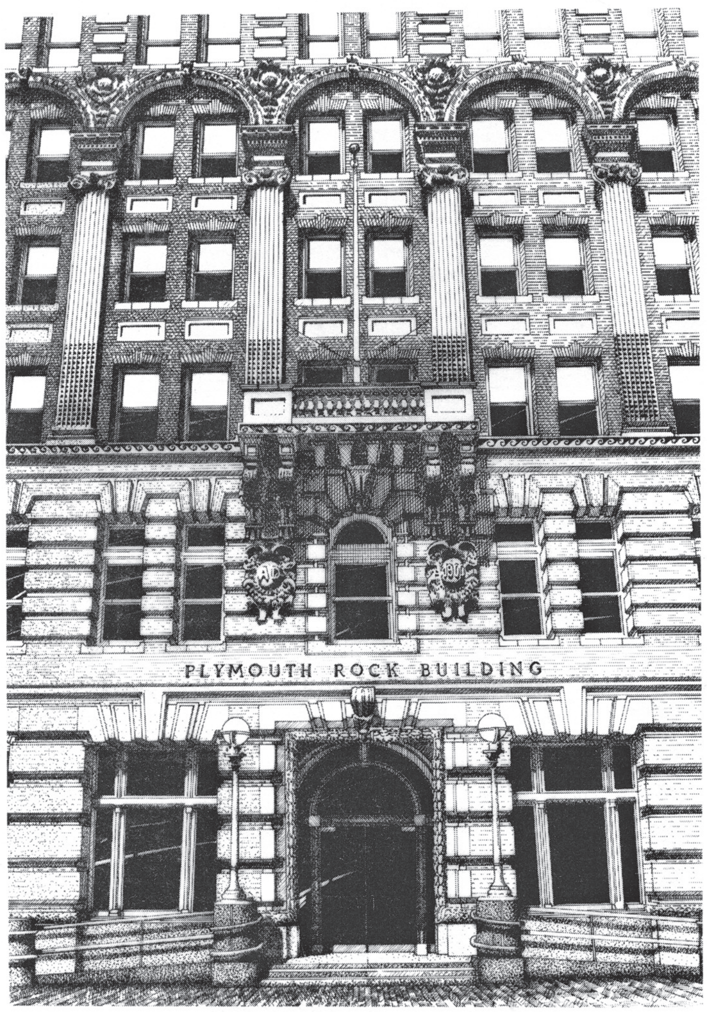
The Plymouth Rock Company



2017 Annual Report

The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 8, 2018

To Our Shareholders:

You may be wondering why Hal and I initiated so many concurrent changes in our company during 2017. Sometimes we do, too, but it was time for change, and one thing led to another. When I worry that too much may now be in flux, I'm tempted to call these past twelve months The Year of Juggling Dangerously. When things settle down, I plan to rename it The Year We Upped Our Game. Let me refresh you on the changes I am talking about. First, we devoted more time and resources to all four of the Company's on-going major initiatives: building a direct response book of business, turning homeowners into a growth engine, adding to our geographic footprint, and creating a state-of-the-art national insurance agency. The addition of new states to our map triggered a plan to move our New Jersey headquarters to a location more conveniently accessible to and from the new jurisdictions. To jumpstart our brokerage and homeowners projects, as well as state expansion, we turned our attention to several major acquisition transactions. And we thoroughly reorganized our enterprise reporting structure to suit the new reality, shifting around the reporting lines for a great many of our managers and officers. Our task now is to see that all of these upgrades are effected without upsetting the equilibrium of an established and successful business.

Nothing on the list of changes should come as a big surprise. In my 2004 annual letter, I wrote: "There are more states in the Northeast to enter; we are particularly interested in New York and Pennsylvania." It has simply taken this long for Hal and me to develop confidence that our management team, our advanced analytics capability, and our information technology systems were ready for it. All three are better now than they have ever been in the past, so we moved ahead. Companies in the Plymouth Rock family are now licensed and doing business in Pennsylvania. Our application is pending in New York. A good part of last year's annual letter was devoted to the three growth initiatives other than state expansion, and each will be discussed again in this letter. The reorganization was a new thought in 2017, but it follows logically from the other changes. When Plymouth Rock was founded, it made sense for the Company to be structured around our geographies. We were in just a few states, and both Massachusetts and New Jersey had uniquely complex regulatory frameworks that required state-specific expertise. Focusing on individual states has served us well up to this point. We will soon, however, be doing business in six states, too many for a president in each, and their various regulatory environments have converged over the years. We are now open, moreover, to employing all three of our product distribution channels – independent agent, exclusive agent, and direct response – everywhere but Massachusetts, where our partnership with our independent agents continues to be particularly rewarding. As a result, we believe we will be better served going forward by having a strong president and management team for each distribution channel rather than for each geography. Under the reorganized reporting lines, all Direct and Prudential automobile insurance business in 2018 will be handled by people reporting to Gerry Wilson, while all of our Independent Agent auto business will be led by Chris Olie's team. Bill Martin will have continuing responsibility for all of our newly written homeowners business, and Marc Buro continues to run the brokerage business we call InsuraMatch.

Looking back at the results for the year, we can see a reflection of the strong management cited above and some exceptional luck on top of that. This quite favorable combination eased considerably the stress of all the changes and provided the best bottom line in our history. There was no unforeseen, infelicitous upswing in national claims frequency or cost inflation to contend with in 2017; our part of the country was spared the terrible storms that hit the Gulf region and the wildfires that have been plaguing California; and the stock market registered an unusually strong year. An unexpected boost to earnings came from an event for which we can claim absolutely zero credit. The new tax law could scarcely have been more beneficial to us, as owners of a profitable corporation paying essentially full taxes and holding substantial unrealized capital gains. Net income at your stockholder-owned entity rose from \$42.1 million in 2016 to \$80.0 million in the year just concluded, a 90% jump. Of this, \$19 million comes from reducing the reserve for future taxes payable on our unrealized stock market gains, just straightforward arithmetic that follows from the reduced corporate tax rate. Considering our entire enterprise rather than just the stockholder-owned portion, we enjoyed a rise in fully consolidated net income of 126%, from \$58.8 million to \$133 million.

A more informative (and more stable) index than net income for the stockholder-owned entity is its gain in book value, which also captures unrealized gains and losses originating in the securities portfolio. This yardstick recorded an advance of 18%. More meaningful still is the true economic gain. This supplements the change in shareholders' equity by the dividends you received in cash during the year and also by the real estate gains that are not taken into book value under generally accepted accounting principles. The past year's dividends and the after-tax real estate gains, based on independent appraisals of our properties, totaled \$33.5 million. On a per-share basis, these two adjustments would add \$263 per share to the book value in the financial statements. The year-to-year increase in economic book value measured on this basis is 26%. It is this number I look at first to form a perspective on how well the Company has done. As you know, I view Plymouth Rock's return corridor for this statistic as bounded on the weak side by 10% and on the strong side by 20%. The results for 2017 broke through the high-side wall, and handily so. They would be at the desirable end of the comfort zone even without the benefit of the December tax legislation. The thirty-three year compounded internal rate of return on book value for your Company's owners, excluding real estate gains, stands at 18.0%. The Plymouth Rock Group's direct underwritten and managed premium volume has approached \$1.3 billion, not including the premium placed with other insurers by our brokerage subsidiary, InsuraMatch.

Whereas in past years these letters have broken down the totals for closer examination by jurisdiction, our new structure is organized around product and channel, so it makes sense to use the same divisions here in this letter. This is, of course, just another way to slice the same apple. The revised segmentation differs from the model you have become familiar with at the detail level, but the totals of net income and fully consolidated net income are exactly the same numbers as you would have seen under the old regimen.

The Independent Agency Group, led by Chris Olie, includes virtually all of Chris's old domain (New England automobile insurance writings and Pilgrim's servicing business) plus the New Jersey automobile volume written through independent agents and owned by the reciprocal we manage. Chris's group oversaw about $400 million in direct premiums a year ago. His team's written and managed premiums are now over $700 million. Growth in New England personal automobile premium was about 3% for the year, and, although exposures were flat, this apparently beats most of the other agency companies we consider our peers and rivals. The others, in general, have lost more business than we have to the rapidly growing national direct response companies. Volume in the New Jersey independent agent channel, which has faced an especially strong direct response challenge, nevertheless turned in a strong performance. Premiums rose by 8%. We are disappointed by the modesty of this channel's profitability record in New Jersey, but it has at least remained consistently above water. The fully consolidated net income for the entire Independent Agency Group represented, before unrealized investment gains, about 28% of the total for the enterprise as a whole. In years to come, the Independent Agency Group will, we trust, show substantial volume written in our populous new states – both of which have more people and more cars than any state in which we wrote business before this past year.

Massachusetts independent agency auto insurance turned in a combined ratio of just over 98%, which is better than we had expected. The combined ratio for our relatively stable $15 million book of automobile insurance in New Hampshire was around 100%. The automobile insurance combined ratio in Connecticut, where volume grew by 6% to just over $31 million, was more like 115% – an unsustainable result. While the expense contributor to this number can be mitigated simply by scale, the loss ratio remains worrisome. I am assured, though, that despite these 2017 results, Connecticut remains roughly on its glide path to profitability. After a decade of losses, a money-making year in Connecticut will someday provide a fine excuse to open a premium bottle of champagne, but that someday has not yet arrived. The Bay State and Granite State results can always be improved but there is no equivalent need for urgent repair. Connecticut, moreover, is not the only urgent challenge for the Independent Agency Group. Its commercial auto book of business, now accounting for $34 million in annual premium, is losing us money in both New Jersey and Massachusetts. Without Connecticut and commercial automobile writings, we would have produced for you an additional $20 million in net income over the last three years.

Pilgrim Insurance Company, our third-party service provider to other insurers, is also a part of the Independent Agency group. Bill Hartranft, who oversees finance for our whole enterprise, manages this business for Chris. Pilgrim had an impressive growth year, more than doubling its managed premiums and increasing its fee-for-service revenues to almost $26 million. Most of the growth came from Plymouth Rock's resumption of status as a servicing carrier for the Massachusetts residual market in commercial vehicle insurance. This line of business is fee-based and thus immune from the loss ratio ills of our voluntary commercial book. Even before considering the benefits of the federal tax reductions, the surge in revenue allowed this past year to be Pilgrim's best ever for contribution to enterprise profits.

