines of business. During the year ended December 31, 2014, reserves for claims and claim adjustment expenses for prior years developed favorably by $22.7 million. This change resulted primarily from favorable development of $12.3 million and $11.7 million in personal auto and homeowners business, respectively, partially offset by unfavorable development of $1.3 million in other lines of business.

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7. Reinsurance

Treaty reinsurance is used to reduce exposure to large losses under catastrophe, quota share, and per-risk excess-of-loss contracts that are prospective in nature. The financial condition of reinsurers and concentration of credit risk are regularly evaluated to minimize significant exposure. The ceding company remains primarily liable as the direct insurer on all of its voluntary risks.

The Plymouth Rock Company and Subsidiaries

Amounts receivable from reinsurers represent amounts recoverable for reinsured claims and claim adjustment expenses. Premiums, claims, and claim adjustment expenses, net of reinsurance activity, are as follows:

	2015		2014	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$439,427	$337,964	$406,985	$290,973
Ceded	(49,438)	(44,324)	(42,935)	(19,549)
Net	$389,989	$293,640	$364,050	$271,424

Ceded premiums earned for 2015 and 2014 were $46.5 million and $38.5 million, respectively.

7. Reinsurance, continued

The Plymouth Rock Company and Subsidiaries have in place treaties for quota share reinsurance for homeowners business. Homeowners premiums totaling $22.3 million were ceded in 2015 at a cession rate of 50 percent. Homeowners premiums totaling $21.1 million were ceded in 2014 at cession rates of 25 percent from January through June 30 and 50 percent from July through December. The ceding commissions received under the homeowners treaties vary on the basis of loss ratio. For 2015, revenues and expenses are reflected net of quota share reinsurance totaling $21.5 million and $30.9 million, respectively. For 2014, revenues and expenses are reflected net of quota share reinsurance totaling $15.4 million and $13.2 million, respectively.

There are also treaties in place for catastrophe reinsurance for auto and homeowners coverages, and per-risk excess-of-loss reinsurance for homeowners, commercial auto, and umbrella coverages. As a result of significant losses related to severe 2015 winter weather, The Plymouth Rock Company and Subsidiaries ceded $14.5 million to catastrophe reinsurers in 2015. This utilization of the catastrophe reinsurance program required the payment of a reinstatement premium in the amount of $715,000 to maintain the same catastrophe coverage for the remainder of the contract term. During the year ended December 31, 2015, the benefit from these treaties net of reinstatement premium was $10.4 million. During the year ended December 31, 2014, the cost incurred for these treaties was $3.6 million.

Two subsidiaries of The Plymouth Rock Company, Plymouth Rock Assurance Corporation and Pilgrim Insurance Company, are members of Commonwealth Automobile Reinsurers (CAR), which administers pools for the Massachusetts commercial auto residual market. Plymouth Rock Assurance and Pilgrim record their estimated shares of this activity on the basis of information provided by CAR.

Pilgrim provides auto insurance services to unrelated insurance companies. The statements of comprehensive income for The Plymouth Rock Company and Subsidiaries are reported net of $17.8 million and $17.1 million of ceded premiums earned and $11.7 million and $12.7 million of claims and claim adjustment expenses incurred and ceded in 2015 and 2014, respectively, related to Pilgrim's third-party business. Pilgrim began to retain a small amount of underwriting risk relating to these third-party service arrangements during 2015, but continued to cede most of the underwriting risk either to its clients or to a reinsurer via quota share reinsurance arrangements. The statements of comprehensive income of The Plymouth Rock Company and Subsidiaries include $1.9 million of net premiums earned in underwriting activities and $1.7 million of net claims and claim expenses incurred in 2015. These retained amounts reflect 9.6% and 12.8%, respectively, of the total activity on a direct basis under these service arrangements.

7. Reinsurance, continued

To achieve a better balance of reinsurance cost and risk retention at Bunker Hill Insurance Company, The Plymouth Rock Company and Bunker Hill have entered into a Statutory Capital Support Agreement. This agreement provides that The Plymouth Rock Company will make a capital contribution to Bunker Hill if that company's surplus falls below a certain threshold. This Statutory Capital Support Agreement will expire on June 30, 2016 but will automatically renew for another year if not terminated by either company. No capital contribution was made under this agreement during either 2015 or 2014.

Also in an effort to achieve the proper balance between reinsurance cost and risk retention, Plymouth Rock Assurance began participating as a reinsurer on the catastrophe reinsurance programs of Bunker Hill and the Palisades Reciprocal Group effective July 1, 2015 at a participation rate of approximately 20 percent. Related to this participation, The Plymouth Rock Company and Plymouth Rock Assurance entered into a Statutory Capital Support Agreement that was also effective on July 1, 2015. This agreement provides that The Plymouth Rock Company will make a capital contribution to Plymouth Rock Assurance if the combined surplus of Plymouth Rock Assurance, Pilgrim and Mt. Washington Assurance Corporation falls below a certain threshold. This Statutory Capital Support Agreement will expire on June 30, 2016 but will automatically renew for another year if not terminated by either company. A capital contribution of $3.8 million was made under this agreement in November 2015.

