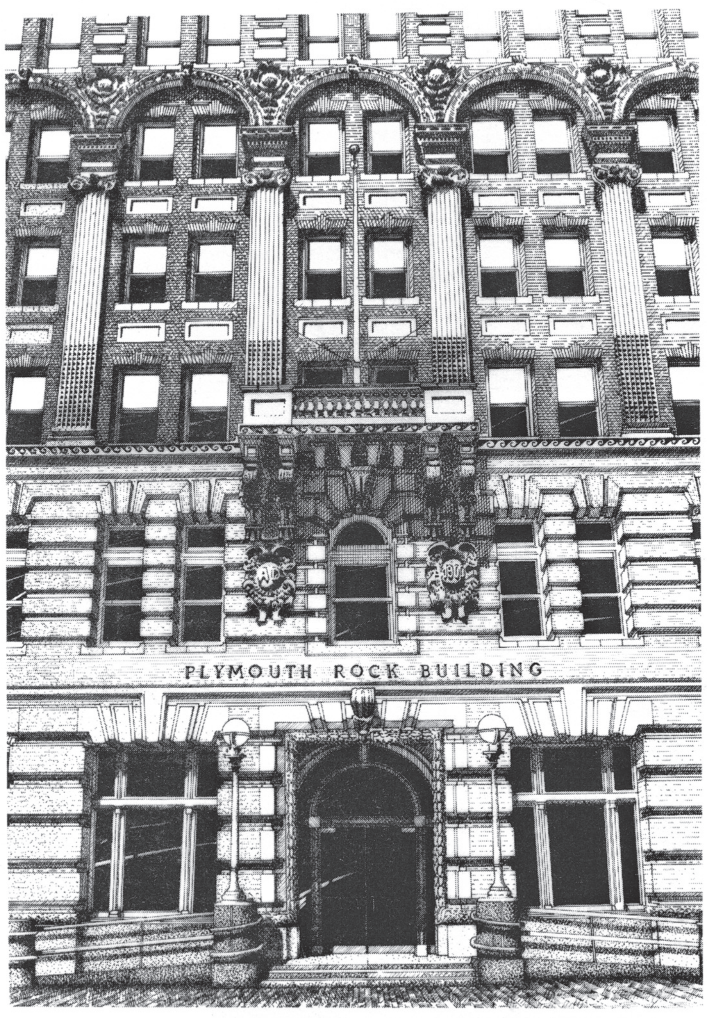
The Plymouth Rock Company



2020 Annual Report

The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 8, 2021

To Our Shareholders:

The year just ended, 2020, will be likely remembered as the Year of the Covid Pandemic, though for now I prefer to call it the Year from Hell. As if the virus wasn't enough, it was also the year of an American presidential election that brought to the fore deeply fundamental concerns about our democracy. To mangle a phrase from Charles Dickens, these have been the worst of times and nothing like the best of times. The world, the country, the economy, and many, many individuals shared the year's pain. Only the most elderly still among us, those who endured the Great Depression and World War II, have lived through a time more frightening and tragic. This was a disappointing year for Plymouth Rock as well, though our wounds were largely self-inflicted. Income for the entire enterprise before unrealized gains on common stock investments was up 44%, from $126 million in 2019 to $181 million. Our enterprise's fully consolidated comprehensive income, though, reflecting unrealized equity performance as well as the more narrowly defined income, was down dramatically - from $341 million the prior year to $117 million. The yawning gap in comprehensive income from year to year highlights the distinction between a truly spectacular year for our stock portfolio and a markedly substandard year. While I warned in last year's letter that the felicitous 2019 results were unlikely to be repeated any time soon, I did not anticipate so striking a retreat. At the same time, we can thank our lucky stars that we are not a restaurant, a movie theatre, or a gym. After netting all the various offsetting vectors, our business in 2020 had a year shy of its long-term goals but by no means disastrously so.

The performance numbers cited above apply to our enterprise as a whole, combining the results for premium we underwrite, and backed by your capital, with the premium we manage, backed by policyholders' capital. Looking more narrowly at the stockholder-owned companies, you can see that net income before considering the changes in unrealized gains was $132 million, slightly better than what was earned a year earlier. Because of our poor stock market performance, though, 2020 comprehensive income for the shareholders, reflecting the unrealized equity portfolio results, was only $108 million, a full $100 million less than in the prior year. The reciprocal group we manage did less well. It recorded $49 million in net income before changes in equity values and only $9 million in 2020 comprehensive income. Book equity for our shareholders rose during the year by $48 million. This measure, of course, understates the true economic gain by the amount of the dividends that were paid out to you, and it also excludes changes in the appraised value of our real estate holdings. The latter of these items ran negative in 2020, although because our real estate portfolio was in flux and Covid created unparalleled rental uncertainties, we did not seek appraisal numbers for all of the properties. With an educated estimate of the drag from real estate, we view the economic return for 2020 as having been 10.4%. As I repeat often, I see the acceptable shareholder return corridor for any normal year as bounded on the weak side by 10% and on the strong side by 20%. This last year's results came in just over the lower borderline. But don't be too downhearted. The 36-year compounded annual rate of return on shareholder book value, including both retained earnings and dividends but without benefit of unrealized real estate gains, is still over 18%, and there is little reason to fear that the difficulties faced in 2020 portend a long-term drought. Growth of our enterprise was a major factor in producing the disappointing results, and its damage should be containable over time. The scale of the Plymouth Rock Group, as measured by direct underwritten and managed premiums in force, is now approaching $1.7 billion.

The largest of our Company's three operating units is Mary Boyd's Independent Agency Group. That group, responsible for that auto insurance channel in all six of the states in which we operate, also accounted for the lion's share of our operating profits. Written premium for the Independent Agency Group rose by nearly 3% to over $840 million, with growth notched upward in five of our six states. The performance story, although favorable in the aggregate, was more varied than the volume tale. Put succinctly, profits were good in Massachusetts, modest in New Jersey, and minimal in Connecticut and New Hampshire. The bulk of the expansion was in New York and Pennsylvania, though, where all the ink was bright red. Without the benefit of reduced driving owing to the pandemic, of course, the results would have been worse in all six states.

Since the pandemic influenced auto insurers like us everywhere, it is worthwhile to examine its broad impacts before looking more deeply at our specific performance by state. According to the U.S. Department of Transportation, miles driven by Americans in 2020 were down over 13% from 2019. In the Northeast region, the drop was only modestly steeper. It always seemed to me, when I experienced the traffic firsthand, that the decrease was steeper than that, but observational impressions can be misleading. While the attenuation in road mileage surely helped our results, the benefit was not a simple function of the mileage decrease. For one thing, we returned to our policyholders in forgone premium increases or refunds a good portion of the potential gain. An increase in the severity of accidents, due to higher driving speeds, swallowed another chunk of it. Among the causes of the severity bump was a relative decrease in the proportion of total mileage related to commuting activity, which tends to generate high-frequency, low-severity accident events. We expect there to be a directionally similar Covid impact on our industry's 2021 results as well, at least for the first half of the year. Again, though, wherever rates are overall adequate, we expect to return in refunds or reflect in premium charges much of the otherwise available gain.