An important transition for the Independent Agent Group not initiated by Hal and me will occur by the end of 2018. Chris Olie had informed us when he first joined Plymouth Rock that he planned to stay in full-time employment for only five years. We expected him, therefore, to be gone from the presidency of our New England companies by 2014. He has now given notice, effective late in the current year, by which time his tenure will have been closer to nine years. Chris has been a fine colleague, and we would have been happy to see him remain, but we are thankful for the extended tenure he gave us and are exploring a continuing part-time role for him. Recruitment of Chris's successor will encompass both an internal and external search effort. The new chief of the Independent Agent Group will be headquartered in Boston, with about three-quarters of a billion dollars in business to oversee, and a geographic reach that should, before long, lift that channel past the billion dollar mark.

The Direct and Prudential Group, led by Gerry Wilson, is smaller in volume than Gerry's old domain but it contains the fastest growing business segment in the Company and the one that projects the most exciting take-off in the expansion states. The group wrote nearly $500 million in direct premiums in 2017. Its lines include the direct automobile insurance business supervised by Tom Lyons and all the business written through Prudential agents in both automobile and homeowners coverages, and now overseen by Ed Fernandez. The Direct and Prudential Group experienced about 2% growth in the year gone by, with more than all of that increase in volume arising from the direct response segment. Contribution to consolidated net income from Gerry's group was half the total for the Plymouth Rock enterprise as a whole. The Direct product is off to a healthy start already in Pennsylvania, and we hope it will have the same success there, in Connecticut, New Hampshire, and New York as it has had so far in New Jersey.

Most of the business of the Direct and Prudential Group is written through our New Jersey reciprocal insurer and its subsidiaries. This requires me to remind the reader that the profits of this group belong to the reciprocal's policyholders. For management purposes, we regard these results as equal in importance to those of our shareholder-owned entities, but the ownership distinction is real and it is reflected on our financial statements. The 2017 profit performance story for the Direct and Prudential Group looked roughly as it has for some years now. Aided by prior-year development in the right direction, the all-lines combined ratio rounded to 90%, which is more than satisfactory. The bulk of the profit, though, is still in the New Jersey homeowners book we inherited from Prudential in 2003 and which we cannot expand under our current agreement with Pru. The growth, in contrast, was entirely from the direct automobile insurance book, which expanded to an annual premium volume of $119 million, and showed a small profit on the bottom line – which exceeds what we would have required of such an unseasoned book. The largest volume contributor in the group remains the Prudential automobile insurance book, where recently acquired business has for a decade now contributed more bulk than profit. Because legacy business in that channel is still quite profitable, and this year was better than average for auto insurance generally, Pru auto produced an overall combined ratio comfortably in the mid-90's. The premium for automobiles insured through Prudential agents rose by about 1.1% to $260 million. Improving the new business performance of the Pru automobile book and the persistency and scope of the entire Pru book are top of mind for Ed in his new assignment.

Our homeowners business is undergoing rapid change. Once operated largely as an accommodation to our agents in order to promote automobile insurance volume and boost customer loyalty, our Property Group is now an ambitiously growing profit center of its own. Under Bill Martin's leadership, it writes new business in five states and plans to add New York as soon as the licensing process is concluded. Bunker Hill, the largest and oldest homeowners subsidiary in the group, remains profitable enough to finance much of the expansion, and it should remain able to do so in the future if we manage our reinsurance and risk selection properly. Bill believes that, in this era of publicly available data bases, he can pioneer within our industry with respect to easy, on-line binding of coverage based on pre-fills of data for virtually every home – with minimal need to put our potential customers through the burdensome process of submitting additional information. While the six states we are currently targeting represent a population almost as large as that of England, and may satisfy our appetite for a while, I wouldn't want to rule out a national effort in homeowners at some point. That might require a suitable partner who brings more than money to the table. The volume at the Property Group, meanwhile, is projected to rise by nearly 30% in the year just begun, to something close to $115 million.

Marc Buro has the task of turning our insurance agency subsidiary from a traditional, two-state operation into an Internet-agile, and large, national broker. It is not a simple task, but he's been running at sprinters' pace from the first day. Thanks to a replacement transaction with a giant insurer wishing to cut back its personal lines footprint, volume at InsuraMatch Group has more than doubled – to a total of $88 million in brokered premium. Marc and his recently enhanced team are investing heavily in expansion as well as a new technology platform, so we don't have a profit to show at InsuraMatch yet and may not for a few years. What we have instead is a rapidly expanding brokerage subsidiary exploring marketing techniques that our entire enterprise and our agents will someday need to include in their skill sets. I have no crystal ball to read the future, but one prediction I feel certain enough to bet on is that on-line marketing will someday overtake bricks-and-mortar and the telephone as the dominant sales mode for our industry. InsuraMatch will help us learn and perhaps even lead.

Virtually everyone with long positions in common stocks did well in 2017. The Standard & Poor's Index returned 21.8%, including dividends, a gain that I ascribe in large measure to continuing recovery from the 2008-9 crash and market anticipation of the corporate tax cut. Plymouth Rock's equity performance lagged the index, but a common stock return of 13.5% cannot be cause for too many tears. The relative underperformance of our equities is fairly simple to explain. Our portfolio was overweighted in energy and traditional retail stocks, the former a risk we are comfortable with keeping and the latter less so. The Web-based retailing industry is conquering the world faster than we thought possible just a few years back. A secondary drag relative to the indices was our underweighting in the highest flying high-tech stocks. We just don't feel our comparative advantage in predicting the future profits of individual technology companies is worth a tinker's dam. Finally, our equity portfolio is built mainly around multinational corporations that pay less in taxes than domestics, and thus may have had less to gain than full tax payers from the rate reductions. Over the two and a half decades since Jim Bailey and I started investing in marketable equities, Plymouth Rock's internal rate of return on common stocks from inception continues to beat the Standard & Poor's handily, so we are not worried about one lagging year. The annual growth and dividend return for our intentionally undiversified common stock portfolio is about 15.1% versus a 12.7% per annum return on the S&P index.

Jim Bailey and I, with help from Rick Childs and a very small team, continue to manage the equity portfolio ourselves. Standish Mellon still oversees our fixed income portfolio, with guidance from us on credit quality (which we keep high) and duration (which we keep short, and this year further attenuated). It should be no surprise, given those tight constraints, that our bonds returned relatively little once again. The total return on our bond portfolio in 2017 was about 3.5%. It is not our own judgment but our rating agency's and our regulators' investment philosophies, right or wrong, that cause us to maintain a billion dollar portfolio of fixed income securities, and we don't expect that to change any time soon. We do not, and will not, try to stretch the fixed income returns by taking long-term interest rate risk. Jim and I continue to believe many of our competitors risk losses from interest rate corrections without a commensurate return to justify that risk. Our alternative equities, the descriptor we use for hedge fund and private equity investments, had a strong year – much better than the prior one – returning overall a little over 15%. Real estate continued to be a strong asset class for us. Operating income on the two office buildings we own here in Boston, when added to the appraisal increases, produced an impressive 2017 return of 21%. The two buildings, bought for a total of $22 million, are now worth almost $120 million.

Once again, there is bad news and (slightly) better news with respect to our investments in Master Limited Partnerships engaged mainly in North American fuel transmission. The bad news is that two of the three entities currently in our portfolio produced negative returns during 2017. The slightly better news is that, having originally made an investment of over $100 million in four of these instruments, we have cumulative losses as of this writing of only a few million dollars, after dividends received. More important is the comfort we can take in knowing that the MLP's taken as a single unit constitute one of only two losing investments we have made in our entire equity investing history, marketable and otherwise – whereas gains have run well into nine digits. The MLP entities have shown a modest recovery trend so far this current year; Jim and I have determined to hold them a while longer.

The element of the broader economic environment most discussed this season by American business leaders is the 2017 tax cut, and rightly so. I thought it unwise policy for Congress to crank up the national debt so massively without a justifying, definable, high-returning investment in the future or an immediate need for temporary stimulus, but the new tax rates are unquestionably good for Plymouth Rock. Not only is The Plymouth Rock Company among those favored corporations previously paying full taxes and thus enjoying the full reduction, but the new law further enriches companies like ours that hold substantially appreciated portfolios of investments in equity securities. Many of those securities have already risen in price to reflect greater after-tax earning power.

Summaries of the new law abound, but it may be worth a few lines here to describe the tax law changes as I view them. While most of the press attention has been focused on the personal tax cuts, most of the impact arises from the corporate provisions. Personal taxes will fall a bit for taxpayers near the bottom of the income and wealth distribution, where the standard deduction and some temporary breaks dominate outcomes. In the middle there is a mix of cases, with upper middle-class taxpayers in high-taxed jurisdictions least well treated. At the top are the big winners, with mega-bucks distributed only at the wealth summit and, importantly, not primarily through the personal tax provisions. More attention ought to have been given to the distributional impact of the corporate tax cut, where the greatest inequality consequences at the personal level arise. The reduced taxes for conventional C-Corporations, including the Plymouth Rock Company, increase individual net worth for shareholders like us. Owners of qualifying pass-through businesses do even better, enjoying a maximum single-layer federal tax of less than 30%. From now on, C-Corporation owners can receive spendable dividend cash in greater amounts than before – even after 21% has been paid in federal corporate taxes, another 25% is taken by federal personal taxes, and state income levies are also met. As Plymouth Rock owners, our cumulative all-level maximum federal tax is 40%, more than ten points better than before but ten points above the maximum federal pass-through rate. I have never been persuaded that pass-throughs, such as S-Corporations and limited liability partnerships (LLP's) or corporations (LLC's), should be favored at all. The case for favoring large pass-throughs is especially weak. It has always seemed reasonable and justifiable that the owners of traditional C-Corporations receive a measure of shelter from lawsuits in exchange for accepting two layers of taxation. The pass-throughs, though, have over the years developed the political clout to wheedle for themselves the quid without the quo. But that is a discussion best kept for another forum. Disapproval of the pass-throughs' special privilege aside, our gain is undeniable.

What commentators seem to have missed is that the wealth distribution impacts of the new corporate tax rates are separate from, and more important than, the implications for Treasury revenues. Most of the gains in net worth at the pinnacle are in the value of unrealized appreciation. The richest Americans have no need to seek liquidity for the bulk of their holdings, so most of their wealth appreciation each year remains untaxed. Their accumulated capital, which measures in the tens of trillions of dollars, has been inflated in many cases by over 20% by the passage of this new law. That's the real gift in the law, and some would say it was among its most powerful motivators, and yet wealth distribution effects were conspicuously absent as a topic in the Congressional or public debate. The most well-heeled in our society will now benefit from a reduced bracket rate on income and from an estate tax that now applies in two taxpayer households only to bequests totaling over $22.4 million. But these transfers are dwarfed by the boosts in net worth enjoyed by the largest holders of common stocks. About 40% of all stock market value is owned by the upper 1% of the population in income, and another 40% by the next 9%. Here, and nearly invisibly, can be found the real winners under the new law.