<u>Palisades Reciprocal Group</u>

Amounts receivable from reinsurers represent amounts recoverable for reinsured claims and claim adjustment expenses. Premiums, claims, and claim adjustment expenses, net of reinsurance activity, are as follows:

	2015		2014	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$717,983	$490,180	$699,921	$461,896
Ceded	(27,121)	(12,476)	(47,649)	(15,390)
Net	$690,862	$477,704	$652,272	$446,506

7. Reinsurance, continued

Ceded premiums earned for 2015 and 2014 were $38.6 million and $56.6 million, respectively.

The Palisades Reciprocal Group has treaties in place for quota share reinsurance for homeowners business. Homeowners premiums totaling $4.4 million were ceded in 2015 at cession rates of 25 percent from January through June and 5 percent from July through December. Homeowners premiums of $26.0 million were ceded in 2014 at cession rates of 45 percent from January through June and 25 percent from July through December. The ceding commissions received under the homeowners treaties vary on the basis of loss ratio.

For 2015, revenues and expenses are reflected net of quota share reinsurance totaling $19.6 million and $17.8 million, respectively. For 2014, revenues and expenses are reflected net of quota share reinsurance totaling $38.8 million and $30.7 million, respectively.

The Palisades Reciprocal Group has in place catastrophe reinsurance for auto and homeowners coverages, and per-risk excess-of-loss reinsurance treaties on homeowners, commercial auto, and umbrella coverages. During the years ended December 31, 2015 and 2014, the Palisades Reciprocal Group incurred costs of $12.7 million and $11.1 million, respectively, under these treaties.

The Palisades Reciprocal Group also has in place 100% quota share reinsurance with the National Flood Insurance Program for flood coverage that it writes on a direct basis. The Palisades Reciprocal Group ceded premiums earned and related claims and claim adjustment expenses to the National Flood Insurance Program in the amounts of $2.3 million and $2.1 million in 2015 and 2014, respectively.

8. Subsequent Events

Subsequent events have been evaluated from December 31, 2015 through March 1, 2016. No material subsequent events have been identified.

9. Commitments and Contingencies

The Plymouth Rock Company and Subsidiaries incurred real estate rental expenses for 2015 and 2014 totaling $6.9 million and $10.9 million, respectively. For the years 2016 through 2020, the minimum lease obligations to unrelated third parties range from $1.5 million to $8.1 million annually. Total obligations of The Plymouth Rock Company and Subsidiaries under real estate and automobile leases are $27.9 million through 2020.

During 2014, Plymouth Rock Management Company of New Jersey vacated certain office spaces with the anticipation of subleasing these spaces for the remaining period of the leases. As the sublease rental income was expected to be less than the management company's rental expense obligation for the remainder of the lease terms, a charge of approximately $2.3 million was recorded at December 31, 2014 to reflect the expected unrecoverable amount for these lease obligations. The spaces had not been subleased as of December 31, 2015 and the management company had a remaining obligation of approximately $2.8 million under the original leases as of that date. The management company recorded additional expense of $208,000 in 2015 related to the original leases.

Plymouth Rock Assurance has entered into several agreements since December 2011 with companies that write Massachusetts private passenger auto insurance to sell surplus residual market credit premiums that can be used to reduce residual market assignments. Plymouth Rock Assurance recognized revenue from these sales in the amounts of $1.3 million in 2014 and $879,000 in 2015. During 2015, Plymouth Rock Assurance entered into agreements with five companies to sell surplus credit premiums that are expected to generate revenue of $966,000 during 2016.

Plymouth Rock Assurance entered into an agreement in 2011 to purchase $6.7 million of Massachusetts low-income housing tax credits at a cost of $4.6 million. The $4.6 million purchase price was paid in February 2013. The credits are being used to reduce that company's Massachusetts premium tax liability by $6.7 million over the five-year period from 2013 through 2017, with benefits of $804,000 and $1.3 million to be recognized in 2016 and 2017, respectively. Amortization associated with these credits was $1.3 million in each of 2015 and 2014.

Plymouth Rock Assurance entered into an agreement in April 2015 to purchase up to $2.8 million of Massachusetts historic rehabilitation tax credits at a cost of $2.6 million. The $2.6 million purchase price is expected to be paid in the fourth quarter of 2016. This credit will be used to reduce that company's Massachusetts premium tax liability by $2.8 million in 2017.