Massachusetts this past year was our biggest and best-performing independent agency state. The combined ratio here in the Bay State, even Covid-adjusted, was securely in the mid-90's, where it rightly belongs. When we compare ourselves to our Massachusetts independent agency channel peers in recent years, we look to be doing pretty well in both premium growth and loss ratio performance. We can thank our unusually strong product and claims teams for much of this success. Growth has been bolstered by our continuing excellence in customer service and by the marketing advantages of our sports franchise alliances. We have had productive arrangements with the Boston Bruins and the New England Patriots for some time. Mary signed up the Red Sox this past year, so we are now well fixed in this sports-loving region for all seasons of the year. Agents and customers alike enjoy the benefits these relationships provide, and the advertising exposure we get through visibly supporting our teams helps to attract future customers.

Plymouth Rock's Independent Agency exposure to New Hampshire and Connecticut risks remains comparatively meager. These two states together give us about $54 million in annual premium, and both project relatively slow growth in 2021. Absent Covid, New Hampshire would have provided us a small profit on our automobile insurance book. Connecticut would have yet again handed us a small loss. After Massachusetts, the largest state for Plymouth Rock independent agents is New Jersey. The auto insurance results in the Garden State were not impressive. Our 2020 accident year loss ratio for Independent Agency business there was about half a dozen points higher than in Massachusetts. And approved premium rates are not keeping up with trends, so we are concerned that the situation will deteriorate before it improves. New Jersey has been good to us over the years, and we will work hard to strengthen our resources there and improve our communications with the regulatory authorities. Restoring New Jersey profitability in the post-Covid era ranks high on Mary's task agenda for the coming year.

While Massachusetts and New Jersey and the smaller states provide the Independent Agency Group with over 85% of its premium, it is the new jurisdictions, New York and Pennsylvania, that present the greatest trials. A fast start in New York boosted the Independent Agency Group's written premium to almost $100 million in our two new states. Our Pinstripes Perks program with the New York Yankees probably helped. Both states, though, are losing us money and would have cost us much more without the year's reduction in road mileage. While we anticipated that we would bear some monetary burdens of growth in our new geographies, it is clear in retrospect that we went into the two new jurisdictions with inadequacy in our rate levels, underwriting discipline, and claims handling resources. It will take time to repair the damage. Consequently, Hal Belodoff and I decided to slow down New York and Pennsylvania growth, constraining our scale somewhat until we have restored strong confidence in the adequacy of our premiums and solidity of our defenses against claims inflation. You should expect to see the wrong color of ink again in those two states during this new year, but hopefully a good bit less than you have seen so far. New York and Pennsylvania, with their large populations, still represent our most promising venues for future expansion on both the top and bottom lines.

We trust that the Independent Agency Group's issues are short-term in nature. The toughest long-term task in the Company may belong to Jeff Briglia, who is just finishing his first year as president of the Direct Group. Jeff's long-horizon opportunities for triumphs, however, are as outsized as the challenges. Jeff has oversight responsibilities in two sub-channels, the Exclusive Agency business we have written in partnership with Prudential for seventeen years and the Direct Response book we have been building for over ten years now. The total premium written by the Direct Group now exceeds $535 million, 9% more than in the prior year. The Prudential business is anchored by a well-seasoned legacy book which is reliably profitable in both its automobile and homeowners components. Up to this time, the legacy book has remained healthy enough to help pay for the not-yet-accretive new auto volume from Pru agents as well as losses from our immature direct-to-the-consumer business. The legacy business, alas, naturally erodes by attrition over time and will eventually become a minor factor for us. As that book shrinks, it will be necessary for Jeff to turn the bottom line for new Prudential business positive and to earn money, rather than continue to expend it, on the emergent Direct Response book. Meanwhile, the Direct Response channel's contribution to the volume has passed the $200 million mark.

This, of course, was not an ordinary year. The loss ratio for the Direct Response channel was satisfactory in 2020, but it is not clear that it would have been acceptable absent the Covid-driven reduction in driving mileage. Just as telling, we are concerned that the Direct Response business is not yet meeting a more critical economic test. The first-year cost of writing a policy in that channel is always greater than the first-year revenue. The objective is to have profitable enough renewal years, and enough of those profitable renewal years, to cover the initial acquisition costs and provide a fair profit to boot. So far our Direct Response book of business has not demonstrated sufficient profitability in its renewal years, while its persistency would be inadequate to pay for its acquisition cost even with an adequate level of renewal profits. The tasks involved in finding Direct Response gold in the ore that's out there include reduction of both acquisition and general expenses and a simultaneous boosting of average policy tenure. And all of this must be accomplished while keeping the loss ratio under control.

Over the years, despite a dozen or more attempts, very few national companies have been able to realize this quest. USAA began the journey in 1922, with a more select audience than anyone else has ever been able to find. GEICO was founded by a USAA veteran in 1936, who saw the chance to expand the market beyond military officers while maintaining the concept of writing only for a pre-qualified audience. GEICO kept expanding its target market over the years, causing it to become nearly insolvent in the 1970's. It found its impressive current footing only under Warren Buffett's guidance. Progressive is the sole agency writer to have successfully reinvented itself and become a giant in the Direct Response channel. I recall talking to that company's impresario, the late Peter B. Lewis, a few decades ago as he doggedly committed Progressive profits from that company's non-standard agency business to orchestrating the metamorphosis. Quite a few other insurers, fainter of heart or shorter of resources, abandoned similar initiatives, but Progressive prevailed handsomely. We hope we can soon prove to you that it is possible to build a similar version of success in our smaller footprint - lacking the head start USAA enjoyed, condensing the stretch of time it took GEICO, and without matching Progressive's investment. We certainly have a first-rate team now, and, if this past year is an indicator, the Direct Group has a long enough runway. The Direct Group's overall loss and loss adjustment expense ratio for 2020 was 66%. While these results would have been worse absent Covid, they would have been better without the same correctable entry stumbles in New York and Pennsylvania that plagued its Independent Agency Group sibling. The Direct Group's volume in those states alone is now about $85 million.

Our Home Insurance Group, led by Bill Martin, had a somewhat mixed year, with no reason to reinterpret its recorded numbers through Covid-corrected lenses. Although growth was superlative, net income before unrealized equity impact was just above the water line. I would like to think the growth reflects a long-term strength while the diminutive 2020 profit margin is owing largely to passing circumstances. Backing the story up a bit, you may recall from prior letters that I have long predicted an eventual diminution of automobile insurance premiums as a consequence of the long march toward better automobile safety technologies. While I believe this trend will not create an adverse environment for Plymouth Rock any time soon, its inevitability in the long run was among the forces impelling us to expand our homeowners writings, where no exogenous force is likely to contract premium. Our favorable experience as a founding investor in Homesite also helped build Plymouth Rock's skills and confidence in this line of business. So, we brought Bill on as president with a green light to aggressively expand our homeowners book. He and his teammates have taken their charge seriously and, with impressive customer-friendly innovations, they have nearly tripled our writings over the last three years. In-force premium volume now stands at just over $250 million, having grown by 47% during this past year. Bill is hoping we will be listed among the ten largest homeowners carriers in the Northeast very soon. And all of the growth was accomplished without forfeiting the Home Insurance Group's contribution to profit over the period. Yes, there was a cost to the growth this past year, but not so much that it swallowed all the profits. In addition to growth costs, we had to pay for 18 identified weather-related catastrophes that befell the northeast region during 2020, about twice the number the average year has thrust upon us in this century. While no individual catastrophe, with the possible exception of August's Isaias, was destructive enough to make the history books, their cumulative effect was to consume Bill's 2020 catastrophe provision and then some.