The argument in favor of the tax bill was that it would boost employment and lower prices to consumers. Perhaps some of this will come to pass, but that doesn't seem a likely scenario any time soon in our own sector. Insurance companies grow in volume and employment mainly when they expand market share, and they tend to grow principally at the expense of competitors so their growth has little overall job market impact. The effects on insurance prices charged to the consumer are also likely to be minimal. There is little aggregate demand elasticity in personal lines coverages, and the cost of claims is the single most powerful determinant of our premium charges. Time will tell how much of the immediate gain to the owners of insurance companies, if any, is eventually competed out of the equation and returned to consumers. My suspicion is that the mills of this competitive process will grind imperceptibly slowly. Other industries, though, may see events play out differently. Those with more elastic aggregate consumer demand might conceivably expand more rapidly with the lower tax levies. Businesses that face foreign competition or have stashed profits abroad might find improved prospects in the U.S. now, assuming our now-favorable effective tax rates don't generate an international race to the bottom. That said, no such effects are even close to certain, and it still seems a stretch, or a pipe dream, to think GDP growth will suddenly take off as a result of the new regime. I will be happy to be proven wrong on this, and wagers are welcome.

The year just begun promises us a variety of frontier experiences. Even more than at this time a year ago, renewed entrepreneurial spirit characterizes our workplace now. Plymouth Rock will have in 2018 a revised organizational structure, an expanded jurisdictional map, elevated growth ambitions, and some new senior executives to recruit and welcome. We will be simultaneously looking for attractive acquisitions of business in those lines and states where we need to build scale more rapidly than organic growth permits. Hal has talked for some time about the goal of adding the next billion, and I am finally persuaded that this objective is becoming realistic within our planning horizon. It will be hard work to manage all of the change, but I have long been convinced it is healthier for individuals and organizations to be overworked than idle. This year will put that proposition to the test.

James M. Stone

pwc

Report of Independent Auditors

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, 2017 and 2016, 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.

Auditors' 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, 2017 and 2016, 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 15, 2018

PricewaterhouseCoopers LLP, 101 Seaport Blvd, Suite 500, Boston, MA 02210
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THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016
(dollars in thousands)

Assets	2017	2016
The Plymouth Rock Company and Subsidiaries		
Cash and cash equivalents	$ 52,788	$ 36,931
Investment securities	792,121	704,843
Accrued investment income	4,335	3,437
Premiums receivable	155,292	138,891
Ceded unearned premium reserves	49,660	25,596
Deferred acquisition costs	33,733	31,899
Amounts receivable from reinsurers and pools	44,126	28,504
Amounts due from service clients	945	1,430
Prepaid expenses, agent loans, and deposits	9,768	12,571
Real estate	33,834	34,302
Fixed assets	36,759	33,484
Goodwill and intangible assets	6,333	4,390
Income tax recoverable	-0-	6,225
Deferred rental revenue	925	1,168
Other assets	306	528
Subtotal	1,220,925	1,064,199
Palisades Reciprocal Group		
Cash and cash equivalents	34,877	4,989
Investment securities	1,282,782	1,221,955
Accrued investment income	6,985	6,407
Premiums receivable	137,644	123,268
Ceded unearned premium reserves	4,070	4,251
Deferred acquisition costs	26,911	25,359
Amounts receivable from reinsurers and pools	23,287	29,035
Goodwill and intangible assets	10,765	11,654
Income tax recoverable	1,725	3,425
Other assets	1,888	1,093
Subtotal	1,530,934	1,431,436
Total assets	$2,751,859	$2,495,635

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016
(dollars in thousands)

Liabilities	2017	2016
The Plymouth Rock Company and Subsidiaries		
Claim and claim adjustment expense reserves	$ 265,404	$ 234,424
Unearned premium reserves	271,134	235,116
Advance premiums	6,470	6,915
Commissions payable and accrued liabilities	72,342	64,625
Amounts payable to reinsurers	23,231	10,264
Deferred revenue	4,154	3,730
Unearned service fees	5,056	4,577
Secured loan	5,000	15,000
Income tax payable	3,178	-0-
Deferred income taxes	29,161	32,403
Other liabilities	2,825	2,825
Subtotal	687,955	609,879
Palisades Reciprocal Group		
Claim and claim adjustment expense reserves	641,444	636,514
Unearned premium reserves	297,932	287,847
Advance premiums	7,198	7,906
Commissions payable and accrued liabilities	38,823	31,226
Amounts payable to reinsurers	619	682
Deferred revenue	919	968
Deferred income taxes	30,133	30,894
Other liabilities	1,116	539
Subtotal	1,018,184	996,576
Total liabilities	1,706,139	1,606,455
Equity		
The Plymouth Rock Company and Subsidiaries		
Common stock and paid-in capital	3,556	12
Retained earnings	426,338	365,610
Net unrealized gain on investments	87,259	71,336
The Plymouth Rock Company stockholders' equity	517,153	436,958
Palisades Reciprocal Group	528,567	452,222
Total liabilities and equity	$2,751,859	$2,495,635

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, 2017 and 2016
(dollars in thousands)

Revenues	2017	2016
The Plymouth Rock Company and Subsidiaries		
Premiums earned in underwriting activities	$ 424,198	$ 411,896
Fees earned from service activities	193,291	184,370
Investment income and capital gains	49,461	21,139
Subtotal	666,950	617,405
Palisades Reciprocal Group		
Premiums earned in underwriting activities	718,394	702,667
Fees earned from service activities	1,196	921
Investment income and capital gains	38,100	19,583
Subtotal	757,690	723,171
Less: Intra-group transactions	181,458	175,847
Total revenues	1,243,182	1,164,729
Expenses		
The Plymouth Rock Company and Subsidiaries		
Claims and claim adjustment expenses	305,595	308,997
Policy acquisition, underwriting, and general expenses	106,605	100,044
Service activity expenses	158,915	144,489
Subtotal	571,115	553,530
Palisades Reciprocal Group		
Claims and claim adjustment expenses	494,433	495,271
Policy acquisition, underwriting, and general expenses	215,719	205,268
Service activity expenses	1,429	1,150
Subtotal	711,581	701,689
Less: Intra-group transactions	181,458	175,847
Total expenses	1,101,238	1,079,372
Income before income taxes	141,944	85,357
Income taxes	9,043	26,586
Fully consolidated net income	132,901	58,771
Less: Net income of Palisades Reciprocal Group	52,936	16,710
Net income of The Plymouth Rock Company and Subsidiaries	$ 79,965	$ 42,061

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, 2017 and 2016
(dollars in thousands, except per share data)

	2017	2016
The Plymouth Rock Company and Subsidiaries		
Net income	$ 79,965	$ 42,061
Other comprehensive income, net of tax:		
Total unrealized gain on investment securities during the year	22,482	18,430
Less: Gain on investments included in net income	6,559	(2,568)
Change in net unrealized gain on investments during the year	15,923	20,998
Comprehensive income	95,888	63,059
Palisades Reciprocal Group		
Net income	52,936	16,710
Other comprehensive income, net of tax:		
Total unrealized gain on investment securities during the year	25,811	22,892
Less: Gain on investments included in net income	2,402	(3,866)
Change in net unrealized gain on investments during the year	23,409	26,758
Comprehensive income	76,345	43,468
Fully consolidated		
Net income	132,901	58,771
Change in net unrealized gain on investments during the year	39,332	47,756
Comprehensive income	$ 172,233	$ 106,527

The Plymouth Rock Company and Subsidiaries - Per share data

	2017	2016
Weighted average common shares outstanding	122,823	122,823
Net income per share	$ 651.05	$ 342.45
Common shares outstanding at end of year	122,823	122,823
Common stockholders’ equity per share	$4,210.54	$3,557.62

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, 2017 and 2016
(dollars in thousands)

Cash flows from operating activities	2017	2016
The Plymouth Rock Company and Subsidiaries		
Gross premiums collected	$ 517,711	$ 464,915
Reinsurance premiums paid	(84,715)	(51,166)
Finance charges collected	8,506	8,460
Fees and commissions collected	192,867	182,606
Investment income and capital gains received	42,355	13,327
Gross claims and claim expenses paid	(315,827)	(301,575)
Reinsured claims and claim expenses collected	26,490	29,831
Policy acquisition, underwriting, and general expenses paid	(105,927)	(90,739)
Income taxes paid	(19,062)	(37,989)
Service activity expenses paid	(130,868)	(130,893)
Net cash provided by operating activities	131,530	86,777
Palisades Reciprocal Group		
Gross premiums collected	736,357	719,667
Reinsurance premiums paid	(22,844)	(21,444)
Fees and commissions collected	1,200	895
Investment income and capital gains received	45,677	24,410
Gross claims and claim expenses paid	(491,986)	(490,751)
Reinsured claims and claim expenses collected	8,098	12,749
Policy acquisition, underwriting, and general expenses paid	(215,481)	(218,865)
Income taxes paid and recovered	(5,146)	(9,647)
Service activity expenses paid	(1,429)	(1,150)
Net cash provided by operating activities	54,446	15,864
Total net cash provided by operating activities	$ 185,976	$ 102,641

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, 2017 and 2016
(dollars in thousands)

Cash flows from financing activities	2017	2016
The Plymouth Rock Company and Subsidiaries		
Repayment or proceeds of or from secured loan	$ (10,000)	(20,000)
Dividends to stockholders	(19,237)	(11,594)
Net cash used in financing activities	(29,237)	(31,594)
Net cash provided by		
The Plymouth Rock Company and Subsidiaries	$ 102,293	$ 55,183
Palisades Reciprocal Group	$ 54,446	$ 15,864
Total	$ 156,739	$ 71,047
Investment of net cash provided		
The Plymouth Rock Company and Subsidiaries		
Change in cash and cash equivalents	$ 15,857	$ (51,877)
Net investment activity	59,539	86,071
Purchase of intangible assets	2,152	203
Net real estate activity	1,553	1,458
Purchases of fixed assets	23,192	19,328
Net cash provided by investing activities	$ 102,293	$ 55,183
Palisades Reciprocal Group		
Change in cash and cash equivalents	$ 29,888	$ (86,860)
Net investment activity	24,558	102,724
Net cash provided by investing activities	$ 54,446	$ 15,864
Total net cash invested	$ 156,739	$ 71,047

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, 2017 and 2016
(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, 2015	$ 12	$335,143	$50,338	$385,493	$408,754	$ 794,247
Comprehensive income	-0-	42,061	20,998	63,059	43,468	106,527
Dividends to stockholders	-0-	(11,594)	-0-	(11,594)	-0-	(11,594)
December 31, 2016	$ 12	$365,610	$71,336	$436,958	$452,222	$ 889,180
Comprehensive income	-0-	79,965	15,923	95,888	76,345	172,233
Stock-based compensation	3,544	-0-	-0-	3,544	-0-	3,544
Dividends to stockholders	-0-	(19,237)	-0-	(19,237)	-0-	(19,237)
December 31, 2017	$ 3,556	$426,338	$87,259	$517,153	$528,567	$1,045,720

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

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 elsewhere in the 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".