10. Goodwill and Intangible Assets

The Plymouth Rock Company and Subsidiaries

One subsidiary, InsuraMatch, LLC, has made purchases of insurance agencies that resulted in goodwill of $3.3 million at both December 31, 2015 and 2014. These purchases have also given rise to intangible assets in the form of expirations, noncompetition agreements, and brand names. Intangible assets, which are amortized over periods ranging from three to 15 years, were recorded at $883,000 and $988,000 at December 31, 2015 and 2014, respectively. Amortization associated with these intangible assets for both 2015 and 2014 was $105,000. Amortization is expected to be $105,000 annually from 2016 through 2020.

Palisades Reciprocal Group

The Palisades Reciprocal Group’s purchase of Teachers Auto Insurance Company of New Jersey in 2007 resulted in goodwill of $3.3 million at both December 31, 2015 and 2014. The purchases in 2007 of Teachers Auto Insurance Company and of renewals from National General Insurance Company also resulted in intangible assets. Intangible assets are in the form of a trademark, renewal rights, and a state license. At both December 31, 2015 and 2014, the carrying value of the trademark was $2.4 million and the carrying value of the state license was $150,000. These intangible assets are reviewed annually for impairment; no impairment was recorded in 2015 or 2014. The remaining intangible assets are being amortized over 20 years and were recorded at $6.8 million and $7.9 million at December 31, 2015 and 2014, respectively. Amortization associated with these intangible assets was $1.1 million and $1.2 million in 2015 and 2014, respectively. Amortization is expected to range from $639,000 to $1.0 million annually from 2016 through 2020.

11. Secured Loan

On July 24, 2013, The Plymouth Rock Company took out a secured loan for $45.0 million from a bank. This loan was payable in full by July 24, 2016 and was structured with monthly payments of interest only, payable at a variable interest rate based on LIBOR. The Plymouth Rock Company prepaid $30.0 million of the balance of this loan without penalty during 2014. During 2015, The Plymouth Rock Company increased its borrowing by $20.0 million and the date on which the loan is payable in full was extended to August 31, 2018. The Plymouth Rock Company has pledged to the bank, as collateral, securities which had a market value of approximately $55.3 million as of December 31, 2015. The Plymouth Rock Company incurred $304,000 and $289,000 of interest expense on this loan during 2015 and 2014, respectively.

12. Reconciliation of Net Income to Net Cash Provided by Operating Activities

The following items account for the differences between net income and net cash provided by operating activities:

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	2015	2014
Net income	$29,323	$29,215
Depreciation and amortization	21,939	19,125
Deferred income taxes	(7,627)	3,448
Change in operating assets and liabilities:		
Accrued investment income	3,849	1,508
Premiums receivable	(12,169)	(6,205)
Ceded unearned premium reserves	(2,895)	(4,425)
Deferred acquisition costs	(1,689)	(1,053)
Amounts receivable from reinsurers and pools	(4,259)	1,047
Claim and claim adjustment expense reserves	26,338	27,221
Unearned premium reserves	20,214	12,652
Advance premiums	320	260
Commissions payable and accrued liabilities	(34)	(5,439)
Amounts payable to reinsurers	2,907	(772)
Deferred revenue	255	2,221
Unearned service fees	2,648	30
Prepaid expenses, agent loans, and deposits	2,158	2,649
Income tax payable	8,214	(16,720)
Other assets and other liabilities	4,052	(1,549)
Net cash provided by operating activities	$93,544	$63,213

12. Reconciliation of Net Income to Net Cash Provided by Operating Activities, continued

Palisades Reciprocal Group

(dollars in thousands)	2015	2014
Net income	$23,729	$19,770
Depreciation and amortization	1,112	1,289
Deferred income taxes	2,733	5,709
Change in operating assets and liabilities:		
Accrued investment income	2,147	1,233
Premiums receivable	(11,741)	(3,760)
Ceded unearned premium reserves	11,444	8,925
Deferred acquisition costs	(3,718)	(2,941)
Amounts receivable from reinsurers and pools	16,993	36,384
Claim and claim adjustment expense reserves	(13,346)	(42,284)
Unearned premium reserves	11,061	5,630
Advance premiums	(168)	137
Commissions payable and accrued liabilities	(6,268)	(14,911)
Amounts payable to reinsurers	(1,299)	(6,062)
Deferred revenue	(3,588)	(1,410)
Income tax recoverable	10,378	14,010
Other assets and other liabilities	(619)	(1,545)
Net cash provided by operating activities	$38,850	$20,174

13. Consolidated Revenues

Revenues, net of reinsurance, by company for 2015 and 2014 were:

(dollars in thousands)	2015	2014
Underwriting company revenues:		
Plymouth Rock Assurance Corporation	$ 359,667	$ 348,230
Mt. Washington Assurance Corporation	84	80
Bunker Hill Insurance Group	21,537	25,178
Palisades Reciprocal Group	706,790	664,016
	1,088,078	1,037,504
Management company revenues:		
The Plymouth Rock Company	43,190	53,526
SRB Corporation	72,248	70,494
InsuraMatch, LLC	5,135	4,613
Pilgrim Insurance Company	18,185	14,792
Plymouth Rock Management Company of New Jersey	175,049	177,534
	313,807	320,959
Eliminations with subsidiaries of The Plymouth Rock Company:		
Technology costs	(35,266)	(38,556)
Dividends	(55,643)	(66,145)
Other	(28,796)	(26,004)
	(119,705)	(130,705)
Elimination of intra-group transactions	(173,602)	(177,035)
Total revenues	$1,108,578	$1,050,723

14. Fixed Assets

The table below summarizes fixed assets at December 31, 2015 and 2014.