There is an ample and attractive path ahead of us in the homeowners line. By the time our Home Insurance Group has reached its full potential, Plymouth Rock's market share in homes should approximate our auto market share in each of our states. Not only do we encourage many of our own customers to buy package policies combining home and auto from us, we also expect to write quite a few customers of partnering personal lines insurers who are interested in limiting potential weather-driven exposure. Evidence and logic tell us that many customers would prefer to buy both home and auto products from us or purchase our easy-to-bind homeowners policies alongside another trusted auto insurance partner company. But we must eschew the temptation to seek full congruence between auto and homeowners profiles. That would risk taking on too much coastal exposure and concentration in compact geographical areas. An irony of our business is that the more a book of auto insurance is clustered, the better we expect it to do. In a tight cluster we get to know the territory and the repair shops, and auto insurance writers have relatively little to fear from coastal exposure. Insuring a highly concentrated book of homes in a coastal zone, on the other hand, can be disastrous. Bill understands all this, and he has taken two important steps to safeguard our enterprise as he continues on our ambitious growth path. One innovation is a differential commission structure that pays agents for business in a manner that reflects long-term catastrophe exposure as well as normal year results. The other is a concentration model that explicitly keeps track of clustering and limits our appetite for business where we already write all we can prudently handle. The risks in home insurance cannot be vanquished completely, but with these protective measures now in use and with the back-up provided by the sophisticated multi-year reinsurance program already in place, Hal and I are comfortable keeping the home light green.

Marc Buro, who has been leading our national brokerage operation, InsuraMatch, for over six years, has just lived through an unforgettable year. Marc, Hal, and I all came to believe during the year that the national insurance giant Travelers, with whom Marc was working on some creative marketing initiatives, could do more over any short time frame with what we had built than we could. In early December, therefore, Plymouth Rock signed a Stock Purchase Agreement to sell InsuraMatch to Travelers. The closing has just occurred, and Marc and his team are going to Travelers along with the purchased entity. We will miss Marc and his unusually talented crew. They won't be far away, though; their offices will remain in our building. While the sale means that we will no longer own a state-of-the-art national broker, Plymouth Rock retains its traditional New England agency, Encharter. Our agreement with Travelers allows us to re-enter the national space after a short pause, and Encharter can serve nicely as a foundation for rebuilding a new national enterprise. The selling price for InsuraMatch was $40 million, which both parties thought fair given that InsuraMatch has great promise but has earned no profits as yet. Plymouth Rock is almost never a seller of its component entities, but this transaction makes sense for all involved. I am confident Marc will do well at Travelers. Hal and I both remain as committed as ever to the notion that enhancing our enterprise's expertise in modern technology-driven insurance marketing is a must for the future.

The most unseemly numbers this past year came from the investment side of our business. Our three-billion-dollar investment portfolio can influence outcomes for the enterprise as much as our underwriting proficiency. Just a year ago, I described 2019 as the best investment year we had ever had. This past year, 2020, our equities handed us the poorest performance we have ever seen by comparison with the market indices. Taking all of our common equity investment returns together, including both dividends and price changes, our return was an embarrassing 1%. Excluding the insurance industry stocks we hold, Plymouth Rock's core equity portfolio always consists of no more than ten stocks, each one bought to be held over a long holding period. This core investment portfolio produced in 2020 a total rate of return, including dividends, that rounded to the same single percentage point as the aggregate portfolio. Our insurance sector stocks, generally out of favor with investors this past year, performed worse than the core equities, and the investment funds we originated or participate in, constituting about 15% of our overall stock market exposure, underperformed as well. Had we just passively held the Standard & Poor's 500 Index, the equity return to the Company would have been more like 18%. Let me say right away that Jim Bailey, Rick Childs, and I are the sole responsible parties if we erred. Obviously, the results merit some reflection. Our conclusion to date is that neither the fund composition nor the insurance stocks should give us cause for reconsideration going forward. The decisions of concern in our current discussions involve the makeup of the core equity investment portfolio, which constitutes more than two-thirds of our stock holdings by market value.

At a fundamental level, the poor performance in 2020 can be mainly attributed to our long-held preference for value stocks over the high-flying glamour stocks that soared especially skyward during this year of virtual house arrest. For better or worse, Jim and I continue to find comfort investing in stocks of profitable companies with strong products and prospects that we believe are unreasonably and temporarily out of favor. That said, 2020 was not a good year for our approach. Other than one big winner (Microsoft, which was once a bargain and bought before it was in its current phase of rapid growth), most of our stocks simply turned in sluggish performances. There were two specific stocks in our long-term core portfolio, however, that suffered particularly last year. One of these was Intel and the other was ExxonMobil, both holdings we have owned for many years. Intel shares produced for us about $5 million in 2020 dividends while running up almost $40 million in capital losses. Keeping in mind that Intel shares, even considering this past year, have made Plymouth Rock well over $100 million since our first purchase, Jim and I are now asking ourselves whether gratitude has kept us loyal for too long. The future of the chip industry, with technological, competitive, and geopolitical strategic considerations to weigh, is hard to read. We have trimmed our oversized Intel holdings somewhat already, and we will let you know our conclusions concerning the rest of the Intel position later this year.

Our ExxonMobil shares produced a 2020 total return loss for us of $43 million, an even worse showing than delivered by Intel. Our from-inception return on Exxon is negative by about $11 million. But Jim and I are not ready to abandon the oil and gas industry altogether for two reasons. One is that the coming switch to cleaner, more sustainable alternatives may be a great deal slower than others apparently expect. The second is that the existing energy giants may employ their massive capitalizations and unquestioned expertise to become leaders in the energy changes to come. Having said that, we decided not to stick around and wait for Exxon's recovery. We became convinced that ExxonMobil will not be as agile and skillful at transition as its competitor, Royal Dutch Shell, so we liquidated our Exxon position and invested the proceeds in Shell. Had we moved more expeditiously in the fall to reinvest the Exxon sale proceeds, we would have enjoyed a large gain in Shell and would have recouped most of our Exxon losses for the year. Nonetheless, we are comfortable with the switch and consider that Shell is now a core holding.

In modest self-defense, Jim and I could ask that you look at the two-year returns on the core equities. Our two-year average equity return for 2019 and 2020 exceeded 15%. Or, alternatively, consider our twenty-five-year inception-to-date rate of return on marketable equities. At 14.5% per annum, our return still handily beats the most commonly used market indices, and that extra return has handsomely enriched shareholders' equity. But these exculpations do not let us off the hook. The year in progress will be a busy one on the investment side.

The 2020 bond story is what you would expect it to be. As I have repeatedly written, we hold bonds, now in magnitudes approaching a billion and a half dollars, only because of rating agency and regulatory pressure to do so. The risk-reward tradeoff is not attractive to us anywhere along the fixed-income maturity spectrum. So, we take relatively little duration risk and settle for low bond returns. The tax-adjusted 2020 return on our bond portfolio was just over 3%. Unlike in the case of the equities, this paltry result isn't following on a record year we can average it with, and there is no hint of a promise of rich returns in the foreseeable future. We will need to increase our risk tolerance if we are to do any better with respect to current returns. Extending credit risk a little is more comfortable for us than taking on too much duration risk. So last year we modified our guidelines to allow holding more investment grade BBB-rated bonds as a fraction of the portfolio. With A-rated bonds threatening to return about nothing, and relatively thin markets for A-rated securities other than those of financial sector issuers, we believe Plymouth Rock's strong capital position allows the acceptance of a modicum of additional volatility and risk that will come with increasing again the proportion of triple-B's we hold. Jim and I can repeat our assurance that bonds in the double-B range, or otherwise below investment grade, do not hold similar allure.