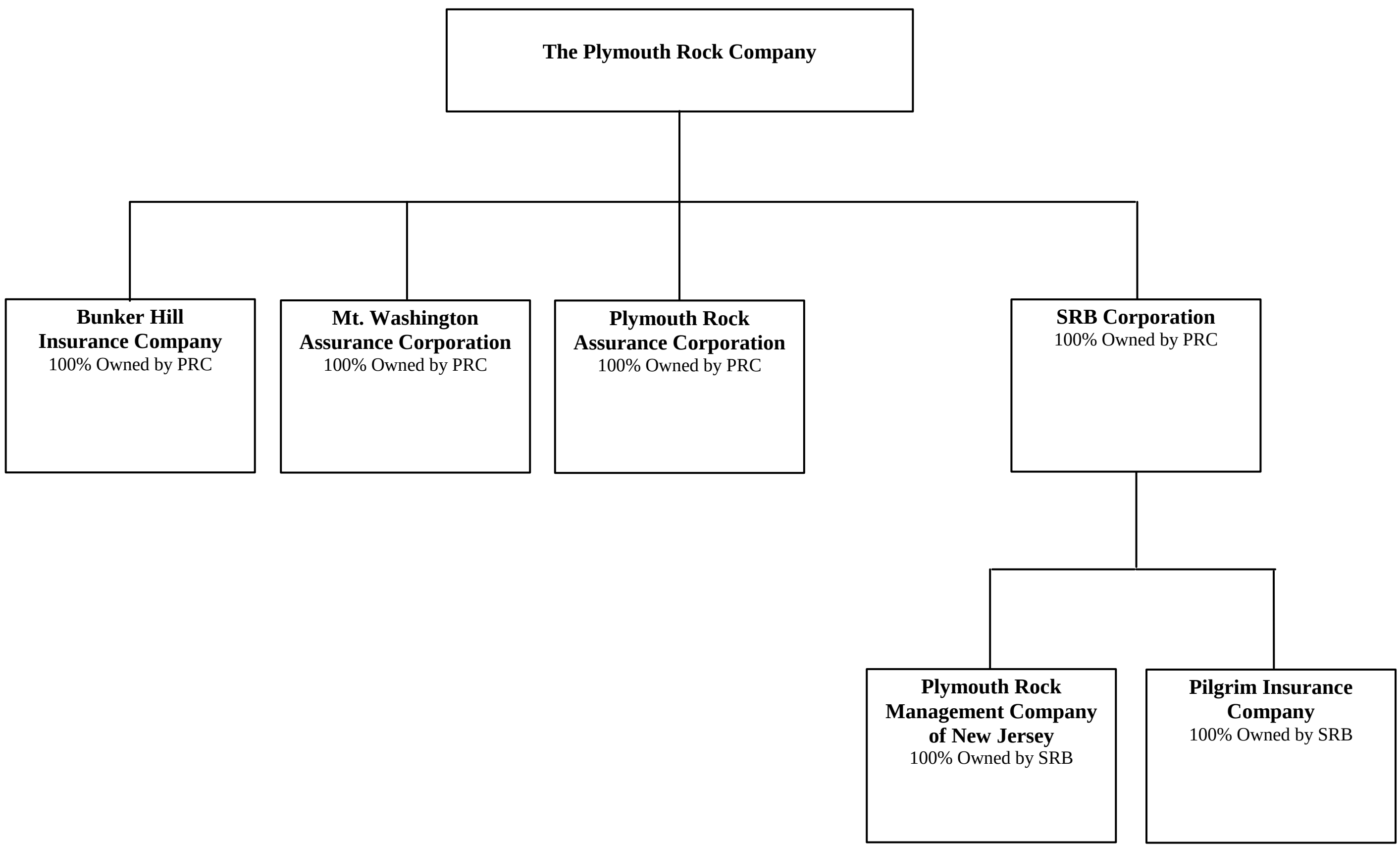
Among The Plymouth Rock Company's largest businesses is the management of a reciprocal insurance group, which is conducted through a subsidiary. The members of that reciprocal group of companies, which are referred to in these financial statements as the "Palisades Reciprocal Group", are not owned by 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 and Pennsylvania. 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 3.7 and 4.1 percent, of the equity of the Palisades Reciprocal Group at December 31, 2017 and 2016, 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 the one hand and the Palisades Reciprocal Group on the other.

2. Organization of The Plymouth Rock Company and Subsidiaries

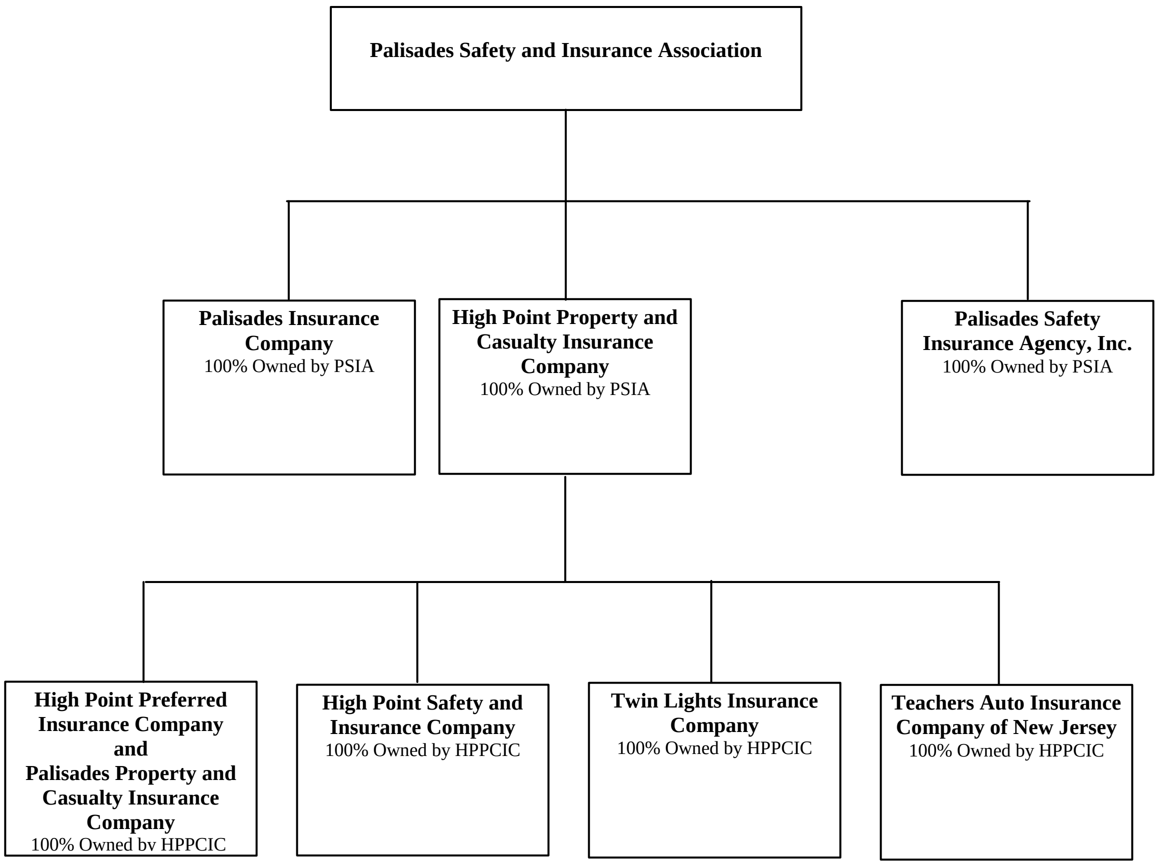
The corporate and ownership structure of The Plymouth Rock Company and principal subsidiaries is shown in the following chart:



Other subsidiaries include 99 Bedford Corporation and 695 Atlantic Avenue Company, LLC, which own real estate; Bunker Hill Insurance Casualty Company, Bunker Hill Property Insurance Company, Bunker Hill Preferred Insurance Company, and Bunker Hill Security Insurance Company, which are wholly owned subsidiaries of Bunker Hill Insurance Company; 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 consolidated 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. As of December 31, 2017 there was no liability for outstanding checks for The Plymouth Rock Company and Subsidiaries. As of December 31, 2016 liabilities for outstanding checks for The Plymouth Rock Company and Subsidiaries of $4.7 million are included in accrued liabilities. Liabilities for outstanding checks for the Palisades Reciprocal Group of $20.4 million and $13.2 million are included in accrued liabilities at December 31, 2017 and 2016, 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. During 2017, The Plymouth Rock Company and Subsidiaries invested in the initial public offering of a foreign entity. Changes in the foreign exchange rate are recorded directly to stockholders’ equity through net unrealized capital gain or loss. During 2017, The Plymouth Rock Company and Subsidiaries recorded a benefit before applicable taxes of $276,000 from foreign exchange rate changes related to this investment. 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.

4. Summary of Significant Accounting Policies, continued

D. Cash and Investments, continued

The Company has decided to early adopt Accounting Standards Update 2016-01 effective January 1, 2018. From that date forward, changes to net unrealized gain or loss in the fair value of marketable equity securities available for sale, after deduction of applicable deferred income taxes, will be credited or charged directly to net income and will affect equity through retained earnings. Changes in the fair value of net unrealized gain or loss on marketable fixed income securities will continue to be credited or charged directly to equity. Upon adoption, the cumulative net unrealized gain on marketable equity securities, after deduction of applicable deferred income taxes, will be reclassified within equity from net unrealized gain on investments to retained earnings on January 1, 2018. These balances as of December 31, 2017 were $88.5 million for The Plymouth Rock Company and Subsidiaries and $110.4 million for the Palisades Reciprocal Group.

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.

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 2017 and 2016 for The Plymouth Rock Company and Subsidiaries was $55.0 million and $53.7 million, respectively, while the net amortization for the Palisades Reciprocal Group for 2017 and 2016 was $69.9 million and $66.8 million, respectively.