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	Useful Lives	2015	2014
Computers and software development	3 years	$ 94,731	$ 88,941
Leasehold improvements	10 years	18,480	18,292
Furniture and fixtures	5 years	4,291	5,062
Vehicles	3 years	77	98
Total cost		117,579	112,393
Less: accumulated depreciation		82,712	73,291
Net book value		$ 34,867	$ 39,102

Depreciation expenses incurred were $19.9 million and $17.1 million during 2015 and 2014, respectively.

15. Compensation Plans

The Plymouth Rock Company and Subsidiaries maintain two plans under Section 401(k) of the Internal Revenue Code. These plans are defined contribution plans that together cover all employees. Expenses of $6.6 million and $6.9 million were incurred related to these plans during 2015 and 2014, respectively. Deferred compensation plans have been established at The Plymouth Rock Company and several of its subsidiaries for officers, directors and managers, other than the founding shareholders. In general, these plans provide for a rate of return on deferred compensation equal each year to the rate of return earned by The Plymouth Rock Company and Subsidiaries that year. Incurred expenses related to these plans were $1.4 million and $1.9 million during 2015 and 2014, respectively.

15. Compensation Plans, continued

On May 1, 2005, a stock incentive award of 1,110 shares was granted to a key officer. This officer received additional awards of 222 shares on May 1 of each year from 2006 through 2010. All of the awards granted to this officer were scheduled to vest at different times during a period that started in 2006 and ended in 2015, provided that certain financial performance and service requirements were met. Awards granted in 2010 did not vest during 2015 as the financial performance requirements were not met. An award granted in 2009 vested during 2014 and was exercised for cash. A credit to expenses of $236,000 was recorded in 2015 to reverse expenses recorded in prior years related to the 2010 award. Expense of $234,000 was recorded in 2014 related to the 2009 award. The cost of all of these awards is based on an annual appraisal of the shares of common stock of The Plymouth Rock Company.

Effective June 11, 2009, stock incentive awards were granted to three key officers totaling 8,472 shares. The vesting period for these shares ended during 2014 with a portion of the shares vesting based on financial performance during the period. These awards were exercised for a combination of common stock of The Plymouth Rock Company and cash. Expense of $1.2 million was recorded in 2014 related to these awards.

Effective February 16, 2011, a stock incentive award of 701 shares was granted to another key officer. This award vested in January 2016 with a portion of the shares vesting based on financial performance. This award will be exercised for cash. Expenses of $200,000 and $24,000 were recorded in 2015 and 2014, respectively, related to this award.

Effective January 15, 2015, stock incentive awards of 6,577 shares were granted to four key officers. These awards will vest in 2019 provided that certain financial performance and service requirements are met. On the basis of financial performance, no expense was recorded related to these awards during 2015.

16. Investment Securities and Investment Income

A. Marketable Securities

The Plymouth Rock Company and Subsidiaries

At December 31, 2015 and 2014, amortized cost, unrealized gains and losses before federal income taxes, and market value of marketable fixed income and equity securities were as follows:

At December 31, 2015: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 12,470	$ 17	$ 28	$ 12,459
State and municipal securities	125,720	287	169	125,838
Corporate debt securities	20,069	44	110	20,003
Asset-backed securities	13,250	57	36	13,271
Common stocks	205,452	88,534	10,174	283,812
Preferred stocks	4,946	46	-0-	4,992
Total	$381,907	$88,985	$10,517	$460,375

At December 31, 2014: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 9,601	$ 13	$ 9	$ 9,605
State and municipal securities	121,677	587	206	122,058
Corporate debt securities	17,632	150	41	17,741
Asset-backed securities	14,651	130	26	14,755
Common stocks	205,259	97,307	1,343	301,223
Preferred stocks	4,946	-0-	99	4,847
Total	$373,766	$98,187	$ 1,724	$470,229

16. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2015, maturities of marketable securities were as follows:

(dollars in thousands)	Amortized Cost	Market Value
Due in 90 days or less	$ 250	$ 250
Due after 90 days and in one year or less	12,284	12,301
Due after one year and in five years or less	144,507	144,526
Due after five years and in ten years or less	1,172	1,173
Due after ten years	46	50
Asset-backed securities	13,250	13,271
Common stocks	205,452	283,812
Preferred stocks	4,946	4,992
Total	$381,907	$460,375

These marketable securities are classified as available for sale. At December 31, 2015 and 2014, securities were held that had been in an unrealized loss position for longer than twelve months with a total market value of $3.5 million and $9.2 million, respectively. Unrealized losses related to these securities were $143,000 and $137,000 at December 31, 2015 and 2014, respectively. A loss of $3.7 million was recorded during the year ended December 31, 2015 for other-than-temporary impairment of 14 common stock holdings. A loss of $3.5 million was recorded during the year ended December 31, 2014 for other-than-temporary impairment of one common stock holding. All other unrealized losses are viewed as resulting from market conditions and are believed to be temporary.