This was yet another active year for our real estate holdings. The market is skittish now about the future of commercial real estate in the post-Covid era. As a consequence, we see the value of our properties as down by something more than 10%. A number of companies intend to make permanent, in varying degrees, the work-from-home experiments that the pandemic necessitated. Not being in that camp, we used the opportunity to acquire another office building that our team can occupy. In 2019, we purchased the building bordering our 695 Atlantic Avenue headquarters in Boston. That building now carries our highly visible signage. This last year's purchase was of a larger building in Woodbridge, New Jersey, right on the Northeast Corridor Amtrak path. We were already the anchor tenant there, and our lighted top-floor signage is hard to miss at the intersection of the New Jersey Turnpike and the Garden State Parkway. The two purchases bring the value of our real estate holdings to over $200 million, and they should permit us to fulfill our space needs in our two major jurisdictions for many years to come. In another arena, I can report that our private equity investments in Lindsay Goldberg funds (where I continue to play a role) are looking stronger by the year, bolstered by exceptionally impressive returns on Lindsay Goldberg Fund IV and a fast start for Fund V.

I often take advantage of my opportunity to write this letter by allocating some room to political economy. This year the news and the conversations have been so relentlessly full of politics that I sense most folks may want a break from that topic. My principal recommendation at this moment in history is to breathe a sigh of relief. While our health, our economy, and our democracy were endangered and tested during this past year, and seriously so, I am optimistic that we have passed the most hazardous of the perils, with the wounds now on the mend. We should give credit where credit is due. Praise for defending us from the Covid pandemic is owed principally to modern science. Only a short while ago, the treatments and vaccines that will defeat this viral enemy would have been inconceivable. Our democracy was secured by a great many contributors. Greatest single thanks, in my view, should be bestowed on our nation's robust Constitution. That document, however subject to criticism by today's standards for its imperfections, was and remains a marvel. It was written at the right time in history, and by the right people, to have given us a sound basis on which to build a market economy and establish protection against both the despotism of individual autocrats and the equally merciless tyranny of intolerant majorities. With respect to the U.S. economy post-pandemic, I remain basically bullish. Some pessimists are saying that the American century is behind us now. And while it is true that our nation's status after World War II as the world's sole, unrivaled economic power became unsustainable long ago, I surely wouldn't go betting that our future placement will be below the summit. The American traditions of entrepreneurship, inventive creativity, and, importantly, a willingness to criticize those in authority and improve upon how they do things, are strengths that endure. No other nation can match us in those strengths.

Covid-19 was the dominant external operant on our Company in 2020. It will continue to be important for at least for the first half of 2021. We have so far weathered it intact as a business. Almost all of our employees have been working from home since March, so our offices have not suffered from epidemic spread risk. Those few, under 2% of our overall staff complement, who have been in the offices are volunteers and exceptionally well protected by strict rules of conduct and physical improvements in our workspaces. But working from home, needless to say, doesn't protect people from acquiring Covid by community spread. Our nearly two thousand people appear to have suffered proportionally less illness than the population as a whole, but our team has not been entirely spared. Tragically, we have lost two valued employees to untimely Covid-related deaths. Case numbers are up this winter almost everywhere, and based on projections of vaccine availability, I can't imagine that we will see even half-full offices again before the warm weather returns. Meanwhile, Hal and I would describe our Company's work-at-home performance as reassuring. Our claims and customer service staffs have strived valiantly, and we have tried to express our gratitude in videotaped messages throughout the year. Service levels in those areas have been maintained surprisingly well under tough conditions. The technical support our IT folks has been able to provide for remote work has been superlative. Our brave administrative team, many from that unit continuing to work on site, has functioned as well as if the pandemic had never occurred. Hal and I continued throughout 2020 to work principally from the office, but we are lonely. I cannot express how much I long for the full return to our offices of the entire Plymouth Rock workforce. There is every reason to think 2021 will be a better year for all of us.

James M. Stone

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, 2020 and 2019, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows 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, 2020 and 2019, 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

PricewaterhouseCoopers LLP
Boston, Massachusetts
March 10, 2021

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2020 and 2019
(dollars in thousands)

Assets	2020	2019
The Plymouth Rock Company and Subsidiaries		
Cash and cash equivalents	$ 8,649	$ 17,172
Investment securities	1,234,657	1,182,318
Accrued investment income	3,479	4,154
Premiums receivable	182,801	175,841
Ceded unearned premium reserves	33,299	33,494
Deferred acquisition costs	52,635	46,265
Amounts receivable from reinsurers and pools	94,176	92,489
Amounts due from service clients	1,701	669
Prepaid expenses, agent loans, and deposits	12,384	14,885
Real estate	173,009	96,566
Fixed assets	53,034	50,308
Income tax recoverable	-0-	5,795
Goodwill and intangible assets	6,728	7,620
Deferred rental revenue	2,097	1,878
Other assets	1,450	1,371
Subtotal	1,860,099	1,730,825
Palisades Reciprocal Group		
Cash and cash equivalents	1,491	4,961
Investment securities	1,581,571	1,541,516
Accrued investment income	5,660	5,685
Premiums receivable	175,399	158,864
Ceded unearned premium reserves	5,162	4,454
Deferred acquisition costs	38,313	33,747
Amounts receivable from reinsurers and pools	26,512	28,597
Fixed assets	727	1,492
Income tax recoverable	-0-	4,808
Goodwill and intangible assets	12,276	14,744
Other assets	2,551	2,277
Subtotal	1,849,662	1,801,145
Total assets	$3,709,761	$3,531,970

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2020 and 2019
(dollars in thousands)

Liabilities	2020	2019
The Plymouth Rock Company and Subsidiaries		
Claim and claim adjustment expense reserves	$ 410,022	$ 401,805
Unearned premium reserves	362,016	330,715
Advance premiums	9,837	9,838
Commissions payable and accrued liabilities	133,036	105,627
Amounts payable to reinsurers	20,339	18,678
Unearned service fees	2,842	4,097
Intangible liabilities	2,889	5,717
Secured loan	-0-	5,000
Income tax payable	9,166	-0-
Deferred income taxes	57,996	63,978
Other liabilities	7,635	4,527
Subtotal	1,015,778	949,982
Palisades Reciprocal Group		
Claim and claim adjustment expense reserves	699,878	677,728
Unearned premium reserves	385,094	353,333
Advance premiums	8,829	9,208
Commissions payable and accrued liabilities	50,353	44,080
Amounts payable to reinsurers	1,986	1,258
Intangible liabilities	1,001	1,685
Income tax payable	6,538	-0-
Deferred income taxes	54,311	65,352
Other liabilities	2,064	2,237
Subtotal	1,210,054	1,154,881
Total liabilities	2,225,832	2,104,863
Equity		
The Plymouth Rock Company and Subsidiaries		
Common stock and paid-in capital	2,522	790
Retained earnings	753,030	709,541
Net unrealized gain/(loss) on investments	5,376	2,352
The Plymouth Rock Company stockholders' equity	760,928	712,683
Palisades Reciprocal Group		
Retained earnings	713,523	709,698
Net unrealized gain/(loss) on investments	9,478	4,726
Palisades Reciprocal Group equity	723,001	714,424
Total liabilities and equity	$3,709,761	$3,531,970

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, 2020 and 2019
(dollars in thousands)