4. Summary of Significant Accounting Policies, continued

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, 2017 and 2016, the reserves for doubtful collections for The Plymouth Rock Company and Subsidiaries were $1.4 million and $1.1 million, respectively. The reserves for doubtful collections of the Palisades Reciprocal Group at December 31, 2017 and 2016 were $5.1 million and $4.5 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 2017 and 2016, fees of $181.5 million and $175.8 million, respectively, earned from the Palisades Reciprocal Group were eliminated upon consolidation. The balance sheet item “other liabilities” includes balances owed to insurers for which Pilgrim Insurance Company provides services.

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 2017 or 2016.

5. Income Taxes

Income taxes on the statements of comprehensive income for 2017 and 2016 consist of:

(dollars in thousands)	2017	2016
The Plymouth Rock Company and Subsidiaries	$ 15,870	$ 21,812
Palisades Reciprocal Group	(6,827)	4,774
Total	$ 9,043	$ 26,586

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.

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. On the basis of 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. The Tax Cut and Jobs Act (the “Tax Act”) also resulted in a reduction of the 2017 effective tax rate, as discussed below. In 2016, The Plymouth Rock Company and Subsidiaries recorded a $1.4 million tax benefit related to prior-period deferred tax liability adjustments.

5. Income Taxes, continued

The Tax Act was enacted on December 22, 2017 and contains provisions that generally take effect beginning on January 1, 2018. The key provision of tax reform impacting The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group is the reduction of the corporate income tax rate from 35% to 21%, which causes deferred tax balances to be measured at the lower rate in the period of enactment. The net deferred tax liabilities of The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group as of December 31, 2017 were reduced by $17.9 million and $19.3 million, respectively, as a result of the Tax Act, with corresponding decreases to total tax expense. Accounting Standards Codification Topic 740 requires the impact of a change in tax rate to be reported through the income tax expense line on the income statement in the period of enactment. The Tax Act modified the provisions applicable in determining the tax basis of net unpaid loss reserves. These changes will result in a transition adjustment to be included in income over a period of eight years beginning in 2018. The Tax Act instructed the U.S. Treasury to provide the guidance necessary to determine the necessary transition adjustment. This guidance has not yet been released and will be applied in the period in which it is released. The transition adjustment would have no impact on the net deferred tax liability at December 31, 2017.

While Plymouth Rock Management Company of New Jersey has paid New Jersey state income tax since its inception, recent analysis indicates that the management company should not be subject to state income tax and therefore payments in recent years may be refundable on the basis that the management company and the Palisades Reciprocal Group constitute a single insurance business for tax purposes, for which the Palisades Reciprocal Group pays taxes on the basis of its written premiums. Plymouth Rock Management Company of New Jersey has filed amended New Jersey returns for the 2012 through 2015 tax years; these amended returns and the recently filed 2016 tax year return reflect no state income tax liability for these five years. New Jersey income tax liability continues to be accrued for financial statement purposes until such time that it is determined that Plymouth Rock Management Company of New Jersey need not pay state income tax.

5. Income Taxes, continued

As of December 31, 2017, Plymouth Rock Management Company of New Jersey has filed amended tax returns through which refunds totaling $16.5 million are expected to be received. While the Company believes that this position is very well supported, there is uncertainty as to the outcome; therefore, no benefit has been accrued for the anticipated refunds and an additional state income tax liability of $3.7 million and interest expense of $43,000 have been accrued for the 2017 tax year. No penalties have been accrued. As of December 31, 2017, reported equity of The Plymouth Rock Company and Subsidiaries is $12.8 million lower, net of federal income tax deductibility, than it would be if this matter is favorably resolved. We expect there to be further discussion with the taxing authority in response to our amended returns during 2018, but any potential impact on the 2018 financial statements cannot be reasonably estimated at this time.

There are no other tax positions of questionable merit that require a reserve for potential disallowance. As of December 31, 2017, neither The Plymouth Rock Company and Subsidiaries nor the Palisades Reciprocal Group is subject to federal examinations for tax years prior to 2014. Examinations by two state taxing authorities are presently in progress for The Plymouth Rock Company and Subsidiaries that could potentially cover tax years 2012 through 2015. At this time, we are not aware of any findings that would result in a material change in either group's financial position.

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

Income taxes on the statements of comprehensive income for 2017 and 2016 consist of:

(dollars in thousands)	2017	2016
Current year federal income taxes	$23,767	$18,767
Current year state income taxes	4,698	4,654
Change in deferred federal taxes	(13,039)	(1,575)
Change in deferred state taxes	444	(34)
Total	$15,870	$21,812

5. Income Taxes, continued

Deferred income taxes on the balance sheets as of December 31, 2017 and 2016 consist of the net effects of these temporary differences:

(dollars in thousands)	2017	2016
Net unrealized gain on investments	$(30,206)	$(39,901)
Unearned premiums	9,574	15,150
Compensation expense	6,596	8,774
Deferred acquisition expense	(6,106)	(9,859)
Depreciation	(5,456)	(7,053)
Investment and partnership timing differences	(4,601)	(1,240)
Discounting of claim reserves	1,231	2,009
Other	(193)	(283)
Total	$(29,161)	$(32,403)

Palisades Reciprocal Group

Income taxes on the statements of comprehensive income for 2017 and 2016 consist of:

(dollars in thousands)	2017	2016
Current year federal income taxes	$ 6,844	$ 3,988
Current year state income taxes	2	1
Change in deferred federal taxes	(13,673)	785
Total	$ (6,827)	$ 4,774

Deferred income taxes on the balance sheets as of December 31, 2017 and 2016 consist of the net effects of these temporary differences:

(dollars in thousands)	2017	2016
Net unrealized gain on investments	$(34,634)	$(45,012)
Deferred acquisition expense	(13,447)	(21,529)
Unearned premiums	12,645	20,405
Discounting of claim reserves	3,481	6,353
Guaranty fund accrual	1,819	3,028
Reserves for doubtful collections	1,075	1,583
Investment and partnership timing differences	(1,071)	4,084
Intangibles	292	647
Other	(293)	(453)
Total	$(30,133)	$(30,894)

There were no federal net operating loss carryforwards available as of December 31, 2017.

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 on the consolidated balance sheets before estimated recoveries for reinsurance. There are a variety of actuarial methods used to estimate claim reserves and claim adjustment expense reserves, including paid and incurred development methods. When deciding among methods, the credibility of each method based on the basis of the maturity of the data available and the claims settlement practices for each particular line of insurance business or coverage within a line of insurance business is evaluated. The methods used are reviewed regularly, and any adjustments to these reserves are reflected in income currently.

The Plymouth Rock Company and Subsidiaries

The following tables provide data regarding incurred and paid claims and claim adjustment expense development as of December 31, 2017, net of reinsurance, as well as the total of incurred-but-not-reported reserves and cumulative number of reported claims for recent accident years for the primary business segments. The incurred-but-not-reported reserves data shown below also include expected development on reported claims. The cumulative number of reported claims is identified at the coverage level and includes claims closed with payment, claims closed without payment and all open claims. Data as of December 31, 2013, 2014, 2015 and 2016 are unaudited. Five years of data are presented, as any claim and claim adjustment expense development beyond that point would be insignificant for the relatively short-tail personal automobile and homeowner coverages which The Plymouth Rock Company and Subsidiaries primarily write.

Automobile Insurance

(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Incurred, Net of Reinsurance, as of December 31, 2013	2014	2015	2016	2017
2013	$176,680	$183,650	$182,655	$180,263	$ 178,397
2014		212,840	211,580	209,152	207,720
2015			238,650	234,861	232,801
2016				267,093	260,431
2017					268,238
Total					$1,147,587

6. Claim and Claim Adjustment Expense Reserves, continued

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31, 2013	2014	2015	2016	2017
2013	$112,493	$150,392	$163,228	$170,265	$ 174,514
2014		132,416	173,915	186,825	195,588
2015			148,065	190,534	206,317
2016				159,810	211,845
2017					155,950
Total					$ 944,214

Net unpaid for accident years 2013 to 2017	$ 203,373
Net unpaid for accident years prior to 2013	2,767
Net unpaid claims and allocated claim adjustment expenses	$ 206,140

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims	Average Annual Payout	
2013	$ 988	82,475	Year 1	61.0%
2014	2,829	98,076	Year 2	19.6%
2015	7,487	115,839	Year 3	6.7%
2016	15,768	115,400	Year 4	4.1%
2017	30,471	107,818	Year 5	2.4%
			After	6.2%

6. Claim and Claim Adjustment Expense Reserves, continued

Homeowner Insurance

(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Incurred, Net of Reinsurance, as of December 31, 2013	2014	2015	2016	2017
2013	$10,467	$10,282	$ 9,564	$ 9,866	$ 9,400
2014		11,619	13,114	14,150	14,402
2015			20,897	20,285	19,071
2016				11,786	8,678
2017					13,308
Total					$64,859

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31, 2013	2014	2015	2016	2017
2013	$ 6,861	$ 8,514	$ 8,712	$ 9,132	$ 9,185
2014		8,836	11,410	12,575	13,441
2015			17,113	18,322	18,262
2016				6,251	7,180
2017					8,492
Total					$56,560

Net unpaid for accident years 2013 to 2017	$ 8,299
Net unpaid for accident years prior to 2013	180
Net unpaid claims and allocated claim adjustment expenses	$ 8,479

6. Claim and Claim Adjustment Expense Reserves, continued

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims	Average Annual Payout	
2013	$ 21	1,636	Year 1	64.2%
2014	5	1,855	Year 2	13.1%
2015	131	4,737	Year 3	3.3%
2016	893	1,828	Year 4	5.1%
2017	1,795	1,967	Year 5	0.6%
			After	13.7%

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:

(dollars in thousands)	2017	2016
Claims and allocated claim adjustment expense reserve at beginning of year	$199,204	$168,227
Claims and allocated claim adjustment expenses incurred:		
Current year	281,546	278,873
Prior years	(17,687)	(9,762)
	263,859	269,111
Claims and allocated claim adjustment expenses paid:		
Current year	164,442	166,061
Prior years	84,002	72,073
	248,444	238,134
Claims and claim allocated adjustment expense reserve at end of year	214,619	199,204
Reinsurance recoverable on unpaid claims at end of year	35,129	21,504
Unallocated claim adjustment expense reserve at end of year	15,656	13,716
Total claims and claim adjustment expense reserves at end of year	$265,404	$234,424

6. Claim and Claim Adjustment Expense Reserves, continued

During the year ended December 31, 2017, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $17.7 million. This change resulted from favorable development of $12.6 million and $5.1 million in automobile and homeowner lines of business, respectively. During the year ended December 31, 2016, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $9.8 million. This change resulted primarily from favorable development of $9.7 million in automobile lines of business.