Palisades Reciprocal Group

At December 31, 2015 and 2014, amortized cost, unrealized gains and losses before federal income taxes, and market value of marketable fixed income and equity securities classified as available for sale were as follows:

At December 31, 2015: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$134,915	$ 56	$ 679	$134,292
State and municipal securities	58,973	118	55	59,036
Corporate debt securities	226,059	1,471	1,052	226,478
Asset-backed securities	176,956	521	582	176,895
Common stocks	249,499	98,040	10,400	337,139
Total	$846,402	$100,206	$12,768	$933,840

16. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2014: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$109,739	$ 192	$ 158	$ 109,773
State and municipal securities	62,477	256	104	62,629
Corporate debt securities	247,974	2,606	639	249,941
Asset-backed securities	241,616	1,392	600	242,408
Common stocks	270,589	131,936	624	401,901
Total	$932,395	$136,382	$2,125	$1,066,652

At December 31, 2015, maturities of marketable securities were as follows:

(dollars in thousands)	Amortized Cost	Market Value
Due in 90 days or less	$ 1,686	$ 1,686
Due after 90 days and in one year or less	16,820	16,822
Due after one year and in five years or less	399,640	399,503
Due after five years and in ten years or less	1,782	1,774
Due after ten years	19	21
Asset-backed securities	176,956	176,895
Common stocks	249,499	337,139
Total	$846,402	$933,840

These marketable securities are classified as available for sale. At December 31, 2015 and 2014, securities classified as available for sale that had been in an unrealized loss position for longer than twelve months had total market values of $13.3 million and $92.7 million, respectively. Unrealized losses related to these securities were $195,000 and $805,000 at December 31, 2015 and 2014, respectively. A loss of $6.2 million was recorded during the year ended December 31, 2015 for other-than-temporary impairment of two common stock holdings. A loss of $6.3 million was recorded during the year ended December 31, 2014 for other-than-temporary impairment of one common stock holding. All other unrealized losses are viewed as resulting from market conditions and are believed to be temporary.

16. Investment Securities and Investment Income, continued

B. Non-Marketable Securities

The Plymouth Rock Company and Subsidiaries have investments in privately held stocks. Such investments amounted to $2.1 million and $2.3 million at December 31, 2015 and 2014, respectively.

On December 31, 2013, The Plymouth Rock Company's and the Palisades Reciprocal Group's investments in Homesite Group Incorporated were liquidated as a result of the acquisition of that company by American Family Insurance Group. The Plymouth Rock Company's share of the net purchase price relating to this acquisition was $54.7 million, while the Palisades Reciprocal Group's share of the net purchase price was $25.7 million.

A portion of the sales proceeds of the net purchase price for each The Plymouth Rock Company and the Palisades Reciprocal Group, amounting to $790,000 and $370,000, respectively, was held back until the Homesite Group's final equity at December 31, 2013 was determined. These amounts were recognized as income in 2013. During 2014, The Plymouth Rock Company and the Palisades Reciprocal Group received $800,000 and $375,000, respectively. The differences in amounts held back as of December 31, 2013 and the amounts received in 2014 were recorded to income in 2014.

An additional portion of the sales proceeds of each of these two entities, amounting to $4.0 million and $1.9 million, respectively, was placed in escrow as collateral for potential claims by the American Family Insurance Group or other indemnified parties arising from possible breaches of representations and warranties made by Homesite Group in conjunction with this transaction. While such indemnification payments were not considered to be probable, contingent liabilities were held in the amounts of $2.6 million for The Plymouth Rock Company and $1.3 million for the Palisades Reciprocal Group as of December 31, 2014. During 2015, The Plymouth Rock Company and the Palisades Reciprocal Group each received payment of the full escrow amounts; therefore, the contingent liabilities of $2.6 million and $1.3 million, respectively, were reversed and recorded as income in 2015.