	2020		
Revenues	PRC and Subsidiaries	Palisades Reciprocal Group	Fully Consolidated
Premiums earned in underwriting activities	$596,755	$868,121	$1,464,876
Fees earned from service activities	229,662	1,630	231,292
Investment income and capital gains	66,625	76,152	142,777
Subtotal	893,042	945,903	1,838,945
Less: Intra-group transactions			217,977
Total revenues before unrealized gains on equity securities			1,620,968
Expenses			
Claims and claim adjustment expenses	357,239	596,006	953,245
Policy acquisition, underwriting, and general expenses	183,710	287,788	471,498
Service activity expenses	186,343	1,595	187,938
Subtotal	727,292	885,389	1,612,681
Less: Intra-group transactions			217,977
Total expenses			1,394,704
Income before taxes and unrealized gains on equity securities	165,750	60,514	226,264
Income taxes	33,586	11,196	44,782
Net income before unrealized gains on equity securities	132,164	49,318	181,482
Change in unrealized gains on equity securities, net of tax	(26,884)	(45,493)	(72,377)
Net income	105,280	3,825	109,105
Other comprehensive income, net of tax:			
Unrealized gain/(loss) on investments during year	3,024	4,752	7,776
Comprehensive income	$108,304	$ 8,577	$ 116,881

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, 2020 and 2019
(dollars in thousands, except per share data)

	2019		
Revenues	PRC and Subsidiaries	Palisades Reciprocal Group	Fully Consolidated
Premiums earned in underwriting activities	$545,888	$793,954	$1,339,842
Fees earned from service activities	210,919	1,512	212,431
Investment income and capital gains	73,334	34,121	107,455
Subtotal	830,141	829,587	1,659,728
Less: Intra-group transactions			199,520
Total revenues before unrealized gains on equity securities			1,460,208
Expenses			
Claims and claim adjustment expenses	376,094	566,510	942,604
Policy acquisition, underwriting, and general expenses	154,360	252,335	406,695
Service activity expenses	179,922	1,305	181,227
Subtotal	710,376	820,150	1,530,526
Less: Intra-group transactions			199,520
Total expenses			1,331,006
Income before taxes and unrealized gains on equity securities	119,765	9,437	129,202
Income taxes	6,779	(3,209)	3,570
Net income before unrealized gains on equity securities	112,986	12,646	125,632
Change in unrealized gains on equity securities, net of tax	91,088	111,170	202,258
Net income	204,074	123,816	327,890
Other comprehensive income, net of tax:			
Unrealized gain/(loss) on investments during year	4,283	8,752	13,035
Comprehensive income	$208,357	$132,568	$ 340,925

The Plymouth Rock Company and Subsidiaries - Per share data	2020	2019
Weighted average common shares outstanding	124,009	123,541
Net income before unrealized gains on equity securities per share	$ 1,065.77	$ 914.56
Net income per share	$ 848.97	$ 1,651.87
Common shares outstanding at end of year	124,009	124,009
Common stockholders' equity per share	$ 6,136.08	$ 5,747.03

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, 2020 and 2019
(dollars in thousands)

Cash flows from operating activities	2020	2019
The Plymouth Rock Company and Subsidiaries		
Gross premiums collected	$ 691,974	$ 632,874
Reinsurance premiums paid	(68,280)	(73,853)
Finance charges collected	8,888	8,637
Fees and commissions collected	233,267	212,884
Investment income and capital gains received	60,404	63,499
Gross claims and claim expenses paid	(381,322)	(400,966)
Reinsured claims and claim expenses collected	29,827	37,748
Policy acquisition, underwriting, and general expenses paid	(163,835)	(151,411)
Income taxes paid	(17,815)	(10,431)
Service activity expenses paid	(147,359)	(157,132)
Net cash provided by operating activities	245,749	161,849
Palisades Reciprocal Group		
Gross premiums collected	916,095	839,006
Reinsurance premiums paid	(33,279)	(26,850)
Fees and commissions collected	1,622	1,503
Investment income and capital gains received	93,143	33,499
Gross claims and claim expenses paid	(581,171)	(549,577)
Reinsured claims and claim expenses collected	9,288	7,814
Policy acquisition, underwriting, and general expenses paid	(303,984)	(269,671)
Income taxes paid and recovered	(56)	(4,775)
Service activity expenses paid	(1,595)	(1,306)
Net cash provided by operating activities	100,063	29,643
Total net cash provided by operating activities	$ 345,812	$ 191,492

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, 2020 and 2019
(dollars in thousands)

Cash flows from financing activities	2020	2019
The Plymouth Rock Company and Subsidiaries		
Contingent payments for acquisitions	$ -0-	$ (1,002)
Intergroup secured loans	5,503	44,832
Secured loan	(5,000)	-0-
Tax impacts of stock-based compensation	-0-	(10,409)
Dividends to stockholders	(61,791)	(32,180)
Net cash used in financing activities	(61,288)	1,241
Palisades Reciprocal Group		
Intergroup secured loans	(5,503)	(44,832)
Net cash used in financing activities	(5,503)	(44,832)
Net cash provided by:		
The Plymouth Rock Company and Subsidiaries	$ 184,461	$ 163,090
Palisades Reciprocal Group	$ 94,560	$ (15,189)
Total	$ 279,021	$ 147,901
Investment of net cash provided		
The Plymouth Rock Company and Subsidiaries		
Change in cash and cash equivalents	$ (8,523)	$ (63,807)
Net investment activity	82,096	112,053
Purchase of intangible assets	28	36
Investment in acquisitions, net of acquired cash and cash equivalents	-0-	24,490
Net real estate activity	80,259	61,047
Purchase of fixed assets	30,601	29,271
Net cash provided by investing activities	$ 184,461	$ 163,090
Palisades Reciprocal Group		
Change in cash and cash equivalents	$ (3,470)	$ (8,631)
Net investment activity	97,863	(12,300)
Purchase of intangible assets	167	332
Purchase of fixed assets	-0-	5
Investment in acquisitions, net of acquired cash and cash equivalents	-0-	5,405
Net cash provided by investing activities	$ 94,560	$ (15,189)
Total net cash invested	$ 279,021	$ 147,901

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, 2020 and 2019
(dollars in thousands)

The Plymouth Rock Company and Subsidiaries	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain/(Loss) on Investments	Total Stockholders' Equity
December 31, 2018	$ 3,112	$ 544,994	$ (1,931)	$ 546,175
Comprehensive income	-0-	204,074	4,283	208,357
Stock-based compensation	(2,322)	(7,347)	-0-	(9,669)
Dividends to stockholders	-0-	(32,180)	-0-	(32,180)
December 31, 2019	$ 790	$ 709,541	$ 2,352	$ 712,683
Comprehensive income	-0-	105,280	3,024	108,304
Stock-based compensation	1,732	-0-	-0-	1,732
Dividends to stockholders	-0-	(61,791)	-0-	(61,791)
December 31, 2020	$ 2,522	$ 753,030	$ 5,376	$ 760,928

Palisades Reciprocal Group	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain/(Loss) on Investments	Total Equity
December 31, 2018	$ -0-	$ 585,882	$ (4,026)	$ 581,856
Comprehensive income	-0-	123,816	8,752	132,568
December 31, 2019	$ -0-	$ 709,698	$ 4,726	$ 714,424
Comprehensive income	-0-	3,825	4,752	8,577
December 31, 2020	$ -0-	$ 713,523	$ 9,478	$ 723,001

Fully Consolidated Equity	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain/(Loss) on Investments	Total Equity
December 31, 2018	$ 3,112	$1,130,876	$ (5,957)	$1,128,031
December 31, 2019	790	1,419,239	7,078	1,427,107
December 31, 2020	2,522	1,466,553	14,854	1,483,929

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

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

The Plymouth Rock Company is a privately held company which was founded in 1982 and has been headquartered in Boston, Massachusetts since its inception. Its primary business is the ownership and management of property and casualty insurance companies, specializing in coverage for personal automobiles and homes. The Plymouth Rock Company, through a number of operating subsidiaries, operates in Massachusetts, New York, 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 primarily in New Jersey, New York 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 ten insurers listed below and to three 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, Teachers Auto Insurance Company of New Jersey, AtHome Insurance Company and Rider Insurance Company. The Plymouth Rock Company also has subsidiaries that provide various insurance and investment management services to the Palisades Reciprocal Group in exchange for negotiated fees.