The amounts shown in the table above include $29.2 million and $14.2 million of estimated claim and claim adjustment expense reserves under the contracts of Pilgrim Insurance Company service clients as of December 31, 2017 and December 31, 2016, 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

The following tables provide data regarding incurred and paid claims and claim adjustment expense development as of December 31, 2017, net of reinsurance, as well as the total of incurred-but-not-reported reserves and cumulative number of reported claims for recent accident years for the primary business segments. The incurred-but-not-reported reserves data shown below also include expected development on reported claims. The cumulative number of reported claims is identified at the coverage level and includes claims closed with payment, claims closed without payment and all open claims. Data as of December 31, 2013, 2014, 2015 and 2016 are unaudited. Five years of data are presented, as any claim and claim adjustment expense development beyond that point would be insignificant for the relatively short-tail personal automobile and homeowner coverages which Palisades Reciprocal Group primarily write.

6. Claim and Claim Adjustment Expense Reserves, continued

Automobile Insurance

(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Incurred, Net of Reinsurance, as of December 31, 2013	2014	2015	2016	2017
2013	$356,723	$356,103	$355,168	$351,645	$ 349,566
2014		368,491	366,211	364,758	361,348
2015			390,896	381,236	380,786
2016				418,424	407,180
2017					416,317
Total					$1,915,197

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31, 2013	2014	2015	2016	2017
2013	$156,831	$229,121	$274,544	$313,746	$ 337,552
2014		167,484	240,750	282,759	322,498
2015			174,373	247,825	294,973
2016				184,540	264,491
2017					179,485
Total					$1,398,999

Net unpaid for accident years 2013 to 2017	$ 516,198
Net unpaid for accident years prior to 2013	13,660
Net unpaid claims and allocated claim adjustment expenses	$ 529,858

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims	Average Annual Payout	
2013	$ (555)	131,061	Year 1	45.0%
2014	2,152	134,271	Year 2	20.0%
2015	19,644	143,467	Year 3	12.3%
2016	56,670	149,576	Year 4	11.1%
2017	137,390	137,290	Year 5	6.8%
			After	4.8%

6. Claim and Claim Adjustment Expense Reserves, continued

Homeowner Insurance

(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Incurred, Net of Reinsurance, as of December 31, 2013	2014	2015	2016	2017
2013	$33,422	$26,682	$26,306	$25,339	$ 25,234
2014		34,184	32,739	31,176	30,380
2015			42,019	41,614	41,530
2016				38,804	37,088
2017					39,052
Total					$173,284

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31, 2013	2014	2015	2016	2017
2013	$15,350	$20,689	$22,900	$23,473	$ 23,694
2014		21,314	26,606	27,764	28,922
2015			26,602	33,750	36,609
2016				25,372	30,028
2017					24,942
Total					$144,195

Net unpaid for accident years 2013 to 2017	$ 29,089
Net unpaid for accident years prior to 2013	14,026
Net unpaid claims and allocated claim adjustment expenses	$ 43,115

6. Claim and Claim Adjustment Expense Reserves, continued

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims	Average Annual Payout	
2012	$ 884	7,685	Year 1	65.5%
2013	815	7,698	Year 2	17.1%
2014	2,176	6,507	Year 3	6.5%
2015	3,947	5,713	Year 4	3.0%
2016	7,830	4,662	Year 5	0.9%
			After	7.0%

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:

(dollars in thousands)	2017	2016
Claims and allocated claim adjustment expense reserve at beginning of year	$561,081	$544,002
Claims and allocated claim adjustment expenses incurred:		
Current year	455,369	457,228
Prior years	(25,252)	(27,794)
	430,117	429,434
Claims and allocated claim adjustment expenses paid:		
Current year	204,427	209,913
Prior years	213,798	202,442
	418,225	412,355
Claims and claim allocated adjustment expense reserve at end of year	572,973	561,081
Reinsurance recoverable on unpaid claims at end of year	22,227	27,234
Unallocated claim adjustment expense reserve at end of year	46,244	48,199
Total claims and claim adjustment expense reserves at end of year	$641,444	$636,514

6. Claim and Claim Adjustment Expense Reserves, continued

During the year ended December 31, 2017, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $25.3 million. This change resulted primarily from favorable development of $21.2 million and $4.1 million in the automobile and homeowner lines of business. During the year ended December 31, 2016, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $27.8 million. This change resulted primarily from favorable development of $22.3 million and $5.5 million in the automobile and homeowner lines of business, respectively.

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.

<u>The Plymouth Rock Company and Subsidiaries</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, were as follows:

	2017		2016	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$533,821	$346,805	$473,196	$334,097
Ceded	(97,669)	(41,210)	(52,111)	(25,100)
Net	$436,152	$305,595	$421,085	$308,997

Ceded premiums earned for 2017 and 2016 were $73.6 million and $49.9 million, respectively.

7. Reinsurance, continued

The Plymouth Rock Company and Subsidiaries have treaties in place for quota share reinsurance for homeowner business. Homeowner premiums totaling $27.1 million and $24.2 million were ceded in 2017 and 2016, respectively, at a cession rate of 50 percent. The ceding commissions received under the homeowner treaties vary on the basis of loss ratio. The statements of comprehensive income for The Plymouth Rock Company and Subsidiaries are reported net of ceded premiums earned of $34.1 million and $27.7 million, respectively, in 2017 and 2016, and net of claims, claim expenses, and ceding commission expenses of $28.5 million and $26.8 million, respectively.

There are also treaties in place for catastrophe reinsurance for automobile and homeowner lines of business, and per-risk excess-of-loss reinsurance for homeowner, commercial automobile, and umbrella lines of business. During the years ended December 31, 2017 and 2016, the cost incurred for these treaties were $6.6 million and $6.4 million, respectively. During both 2017 and 2016, the estimates of losses recoverable under the catastrophe reinsurance arising from 2015 winter weather losses decreased, resulting in pre-tax charges to earnings of $373,000 and $650,000, respectively.

The Plymouth Rock Company and Subsidiaries also has in place 100% quota share reinsurance with the National Flood Insurance Program for flood coverage that it writes on a direct basis. Premiums ceded under this program were $984,000 and $1.0 million in 2017 and 2016, respectively, while ceded claims, claim expenses and ceding commission totaled $261,000 and $268,000, respectively.

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 automobile residual market. Plymouth Rock Assurance and Pilgrim record their estimated shares of this activity on the basis of information provided by CAR.

7. Reinsurance, continued

Pilgrim provides automobile insurance services to unrelated insurance companies. The statements of comprehensive income for The Plymouth Rock Company and Subsidiaries are reported net of $36.1 million and $20.6 million of ceded premiums earned and $30.5 million and $16.2 million of claims and claim adjustment expenses incurred and ceded in 2017 and 2016, 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 during both 2017 and 2016. The statements of comprehensive income of The Plymouth Rock Company and Subsidiaries include $4.5 million and $4.5 million of net premiums earned in underwriting activities and $4.2 million and $4.2 million of net claims and claim expenses incurred in 2017 and 2016, respectively, for Pilgrim's third-party business. These retained amounts reflect 19.8% and 17.9% of direct premiums earned and 19.3% and 20.8% of direct claims and claim expenses incurred of the total activity of the business during 2017 and 2016, respectively.

To achieve a better balance of reinsurance cost and risk retention at Bunker Hill Insurance Company and Plymouth Rock Assurance Corporation, The Plymouth Rock Company entered into separate Statutory Capital Support Agreements with Bunker Hill and Plymouth Rock Assurance. These agreements, which provided that The Plymouth Rock Company would make a capital contribution to either Bunker Hill or Plymouth Rock Assurance if the surplus of either company fell below a certain threshold, expired on June 30, 2017 and were not renewed. No capital contributions were made under these agreements during either 2017 or 2016.

7. Reinsurance, continued

Palisades Reciprocal Group

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

	2017		2016	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$751,440	$497,113	$725,767	$503,684
Ceded	(22,780)	(2,680)	(21,297)	(8,413)
Net	$728,660	$494,433	$704,470	$495,271

Ceded premiums earned for 2017 and 2016 were $23.0 million and $24.2 million, respectively.

The Palisades Reciprocal Group had treaties with a cession rate of five percent in place for quota share reinsurance for homeowner business through June 30, 2016. Effective July 1, 2016, these treaties were commuted and not renewed.

For 2017, expenses are reflected net of quota share reinsurance totaling $369,000. For 2016, revenues and expenses are reflected net of quota share reinsurance totaling $2.7 million and $2.4 million, respectively.

The Palisades Reciprocal Group has in place catastrophe reinsurance for the automobile and homeowner lines of business, and per-risk excess-of-loss reinsurance treaties on the homeowner, commercial automobile, and umbrella lines of business. During the years ended December 31, 2017 and 2016, the Palisades Reciprocal Group incurred costs of $16.4 million and $11.2 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. For 2017, revenues and expenses ceded under this program were $3.9 million and $1.6 million, respectively. For 2016, revenues and expenses ceded under this program were $4.3 million and $4.1 million, respectively.

8. 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 prepaid without penalty $20.0 million of the balance of this loan in 2016 and $10.0 million in 2017. The carrying value of this loan of $5.0 million and $15.0 million at December 31, 2017 and 2016, respectively, reflected its fair value. The Plymouth Rock Company had pledged to the bank, as collateral, securities which had a market value of approximately $7.9 million and $25.0 million as of December 31, 2017 and 2016, respectively. The Plymouth Rock Company incurred $305,000 and $423,000 of interest expense on this loan during 2017 and 2016, respectively.

9. Subsequent Events

Subsequent events have been evaluated from December 31, 2017 through March 15, 2018. No material subsequent events have been identified.

10. Commitments and Contingencies

The Plymouth Rock Company and Subsidiaries incurred real estate rental expenses for 2017 and 2016 totaling $7.7 million and $7.1 million, respectively. For the years 2018 through 2022, the minimum lease obligations to unrelated third parties range from $1.3 million to $7.6 million annually. Total obligations of The Plymouth Rock Company and Subsidiaries under real estate and automobile leases are $21.1 million through 2025.

During 2014, Plymouth Rock Management Company of New Jersey vacated certain office space with the anticipation of subleasing this space for the remaining periods of the applicable 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 under these lease obligations. As of December 31, 2017, a lease for part of this space expired and was not renewed, the remaining space had not been subleased, and the management company had a remaining obligation of approximately $331,000 under the original lease. The management company recorded additional expense of $318,000 and $418,000 in 2017 and 2016, respectively, related to the original leases.

10. Commitments and Contingencies, contingent

Since December 2011, Plymouth Rock Assurance has entered into several agreements with companies that write Massachusetts private passenger automobile 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 $1.2 million in both 2017 and 2016. During 2017, Plymouth Rock Assurance entered into agreements with six companies to sell surplus credit premiums that are expected to generate revenue of $1.2 million during 2018.