16. Investment Securities and Investment Income, continued

C. Alternative Equity Investments

Investments in marketable alternative equities include positions in entities that focus predominantly on arbitrage relating to publicly announced mergers and acquisitions. Substantially all of the investments made by these entities are in publicly traded securities, and there exist contractual rights to withdraw funds from these entities each year. At December 31, 2015 and 2014, The Plymouth Rock Company and Subsidiaries recorded values for these marketable alternative equity investments, which include realized and unrealized gains, of $95.1 million and $48.8 million, respectively. At December 31, 2015 and 2014, the Palisades Reciprocal Group recorded values for these marketable alternative equity investments of $129.9 million and $82.8 million, respectively.

Non-marketable alternative equity investments include interests in partnerships that invest in companies that are not publicly traded. These investments are valued by applying the equity method to values in their most recently available financial statements. The Plymouth Rock Company and Subsidiaries recorded values for non-marketable alternative equity investments of $28.6 million and $34.5 million at December 31, 2015 and 2014, respectively. The Palisades Reciprocal Group recorded values for non-marketable alternative equity investments of $14.3 million and $15.2 million at December 31, 2015 and 2014, respectively.

As of December 31, 2015, The Plymouth Rock Company and Subsidiaries had commitments outstanding to invest $33.0 million in ten private equity funds. Four of these funds are Lindsay Goldberg & Bessemer L.P. I (Fund I), Lindsay Goldberg & Bessemer L.P. II (Fund II), Lindsay Goldberg & Bessemer L.P. III (Fund III) and Lindsay Goldberg & Bessemer L.P. IV (Fund IV). The Chairman of The Plymouth Rock Company is a member of the general partner of each of these four funds. At December 31, 2015, The Plymouth Rock Company and Subsidiaries had $241,000, $4.3 million, $12.7 million and $1.7 million invested in Fund I, Fund II, Fund III and Fund IV, respectively, with outstanding commitments to those four funds at that date of $152,000, $1.4 million, $1.3 million and $28.3 million, respectively.

As of December 31, 2015, the Palisades Reciprocal Group had commitments outstanding to invest $6.3 million in five private equity funds.

16. Investment Securities and Investment Income, continued

D. Fair Value Measurements

Cash, cash equivalents, and investment securities are valued using a variety of accounting methods, including the equity method, the cost method, and fair value. The estimates of fair value for these assets have been derived from a variety of sources. Published market prices are used to value assets that are actively traded and for which market prices are readily observable. The values of a second category of assets which are not actively traded are determined from other available market data even though trade prices are not published. The fair values of assets in a third category are estimated using internal and external judgments.

<u>The Plymouth Rock Company and Subsidiaries</u>

Cash, cash equivalents, and investment securities totaled \$675.1 million and \$625.6 million at December 31, 2015 and 2014, respectively. Assets in this category valued using either the equity method or the cost method totaled \$124.9 million and \$84.6 million, respectively, at December 31, 2015 and 2014. The other assets in this category were reported at fair values totaling \$550.2 million and \$541.0 million, respectively, at December 31, 2015 and 2014.

The fair value measurements for these assets are categorized as follows:

At December 31, 2015: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 88,808	$ -0-	$ -0-	$ 88,808
U.S. government securities	12,410	49	-0-	12,459
State and municipal securities	-0-	125,838	-0-	125,838
Corporate debt securities	-0-	20,003	-0-	20,003
Asset-backed securities	-0-	13,271	-0-	13,271
Marketable common stocks	283,812	-0-	-0-	283,812
Marketable preferred stocks	4,992	-0-	-0-	4,992
Non-marketable preferred stocks	-0-	-0-	1,000	1,000
Total fair value	$390,022	$159,161	$1,000	550,183
Assets valued using either the equity method or the cost method				124,887
Total value of cash, cash equivalents, and investment securities				$675,070

16. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

At December 31, 2014: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 69,758	$ -0-	$ -0-	$ 69,758
U.S. government securities	9,544	61	-0-	9,605
State and municipal securities	-0-	122,058	-0-	122,058
Corporate debt securities	-0-	17,741	-0-	17,741
Asset-backed securities	-0-	14,755	-0-	14,755
Marketable common stocks	301,223	-0-	-0-	301,223
Marketable preferred stocks	4,847	-0-	-0-	4,847
Non-marketable preferred stocks	-0-	-0-	1,000	1,000
Total fair value	$385,372	$154,615	$1,000	540,987
Assets valued using either the equity method or the cost method				84,622
Total value of cash, cash equivalents, and investment securities				$625,609

An investment in the non-marketable shares of preferred stock of Consumer United, Inc. was determined to have a fair value of $1.0 million as of December 31, 2015 using internal and external judgments. The fair value of this investment as of December 31, 2015 was determined using the most recent sale price of the majority of The Plymouth Rock Company's shares of preferred stock.

Palisades Reciprocal Group

Cash, cash equivalents, and investment securities totaled $1,169.9 million and $1,177.9 million at December 31, 2015 and 2014, respectively. Assets in this category that are valued using either the equity method or the cost method totaled $144.2 million and $98.0 million at December 31, 2015 and 2014, respectively. The fair values of the other assets in this category totaled $1,025.7 million and $1,079.9 million at December 31, 2015 and 2014, respectively.

16. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

The fair value measurements for these assets are categorized as follows:

At December 31, 2015: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 91,849	$ -0-	$ -0-	$ 91,849
U.S. government securities	134,272	20	-0-	134,292
State and municipal securities	-0-	59,036	-0-	59,036
Corporate debt securities	-0-	226,478	-0-	226,478
Asset-backed securities	-0-	176,895	-0-	176,895
Marketable common stocks	337,139	-0-	-0-	337,139
Total fair value	$563,260	$462,429	$ -0-	1,025,689
Assets valued using either the equity method or the cost method				144,220
Total value of cash, cash equivalents, and investment securities				$1,169,909

At December 31, 2014: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 13,246	$ -0-	$ -0-	$ 13,246
U.S. government securities	109,751	22	-0-	109,773
State and municipal securities	-0-	62,629	-0-	62,629
Corporate debt securities	-0-	249,941	-0-	249,941
Asset-backed securities	-0-	242,408	-0-	242,408
Marketable common stocks	401,901	-0-	-0-	401,901
Total fair value	$524,898	$555,000	$ -0-	1,079,898
Assets valued using either the equity method or the cost method				97,980
Total value of cash, cash equivalents, and investment securities				$1,177,878

16. Investment Securities and Investment Income, continued

E. Analysis of Investment Income and Capital Gains

The Plymouth Rock Company and Subsidiaries

The components of investment income and capital gains before federal income taxes during 2015 and 2014 were as follows:

(dollars in thousands)	2015	2014
Interest income and dividends from securities	$11,881	$10,526
Earnings from non-marketable securities and alternative equity investments	(3,253)	5,706
Rental income	4,245	4,096
Finance charges on premiums receivable	6,091	6,294
Gross investment income	18,964	26,622
Rental expenses	(3,570)	(3,510)
Investment expenses	(1,622)	(1,724)
Investment income	13,772	21,388
Net realized capital gains	6,417	713
Investment income and capital gains	$20,189	$22,101

Palisades Reciprocal Group

The components of investment income and capital gains before federal income taxes during 2015 and 2014 were as follows:

(dollars in thousands)	2015	2014
Interest income and dividends from securities	$24,308	$22,434
Earnings from non-marketable securities and alternative equity investments	(2,772)	5,321
Finance charges on premiums receivable	1,886	1,923
Gross investment income	23,422	29,678
Investment expenses	(7,619)	(7,308)
Investment income	15,803	22,370
Net realized capital gains	21,939	3,213
Investment income and capital gains	$37,742	$25,583

16. Investment Securities and Investment Income, continued

F. Investment Activity

The Plymouth Rock Company and Subsidiaries

Activity in investment securities during 2015 and 2014 was as follows:

(dollars in thousands)	2015	2014
Balance at beginning of year	$ 555,851	$ 496,414
Change in marketable securities:		
Proceeds from maturities	(4,600)	(2,845)
Proceeds from sales	(112,119)	(125,162)
Purchases	124,864	159,578
Net change in marketable securities	8,145	31,571
Net change in non-marketable securities	(211)	1,034
Net change in alternative equity investments	40,474	(8,448)
Net investment activity	48,408	24,157
Net change in purchases in process	(2)	-0-
Net change in unrealized gain on marketable and non-marketable securities	(17,995)	35,280
Balance at end of year	$ 586,262	$ 555,851

Palisades Reciprocal Group

Activity in investment securities during 2015 and 2014 was as follows:

(dollars in thousands)	2015	2014
Balance at beginning of year	$1,164,632	$1,076,024
Change in marketable securities:		
Proceeds from maturities	(3,670)	(6,245)
Proceeds from sales	(363,531)	(374,674)
Purchases	281,209	410,984
Net change in marketable securities	(85,992)	30,065
Net change in alternative equity investments	46,239	548
Net investment activity	(39,753)	30,613
Net change in unrealized gain on marketable and non-marketable securities	(46,819)	57,995
Balance at end of year	$1,078,060	$1,164,632

17. Real Estate

At December 31, 2015, The Plymouth Rock Company owned properties located at 695 Atlantic Avenue and 99 Bedford Street in Boston.

Building improvement costs of $663,000 and $2,259,000 were incurred on these properties in 2015 and 2014, respectively. The table below summarizes the real estate costs and carrying values at December 31, 2015 and 2014:

(dollars in thousands)	2015	2014
Land	$ 7,449	$ 7,449
Buildings, improvements, and other	48,527	47,864
Total cost	55,976	55,313
Less: accumulated depreciation	21,177	19,236
Net book value	$34,799	$36,077

Rental income from lessees other than The Plymouth Rock Company and Subsidiaries totaled $4.2 million and $4.1 million in 2015 and 2014, respectively. For each of the years 2016 through 2020, minimum annual rent receivable by The Plymouth Rock Company and Subsidiaries is $1.3 million. Total obligations to The Plymouth Rock Company and Subsidiaries from non-affiliated lessees through 2020 are $15.2 million. Buildings and improvements are depreciated over their useful lives, which range from three to 39 years.