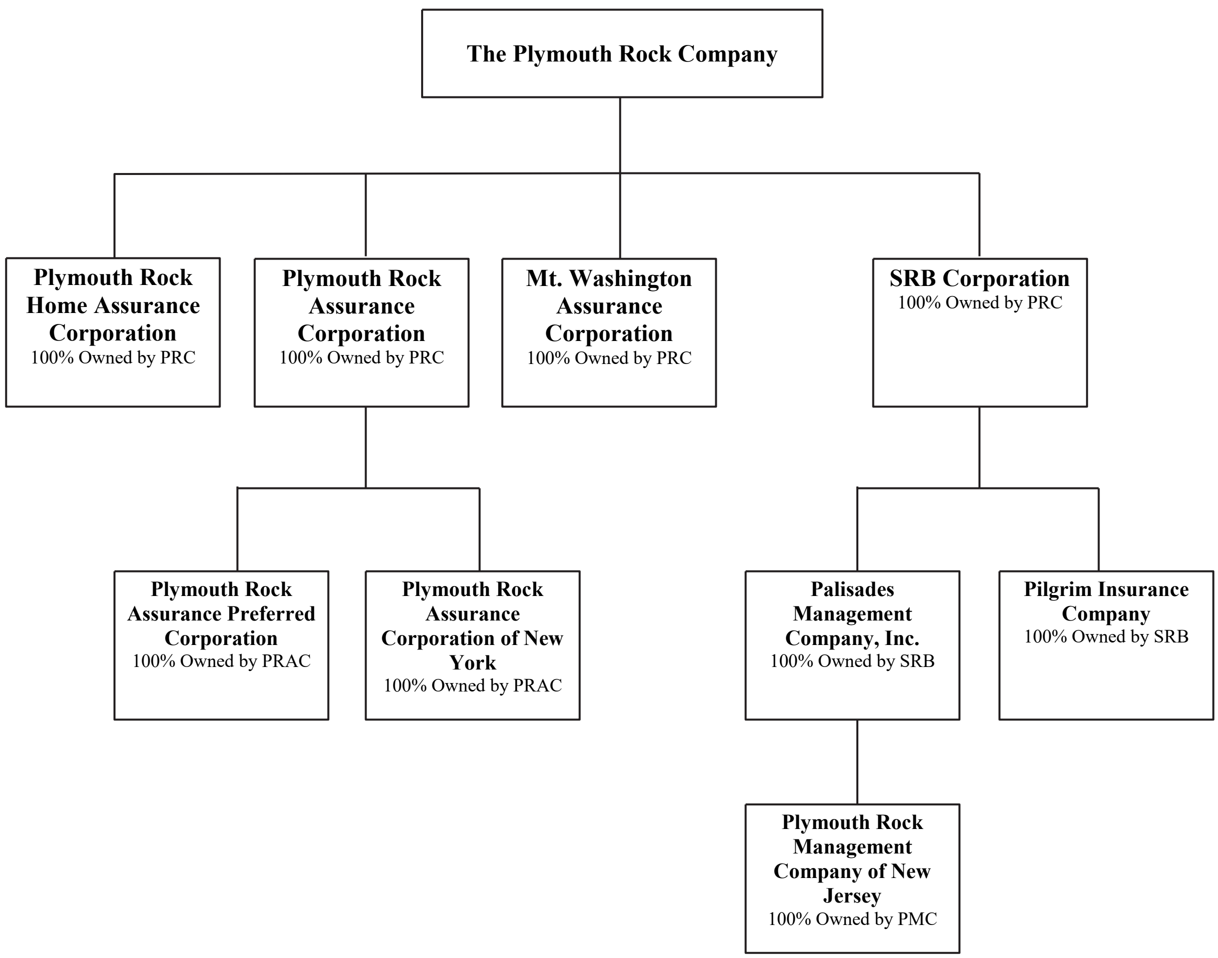
1. Nature of Operations, continued

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 2.6 percent, of the equity of the Palisades Reciprocal Group at both December 31, 2020 and 2019, respectively. As these surplus notes and preferred stock features are not typical of an ordinary service arrangement, it is appropriate for The Plymouth Rock Company and Subsidiaries to consolidate the results of the members of the Palisades Reciprocal Group. 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. For ease of reference, The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group are referred to in the Chairman's letter together as the "Plymouth Rock Group."

The Independent Agency Group, the Home Insurance Group, and the Direct Group are not legal entities. These names are used for convenience internally, in the Chairman's letter, and in marketing and certain other communications to refer to groupings by line and distribution channel of the property and casualty insurance sold or serviced in multiple states through legally separate underwriting and managed insurance companies. The use of the word "group" does not imply any legal association, intercompany contract, guaranty or pooling arrangement. Each underwriting and managed insurance company is a separate legal entity that is financially responsible only for its own insurance products and actual coverage is subject to the language of the policies as issued by each separate company.

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:



2. Organization of The Plymouth Rock Company and Subsidiaries, continued

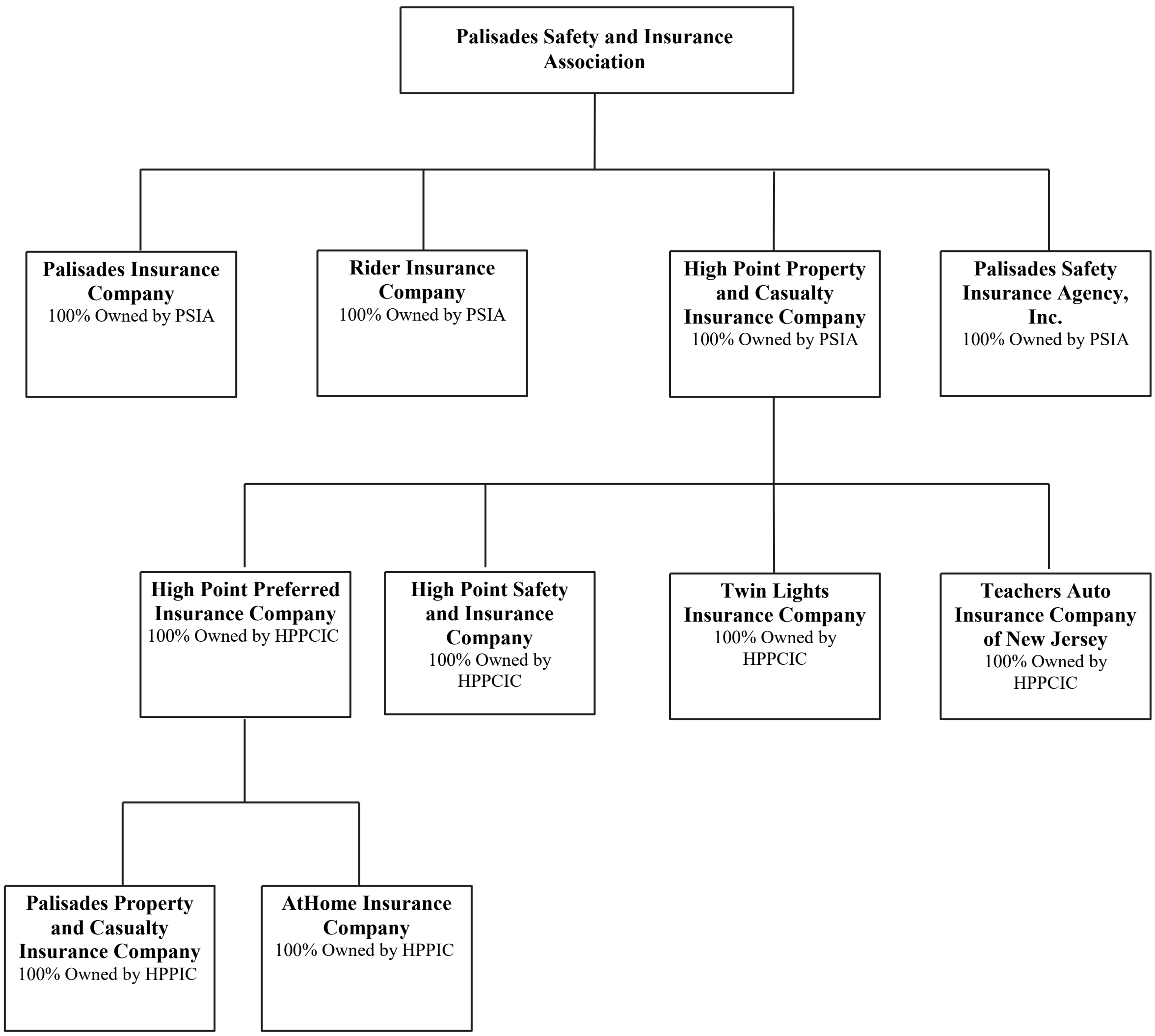
Effective January 1, 2019, Plymouth Rock Assurance Corporation purchased from ACIC Holding Co., Inc. all of the issued and outstanding shares of MAPFRE Insurance Company of New York, which was subsequently renamed Plymouth Rock Assurance Corporation of New York. Plymouth Rock Assurance Corporation paid $23.4 million in cash to acquire the shares of MAPFRE Insurance Company of New York based on its closing balance sheet as of December 31, 2018. This transaction, the objective of which was to gain both scale and established independent agency relationships in New York, was accounted for as a business combination. The accounting for this transaction is discussed further in Note 12.

On February 1, 2021, SRB Corporation sold to Travelers Marketplace Holdings, LLC ("Travelers") all of the issued and outstanding equity interests of InsuraMatch, LLC. Travelers paid $40.0 million in cash to acquire the equity interests of InsuraMatch, LLC plus certain agreed upon closing costs. This purchase price is subject to adjustments during 2021 based on the final closing balance sheet to be delivered to SRB Corporation by April 2, 2021 and a reconciliation of profit sharing and supplemental compensation payments due from insurance carriers in respect of 2020 to be delivered to SRB Corporation by July 31, 2021. As part of this transaction InsuraMatch, LLC's investments in subsidiaries Encharter Insurance, LLC (Massachusetts) and Encharter Insurance, LLC (Connecticut) were distributed to SRB Corporation.

Other subsidiaries include 711 Atlantic Corporation, 711 Atlantic Avenue Company, LLC and 695 Atlantic Avenue Company, L.L.C., which directly or indirectly own real estate; Bunker Hill Insurance Casualty Company, Bunker Hill Property Insurance Company, Bunker Hill Preferred Insurance Company, and Bunker Hill Insurance Company, which are wholly owned subsidiaries of Plymouth Rock Home Assurance Corporation; Shared Technology Services Group Inc. and Perks and More, LLC, which are wholly-owned subsidiaries of SRB Corporation, and High Point Brokerage Company, Inc., National Atlantic Insurance Agency, Inc., and 581 Main Street LLC, which are wholly owned subsidiaries of Palisades Management Company, Inc.

3. Organization of the Palisades Reciprocal Group

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



3. Organization of the Palisades Reciprocal Group, continued

On October 17, 2019, Palisades Safety and Insurance Association purchased Rider Insurance Company and Rider Insurance Agency, Inc. (together, "Rider"). Palisades Safety and Insurance Association paid $6.1 million in cash to acquire Rider. This transaction, the objective of which was to expand motorcycle business and offerings in all of Plymouth Rock's states, was accounted for as a business combination. As the fair value of assets and liabilities acquired exceeded the purchase price, a gain of $3.7 million was recorded in 2019 and is reflected in the "Investment income and capital gains" line of the Consolidated Statements of Comprehensive Income. The accounting for this transaction is discussed further in Note 12.

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.

4. Summary of Significant Accounting Policies, continued

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.

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. At December 31, 2020, The Plymouth Rock Company and Subsidiaries held $20.8 million in United States Treasury Bills with maturity dates no longer than 90 days from the date of acquisition. At December 31, 2020 and 2019, the Palisades Reciprocal Group held $24.6 million and $15.6 million, respectively, in United States Treasury Bills with maturity dates no longer than 90 days from the date of acquisition. For both The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group, these securities are included in "Investment securities" in the Company's Consolidated Balance Sheets. The Plymouth Rock Company and Subsidiaries had a balance of outstanding checks within accrued liabilities of $15.0 million and $4.2 million in 2020 and 2019, respectively. Liabilities for outstanding checks for the Palisades Reciprocal Group were $25.8 million and $15.5 million in 2020 and 2019, 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. Changes in the fair value of marketable equity securities available for sale, after deduction of applicable deferred income taxes, are credited or charged directly to net income and affect equity through retained earnings. Changes in the fair value of marketable fixed income securities are credited or charged directly to equity.

4. Summary of Significant Accounting Policies, continued

D. Cash and Investments, continued

Foreign equity securities are subject to fluctuations in foreign exchange rates. Changes in foreign exchange rates are recorded directly to stockholders' equity through net unrealized capital gain or loss. The Plymouth Rock Company and Subsidiaries recorded a cumulative loss, before applicable taxes, of $1.2 million as of December 31, 2019 from foreign exchange rate changes. During 2020, The Plymouth Rock Company and Subsidiaries recorded a loss of $431,000 through net income as a result of a marketable security being deemed other-than-temporarily impaired. No loss was recorded during 2019. 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 total comprehensive income or stockholders' equity.

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

E. 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 2020 and 2019 for The Plymouth Rock Company and Subsidiaries was $94.8 million and $82.3 million, respectively, while the net amortization for the Palisades Reciprocal Group for 2020 and 2019 was $100.1 million and $83.0 million, respectively.

4. Summary of Significant Accounting Policies, continued

F. 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.

In response to the COVID-19 pandemic, The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group issued premium refunds and dividend credits totaling \$11.5 million and \$20.0 million, respectively, during the second quarter of 2020 when driving was reduced as a result of state “stay at home” orders. These refunds and credits were recorded as a reduction to “Premiums earned in underwriting activities” in the Company’s Consolidated Statements of Comprehensive Income.

Premiums receivable are net of reserves for doubtful collections. At December 31, 2020 and 2019, the reserves for doubtful collections for The Plymouth Rock Company and Subsidiaries were \$2.0 million and \$1.4 million, respectively. The reserves for doubtful collections of the Palisades Reciprocal Group at both December 31, 2020 and 2019 were \$8.0 million.

G. 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 addition, the Plymouth Rock Company and Subsidiaries earn investment management fees from the Palisades Reciprocal Group. In 2020 and 2019, fees earned of \$218.0 million and \$199.5 million, respectively, 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.