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. These credits were being used to reduce that company's Massachusetts premium tax liability by $6.7 million over the five-year period from 2013 through 2017. Amortization associated with these credits was $536,000 in 2016. Benefits of $1.3 million and $804,000 were recognized in 2017 and 2016, respectively.

Plymouth Rock Assurance entered into agreements in April 2015 and December 2017 to purchase $3.8 million and $859,000 of Massachusetts historic rehabilitation tax credits at costs of $3.6 million and $799,000, respectively. The $3.6 million purchase price was paid in December 2016 and the $799,000 purchase price was paid in December 2017. These credits were used to reduce that company's Massachusetts premium tax liability by $3.8 million in 2016 and $859,000 in 2017.

Plymouth Rock Management Company of New Jersey and Palisades Safety and Insurance Association entered into an agreement in November 2016 to purchase $2.7 million of New Jersey urban tax credits at a cost of $2.5 million. The purchase price was paid in March 2017. These credits are being used to reduce the Palisades Reciprocal Group's premium tax liability by $2.7 million over 2017 and 2018.

11. 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 $3.4 million and $3.3 million at December 31, 2017 and 2016, respectively. These purchases have also given rise to intangible assets in the form of expirations, noncompetition agreements, and brand names.

During 2017, InsuraMatch acquired policy expirations and a call center operation. The policy expirations gave rise to intangible assets of $847,000 that are being amortized over a period of two years. The acquisition of the call center gave rise to goodwill of $39,000. During 2016, InsuraMatch, LLC entered into two insurance policy renewal rights agreements which gave rise to intangible assets of $1.3 million and $203,000 in 2017 and 2016, respectively. Intangible assets, which are amortized over periods ranging from two to 15 years, were recorded at $2.9 million and $979,000 at December 31, 2017 and 2016, respectively. Amortization associated with these intangible assets for 2017 and 2016 was $209,000 and $107,000, respectively. Amortization is expected to range from $265,000 to $689,000 annually from 2018 through 2022.

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, 2017 and 2016. The purchases in 2007 of Teachers Auto Insurance Company of New Jersey and of renewals from National General Insurance Company also resulted in the creation of intangible assets. These intangible assets are in the form of a trademark, a state license and renewal rights. At both December 31, 2017 and 2016, 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 either 2017 or 2016. The remaining intangible assets are being amortized over 20 years and were recorded at $4.9 million and $5.8 million at December 31, 2017 and 2016, respectively. Amortization associated with these intangible assets was $0.9 million and $1.0 million in 2017 and 2016, respectively. Amortization is expected to range from $513,000 to $796,000 annually from 2018 through 2022.

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)	2017	2016
Net income	$ 79,965	$ 42,061
Depreciation and amortization	22,147	22,772
Deferred income taxes	(12,595)	(1,609)
Change in operating assets and liabilities:		
Accrued investment income	(898)	(1,340)
Premiums receivable	(16,401)	(7,568)
Ceded unearned premium reserves	(24,064)	(2,213)
Deferred acquisition costs	(1,834)	(1,165)
Amounts receivable from reinsurers and pools	(15,622)	2,494
Claim and claim adjustment expense reserves	30,980	32,521
Unearned premium reserves	36,018	11,402
Advance premiums	(445)	(560)
Commissions payable and accrued liabilities	5,892	8,459
Amounts payable to reinsurers	12,967	961
Deferred revenue	424	237
Unearned service fees	1,735	152
Prepaid expenses, agent loans, and deposits	2,803	(3,887)
Income tax recoverable and payable	9,403	(14,568)
Amounts due from service clients	485	(1,897)
Deferred rental revenue	243	275
Other assets and other liabilities	327	250
Net cash provided by operating activities	$131,530	$ 86,777

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

Palisades Reciprocal Group

(dollars in thousands)	2017	2016
Net income	$52,936	$16,710
Depreciation and amortization	891	995
Deferred income taxes	(13,673)	785
Change in operating assets and liabilities:		
Accrued investment income	(578)	(2,902)
Premiums receivable	(14,376)	(4,987)
Ceded unearned premium reserves	181	2,907
Deferred acquisition costs	(2,808)	747
Amounts receivable from reinsurers and pools	5,748	5,898
Claim and claim adjustment expense reserves	4,930	12,969
Unearned premium reserves	10,085	(1,104)
Advance premiums	(708)	(1,113)
Commissions payable and accrued liabilities	7,597	(9,928)
Amounts payable to reinsurers	(63)	(148)
Deferred revenue	(49)	(996)
Income tax recoverable	1,700	(5,658)
Other assets and other liabilities	2,633	1,689
Net cash provided by operating activities	$54,446	$15,864

13. Consolidated Revenues

Revenues, net of reinsurance, by company or group for 2017 and 2016 were:

(dollars in thousands)	2017	2016
Underwriting company revenues:		
Plymouth Rock Assurance Corporation	$ 417,468	$ 394,957
Mt. Washington Assurance Corporation	96	88
Bunker Hill Insurance Group	26,059	23,979
Palisades Reciprocal Group	757,690	723,171
Subtotal:	1,201,313	1,142,195
Management company revenues:		
The Plymouth Rock Company	63,865	40,440
SRB Corporation	87,610	70,166
InsuraMatch, LLC	8,207	5,013
Pilgrim Insurance Company	31,599	22,371
Plymouth Rock Management Company of New Jersey	187,113	179,744
Subtotal:	378,394	317,734
Eliminations with subsidiaries of The Plymouth Rock Company:		
Technology costs	(41,426)	(35,729)
Dividends	(71,977)	(52,103)
Other	(41,664)	(31,521)
Subtotal:	(155,067)	(119,353)
Elimination of intra-group transactions	(181,458)	(175,847)
Total revenues	$1,243,182	$1,164,729

14. 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 $7.7 million and $7.1 million were incurred related to these plans during 2017 and 2016, 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 $2.9 million and $1.8 million during 2017 and 2016, respectively.

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, expenses of $3.5 million were recorded related to these awards during 2017. There were no expenses for these awards recorded during 2016.

15. Fixed Assets

The table below summarizes fixed assets at December 31, 2017 and 2016.

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	Useful Lives	2017	2016
Computers and software development	3-5 years	$109,924	$103,821
Leasehold improvements	10 years	19,987	18,907
Furniture and fixtures	5 years	4,934	4,524
Vehicles	3 years	87	87
Total cost		134,932	127,339
Less: accumulated depreciation		98,173	93,855
Net book value		$ 36,759	$ 33,484

Depreciation expenses incurred were $19.9 million and $20.7 million during 2017 and 2016, respectively

16. Investment Securities and Investment Income

A. Marketable Securities

The Plymouth Rock Company and Subsidiaries

At December 31, 2017 and 2016, 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, 2017: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 2,035	$ 1	$ 9	$ 2,027
State and municipal securities	235,618	32	1,650	234,000
Corporate debt securities	26,729	42	102	26,669
Asset-backed securities	32,894	9	199	32,704
Common stocks	231,666	140,510	2,120	370,056
Total	$528,942	$140,594	$ 4,080	$665,456

At December 31, 2016: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 3,610	$ 3	$ 11	$ 3,602
State and municipal securities	207,574	57	2,540	205,091
Corporate debt securities	24,293	94	159	24,228
Asset-backed securities	26,422	33	225	26,230
Common stocks	213,827	115,734	1,673	327,888
Preferred stocks	4,946	-0-	76	4,870
Total	$480,672	$115,921	$ 4,684	$591,909

At December 31, 2017 and 2016, maturities of marketable securities were as follows:

	2017		2016	
(dollars in thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in 90 days or less	$ 28,077	$ 28,061	$ 6,175	$ 6,174
Due after 90 days and in one year or less	87,757	87,554	20,509	20,476
Due after one year and in five years or less	148,516	147,048	205,672	203,253
Due after five years and in ten years or less	26	27	3,120	3,017
Due after ten years	6	6	1	1
Asset-backed securities	32,894	32,704	26,422	26,230
Common stocks	231,666	370,056	213,827	327,888
Preferred stocks	-0-	-0-	4,946	4,870
Total	$528,942	$665,456	$480,672	$591,909

16. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

These marketable securities are classified as available for sale. At December 31, 2017 and 2016, securities were held that had been in an unrealized loss position for longer than twelve months with a total market value of $54.5 million and $3.9 million, respectively. Gross unrealized losses related to these securities were $2.2 million and $601,000 at December 31, 2017 and 2016, respectively. These losses are viewed as resulting from market conditions and are believed to be temporary. A loss of $4.1 million was recorded during the year ended December 31, 2016 for other-than-temporary impairment of two common stock holdings. There were no securities deemed other-than-temporarily impaired at December 31, 2017.

<u>Palisades Reciprocal Group</u>

At December 31, 2017 and 2016, 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, 2017: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 7,159	$ 1	$ 113	$ 7,047
State and municipal securities	303,630	-0-	2,946	300,684
Corporate debt securities	231,801	372	870	231,303
Asset-backed securities	200,008	51	1,390	198,669
Common stocks	251,155	173,121	3,301	420,975
Total	$993,753	$173,545	$ 8,620	$1,158,678

At December 31, 2016: (dollars in thousands)	Amortize d Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 7,201	$ 1	$ 92	$ 7,110
State and municipal securities	285,572	7	4,582	280,997
Corporate debt securities	236,100	1,080	1,329	235,851
Asset-backed securities	176,147	358	1,144	175,361
Common stocks	258,428	135,316	1,011	392,733
Total	$963,448	$136,762	$ 8,158	$1,092,052

16. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2017 and 2016, maturities of marketable securities were as follows:

	2017		2016	
(dollars in thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in 90 days or less	$ 41,920	$ 41,911	$ 2,442	$ 2,442
Due after 90 days and in one year or less	144,531	144,223	20,727	20,687
Due after one year and in five years or less	356,125	352,885	504,495	499,657
Due after five years and in ten years or less	12	13	1,198	1,160
Due after ten years	2	2	11	12
Asset-backed securities	200,008	198,669	176,147	175,361
Common stocks	251,155	420,975	258,428	392,733
Total	$993,753	$1,158,678	$963,448	$1,092,052

These marketable securities are classified as available for sale. At December 31, 2017 and 2016, securities classified as available for sale that had been in an unrealized loss position for longer than twelve months had total market values of $287.5 million and $6.7 million, respectively. Gross unrealized losses related to these securities were $4.0 million and $243,000 at December 31, 2017 and 2016, respectively. These losses are viewed as resulting from market conditions and are believed to be temporary. A loss of $5.0 million was recorded during the year ended December 31, 2016 for other-than-temporary impairment of two common stock holdings. There were no securities deemed other-than-temporarily impaired at December 31, 2017.