The total appraised value of these two real estate interests as of December 1, 2015 and 2014, as determined by an independent appraiser using the income and sales comparison approaches, was $91.8 million and $81.6 million, respectively. Because of uncertainties inherent in the appraisal process, as well as changing market conditions, the amounts that could be realized if the properties were actually offered for sale may differ from their appraised values.

18. Stockholders' Equity

A. Common Stock

Common stock of The Plymouth Rock Company at December 31, 2015 and 2014 is composed of Class A common shares and Class B common shares, with shares of both classes having a par value of $0.10 each. There are 300,000 Class A common shares authorized, of which 58,729 and 64,729 were issued and outstanding on December 31, 2015 and 2014, respectively.

There are 90,000 Class B common shares authorized, of which 64,094 were issued and outstanding on both December 31, 2015 and 2014. The Class A common shares are fully transferable and have the right to elect 20 percent of the Board of Directors. The Class B common shares are not transferable, but may be converted to Class A common shares on a one-for-one basis at any time at the option of the holder, and are converted automatically upon the occurrence of certain events. The Class B common shares have the right to elect 80 percent of the Board of Directors, a right which has never been exercised in full. Presently, two directors are elected by the Class B shareholders and all other directors are elected by the Class A shareholders.

Following a plan approved by the Board of Directors, The Plymouth Rock Company purchased and subsequently retired 6,000 outstanding shares of its Class A common stock held by one shareholder at a cost of $24.0 million during 2015.

B. Statutory Surplus and Dividend Availability

Insurance subsidiaries are required to file financial statements with state insurance departments. The accounting principles prescribed or permitted for these financial statements differ in certain respects from accounting principles generally accepted in the United States of America.

On a statutory accounting basis, capital and surplus of the insurance company subsidiaries of The Plymouth Rock Company totaled $204.9 million and $209.4 million at December 31, 2015 and 2014, respectively. The combined net loss on a statutory accounting basis was $701,000 in 2015. The combined net income on a statutory accounting basis for these insurance companies was $34.6 million in 2014.

18. Stockholders' Equity, continued

B. Statutory Surplus and Dividend Availability, continued

Capital and surplus of the insurance companies in the Palisades Reciprocal Group totaled $367.1 million and $376.9 million at December 31, 2015 and 2014, respectively. The combined net income on a statutory accounting basis for these insurance companies was $24.6 million and $24.9 million in 2015 and 2014, respectively.

Regulatory limits restrict the amount of dividends that can be paid by the insurance companies owned by The Plymouth Rock Company and the insurance companies in the Palisades Reciprocal Group without the permission of state insurance regulators.

C. Earnings Per Share

Earnings per share of common stock are computed by dividing net income by the weighted average number of shares of common stock outstanding throughout the year.

Directors and Officers of The Plymouth Rock Company

Directors

James M. Stone, *Chairman*

James N. Bailey

Hal Belodoff

Colleen M. Granahan

Michael J. Johnston

Wilmot H. Kidd, III

Norman L. Rosenthal

Sandra A. Urie

Peter J. Wood

Officers

James M. Stone
Chief Executive Officer

James N. Bailey
Treasurer and Clerk

Hal Belodoff
President and Chief Operating Officer

Colleen M. Granahan
Vice President

Gerald I. Wilson
Vice President

Directors and Officers of the Principal Plymouth Rock Companies

Non-Management Directors

Donald I. Bryan
Dennis A. DiMarzio
Kerry A. Emanuel
Michael J. Johnston
Wilmot H. Kidd, III
Eric L. Kramer
Dennis R. Replogle
Norman L. Rosenthal
Sandra A. Urie
Peter J. Wood

Management Directors and Corporate Officers

Richard F. Adam
James N. Bailey
Hal Belodoff
Marc V. Buro
Michael J. Cesinger
Frederick C. Childs
Edward J. Fernandez
James M. Flynn
Colleen M. Granahan
William D. Hartranft
Keith R. Jensen
William E. Jerro
Brendan M. Kirby
Paul D. Luongo
Thomas J. Lyons
Scott N. Kwiker
Richard J. Mariani
Francis W. McDonnell
Karen A. Murdock
Larry M. Nisenson
Christopher B. Olie
Frank P. Palmer
Louis C. Palomeque
Anne M. Petruff
Kathryn A. Renella
Mary A. Sprong
Karen L. Stickel
James M. Stone
Courtland J. Troutman
Gerald I. Wilson

Counsel:
Ropes & Gray LLP

Independent Auditor:
PricewaterhouseCoopers LLP