B. Non-Marketable Securities

The Plymouth Rock Company and Subsidiaries have investments in privately held stocks. Such investments amounted to $901,000 and $1.0 million at December 31, 2017 and 2016, respectively. During 2016, a loss of $946,000 was recorded on an investment in the non-marketable shares of preferred stock of Consumer United, Inc. as this investment was determined to be other-than-temporarily impaired.

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 investors have contractual rights to withdraw funds from these entities each year. At December 31, 2017 and 2016, The Plymouth Rock Company and Subsidiaries recorded values for these marketable alternative equity investments, which include realized and unrealized gains, of $92.1 million and $84.3 million, respectively. At December 31, 2017 and 2016, the Palisades Reciprocal Group recorded values for these marketable alternative equity investments of $109.2 million and $115.2 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 $33.6 million and $27.6 million at December 31, 2017 and 2016, respectively. The Palisades Reciprocal Group recorded values for non-marketable alternative equity investments of $14.9 million and $14.7 million at December 31, 2017 and 2016, respectively.

As of December 31, 2017, The Plymouth Rock Company and Subsidiaries had commitments outstanding to invest $35.3 million in 14 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, 2017, The Plymouth Rock Company and Subsidiaries had $4,000, $2.9 million, $10.3 million and $11.8 million invested in Fund I, Fund II, Fund III, and Fund IV, respectively, with outstanding commitments to those four funds at that date of $0, $410,000, $1.1 million and $23.1 million, respectively.

As of December 31, 2017, the Palisades Reciprocal Group had commitments outstanding to invest $13.8 million in seven 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 fair value, cost and the equity method. 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.

The Plymouth Rock Company and Subsidiaries

Cash, cash equivalents, and investment securities totaled $844.9 million and $741.8 million at December 31, 2017 and 2016, respectively. Assets in this category valued using either the equity method or the cost method totaled $126.6 million and $112.9 million, respectively, at December 31, 2017 and 2016. The other assets in this category were reported at fair values totaling $718.3 million and $628.9 million, respectively, at December 31, 2017 and 2016.

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

At December 31, 2017: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 52,788	$ -0-	$-0-	$ 52,788
U.S. government securities	1,994	33	-0-	2,027
State and municipal securities	-0-	234,000	-0-	234,000
Corporate debt securities	-0-	26,669	-0-	26,669
Asset-backed securities	-0-	32,704	-0-	32,704
Marketable common stocks	370,056	-0-	-0-	370,056
Non-marketable preferred stocks	-0-	-0-	54	54
Total fair value	$424,838	$293,406	$54	718,298
Assets valued using either the equity method or the cost method				126,611
Total value of cash, cash equivalents, and investment securities				$844,909

16. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

At December 31, 2016: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 36,931	$ -0-	$-0-	$ 36,931
U.S. government securities	3,601	1	-0-	3,602
State and municipal securities	-0-	205,091	-0-	205,091
Corporate debt securities	-0-	24,228	-0-	24,228
Asset-backed securities	-0-	26,230	-0-	26,230
Marketable common stocks	327,888	-0-	-0-	327,888
Marketable preferred stocks	4,870	-0-	-0-	4,870
Non-marketable preferred stocks	-0-	-0-	54	54
Total fair value	$373,290	$255,550	$54	628,894
Assets valued using either the equity method or the cost method				112,880
Total value of cash, cash equivalents, and investment securities				$741,774

During 2016, an investment in the non-marketable shares of preferred stock of Consumer United, Inc. was determined to be other-than-temporarily impaired and it was carried at its cost of $54,000 as of both December 31, 2017 and December 31, 2016 as the estimate of fair value.

Palisades Reciprocal Group

Cash, cash equivalents, and investment securities totaled $1,317.7 million and $1,226.9 million at December 31, 2017 and 2016, respectively. Assets in this category that are valued using either the equity method or the cost method totaled $124.1 million and $129.9 million at December 31, 2017 and 2016, respectively. The fair values of the other assets in this category totaled $1,193.6 million and $1,097.0 million at December 31, 2017 and 2016, 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, 2017: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 34,877	$ -0-	$ -0-	$ 34,877
U.S. government securities	7,032	15	-0-	7,047
State and municipal securities	-0-	300,684	-0-	300,684
Corporate debt securities	-0-	231,303	-0-	231,303
Asset-backed securities	-0-	198,669	-0-	198,669
Marketable common stocks	420,975	-0-	-0-	420,975
Total fair value	$462,884	$730,671	$ -0-	1,193,555
Assets valued using either the equity method or the cost method				124,104
Total value of cash, cash equivalents, and investment securities				$1,317,659

At December 31, 2016: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 4,989	$ -0-	$ -0-	$ 4,989
U.S. government securities	7,093	17	-0-	7,110
State and municipal securities	-0-	280,997	-0-	280,997
Corporate debt securities	-0-	235,851	-0-	235,851
Asset-backed securities	-0-	175,361	-0-	175,361
Marketable common stocks	392,733	-0-	-0-	392,733
Total fair value	$404,815	$692,226	$ -0-	1,097,041
Assets valued using either the equity method or the cost method				129,903
Total value of cash, cash equivalents, and investment securities				$1,226,944

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 2017 and 2016 were as follows:

(dollars in thousands)	2017	2016
Interest income and dividends from securities	$14,484	$12,945
Earnings from non-marketable securities and alternative equity investments	16,506	4,471
Rental income	4,777	4,358
Finance charges on premiums receivable	8,507	8,460
Gross investment income	44,274	30,234
Rental expenses	(3,967)	(3,661)
Investment expenses	(2,293)	(2,019)
Investment income	38,014	24,554
Net realized capital gains (losses)	11,447	(3,415)
Investment income and capital gains	$49,461	$21,139

Palisades Reciprocal Group

The components of investment income and capital gains before federal income taxes during 2017 and 2016 were as follows:

(dollars in thousands)	2017	2016
Interest income and dividends from securities	$25,023	$23,628
Earnings from non-marketable securities and alternative equity investments	16,072	5,161
Gross investment income	41,095	28,789
Investment expenses	(8,155)	(7,729)
Investment income	32,940	21,060
Net realized capital gains (losses)	5,160	(1,477)
Investment income and capital gains	$38,100	$19,583

16. Investment Securities and Investment Income, continued

F. Investment Activity

The Plymouth Rock Company and Subsidiaries

Activity in investment securities during 2017 and 2016 was as follows:

(dollars in thousands)	2017	2016
Balance at beginning of year	$ 704,843	$ 586,262
Change in marketable securities:		
Proceeds from maturities	(46,100)	(43,360)
Proceeds from sales	(133,152)	(82,359)
Purchases	225,060	224,719
Net change in marketable securities	45,808	99,000
Net change in non-marketable securities	(118)	(1,104)
Net change in alternative equity investments	13,849	(11,849)
Net investment activity	59,539	86,047
Net change in sales and purchases in process	2,462	(235)
Net change in unrealized gain on marketable and non-marketable securities	25,277	32,769
Balance at end of year	$ 792,121	$ 704,843

Palisades Reciprocal Group

Activity in investment securities during 2017 and 2016 was as follows:

(dollars in thousands)	2017	2016
Balance at beginning of year	$1,221,955	$1,078,060
Change in marketable securities:		
Proceeds from maturities	(28,862)	(90,605)
Proceeds from sales	(138,616)	(482,333)
Purchases	197,835	690,002
Net change in marketable securities	30,357	117,064
Net change in alternative equity investments	(5,799)	(14,317)
Net investment activity	24,558	102,747
Net change in sales and purchases in process	(52)	(18)
Net change in unrealized gain on marketable and non-marketable securities	36,321	41,166
Balance at end of year	$1,282,782	$1,221,955

17. Real Estate

At December 31, 2017, The Plymouth Rock Company and Subsidiaries owned properties located at 695 Atlantic Avenue and 99 Bedford Street in Boston.

Building improvement costs of $1.6 million and $1.5 million were incurred on these properties in 2017 and 2016, respectively. The table below summarizes the real estate costs and carrying values at December 31, 2017 and 2016:

(dollars in thousands)	2017	2016
Land	$ 7,449	$ 7,449
Buildings, improvements, and other	51,538	49,985
Total cost	58,987	57,434
Less: accumulated depreciation	25,153	23,132
Net book value	$33,834	$34,302

Rental income from lessees other than The Plymouth Rock Company and Subsidiaries totaled $4.8 million and $4.4 million in 2017 and 2016, respectively. For each of the years 2018 through 2022, minimum annual rent receivable by The Plymouth Rock Company and Subsidiaries is $2.0 million. Total obligations to The Plymouth Rock Company and Subsidiaries from non-affiliated lessees through 2022 are $15.1 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, 2017 and 2016, as determined by an independent appraiser using the income and sales comparison approaches, was $119.0 million and $101.0 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, 2017 and 2016 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 were issued and outstanding on both December 31, 2017 and 2016.

There are 90,000 Class B common shares authorized, of which 64,094 were issued and outstanding on both December 31, 2017 and 2016. 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.

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 $282.3 million and $237.8 million at December 31, 2017 and 2016, respectively. The combined net income of these subsidiaries on a statutory accounting basis was $21.9 million and $9.2 million in 2017 and 2016, respectively.

Capital and surplus of the insurance companies in the Palisades Reciprocal Group totaled $480.5 million and $413.2 million at December 31, 2017 and 2016, respectively. The combined net income on a statutory accounting basis for these insurance companies was $32.5 million and $23.0 million in 2017 and 2016, respectively.

Regulatory limitations 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.

18. Stockholders' Equity

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

Sir 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

Mary A. Sprong
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
Sir Peter J. Wood

Management Directors and Corporate Officers

Richard F. Adam
James N. Bailey
Daniel C. Barrett
Hal Belodoff
Marc V. Buro
Michael J. Cesinger
Frederick C. Childs
Kristin V. Collins
Edward J. Fernandez
James M. Flynn
Howard R. Goldberg
Colleen M. Granahan
William D. Hartranft
Keith R. Jensen
Brendan M. Kirby
Scott N. Kwiker
Paul D. Luongo
Thomas J. Lyons
Richard J. Mariani
Wilbur L. Martin IV
Karen A. Murdock
Christopher B. Olie
Louis C. Palomeque
Anne M. Petruff
Kathryn A. Renella
Mary A. Sprong
Karen L. Stickel
James M. Stone
Barry O. Tagen
Courtland J. Troutman
Gerald I. Wilson

Counset:
Ropes & Gray LLP

Independent Auditor:
PricewaterhouseCoopers LLP