4. Summary of Significant Accounting Policies, continued

H. 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 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 2020 or 2019.

I. 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 evaluated for impairment annually using either independent appraisals or analysis of expected future cash flows.

5. Segment Reporting

Business is primarily managed in three operating groups: Independent Agency Group, Direct Group, and Home Insurance Group. As discussed in Note 1, the use of these group names is solely for internal convenience and has no legal significance. Premiums and key metrics by group for 2020 and 2019 were as follows:

(dollars in thousands)

Gross premiums written and managed:	2020	2019
Independent Agency Group	$ 828,881	$ 821,418
Direct Group	535,339	491,817
Home Insurance Group	258,903	175,943
Total	$1,623,123	$1,489,178
Premiums earned in underwriting activities:		
Independent Agency Group	$ 766,437	$ 730,864
Direct Group	513,227	477,220
Home Insurance Group	185,212	131,758
Total	$1,464,876	$1,339,842
Statistical metrics:		
Independent Agency Group:		
Policies in force	408,700	388,991
Net loss ratio	52.9%	63.6%
Net combined ratio	92.0%	101.9%
Direct Group:		
Policies in force	284,932	274,538
Net loss ratio	54.3%	53.6%
Net combined ratio	94.4%	92.7%
Home Insurance Group:		
Policies in force	246,237	168,390
Net loss ratio	52.3%	44.2%
Net combined ratio	102.9%	93.5%

6. Income Taxes

Income taxes on the statements of comprehensive income for 2020 and 2019 consist of:

(dollars in thousands)	2020	2019
The Plymouth Rock Company and Subsidiaries	$ 25,883	$ 31,639
Palisades Reciprocal Group	(897)	26,342
Total	$ 24,986	$ 57,981

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, with the exception of federal net operating loss carryforwards acquired with Rider Insurance Company and certain state net operating loss carryforwards belonging to The Plymouth Rock Company.

Rider Insurance Company, which is included in the Palisades Reciprocal Group, has federal net operating loss carryforwards, which will begin to expire at the end of 2031 and are limited under Internal Revenue Code Section 382. Palisades Reciprocal Group is expected to only be able to apply net operating loss carryforwards to $58,000 of income before taxes on an annual basis. Therefore, the Company has established a valuation allowance of $4.7 million and $4.8 million as of December 31, 2020 and 2019, respectively, in light of this limitation. There were no other federal net operating loss carryforwards available as of December 31, 2020 or 2019.

The Plymouth Rock Company had state net operating loss carryforwards at December 31, 2020 and 2019. Based on historical results, it is unlikely that these carryforwards, which begin to expire at the end of 2021, will be utilized. Therefore, the Company has established a valuation allowance of $0.4 million and $0.3 million as of December 31, 2020 and 2019 respectively.

6. Income Taxes, continued

In October 2019, Plymouth Rock Management Company of New Jersey settled the New Jersey state tax matter referenced in previously issued financial statements. Plymouth Rock Management Company of New Jersey received a refund of $9.0 million. This refund, combined with the reversal of the previously accrued contingent New Jersey state tax liability, which included interest, resulted in a benefit of $13.8 million net of federal income tax during 2019.

There are no tax positions of questionable merit that require a reserve for potential disallowance. As of December 31, 2020, neither The Plymouth Rock Company and Subsidiaries nor the Palisades Reciprocal Group was subject to federal examinations for tax years prior to 2017. Neither The Plymouth Rock Company and Subsidiaries nor the Palisades Reciprocal Group have examinations by state taxing authorities presently in progress.

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

Income taxes on the statements of comprehensive income for 2020 and 2019 consist of:

(dollars in thousands)	2020	2019
Current year federal income taxes	$ 30,634	$ 11,770
Current year state income taxes	2,068	(16,012)
Change in deferred federal taxes	2,189	10,397
Change in deferred state taxes	(1,305)	623
Sub-total	33,586	6,778
Change in deferred federal taxes on equity securities	(7,263)	24,349
Change in deferred state taxes on equity securities	(440)	512
Total	$ 25,883	$ 31,639

The reported provisions for income taxes are less than those computed by applying the federal and state income tax rates for these years to income before income taxes. The reconciliation of income tax provision for 2020 and 2019 is as follows:

6. Income Taxes, continued

(dollars in thousands)	2020	2019
Federal income taxes at statutory rate	$ 27,544	$ 49,500
State income taxes, net of federal tax benefit	(111)	(11,753)
Dividend received deduction	(1,134)	(1,064)
Interest from state and municipal bonds	(56)	(131)
Share-based compensation	-0-	(4,270)
Impact of tax rate differential	-0-	(888)
Other	(360)	245
Total provision for income taxes	$ 25,883	$ 31,639

Deferred income taxes on the balance sheets as of December 31, 2020 and 2019 consist of the net effects of these temporary differences:

(dollars in thousands)	2020	2019
Net unrealized gain on investments	$(54,174)	$(60,728)
Depreciation	(21,424)	(16,680)
Unearned premiums	14,237	12,914
Compensation expense	11,874	8,164
Deferred acquisition expense	(11,140)	(9,688)
Discounting of claim reserves	3,370	3,288
Loss reserve transition adjustment	(927)	(1,230)
Investment and partnership timing differences	(118)	(1,914)
Net operating losses	424	1,554
Valuation allowance	(424)	(353)
Other	306	695
Total	$(57,996)	$(63,978)

Palisades Reciprocal Group

Income taxes on the statements of comprehensive income for 2020 and 2019 consist of:

(dollars in thousands)	2020	2019
Current year federal income taxes	$ 11,400	$ (2,139)
Current year state income taxes	2	36
Change in deferred federal taxes	(206)	(1,106)
Sub-total	11,196	(3,209)
Change in deferred federal taxes on equity securities	(12,093)	29,551
Total	$ (897)	$ 26,342

6. Income Taxes, continued

The reported provisions for income taxes are less than those computed by applying the federal and state income tax rates for these years to income before income taxes. The reconciliation of income tax provision for 2020 and 2019 is as follows:

(dollars in thousands)	2020	2019
Federal income taxes at statutory rate	$ 615	$ 31,533
State income taxes, net of federal tax benefit	2	28
Dividend received deduction	(1,279)	(1,222)
Interest from state and municipal bonds	(54)	(115)
Impact of tax rate differential	-0-	(2,429)
Tax on gain recognized on business combination	-0-	(779)
Other	(181)	(674)
Total provision for income taxes	$ (897)	$ 26,342

Deferred income taxes on the balance sheets as of December 31, 2020 and 2019 consist of the net effects of these temporary differences:

(dollars in thousands)	2020	2019
Net unrealized gain on investments	$(61,061)	$(73,360)
Deferred acquisition expense	(18,153)	(16,183)
Unearned premiums	16,328	15,035
Discounting of claim reserves	6,799	6,537
Net operating losses	4,923	5,031
Valuation allowance	(4,728)	(4,829)
Guaranty fund accrual	1,810	1,810
Loss reserve transition adjustment	(1,759)	(2,112)
Reserves for doubtful collections	1,645	1,639
Intangibles	334	241
Investment and partnership timing differences	104	1,383
Other	(553)	(544)
Total	$(54,311)	$(65,352)

7. 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 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, 2020, 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, 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 automobile and home insurance coverages which The Plymouth Rock Company and Subsidiaries primarily write.

7. 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, 2016	2017	2018	2019	2020
2016	$267,093	$260,431	$256,876	$263,622	$ 260,675
2017		268,238	257,726	265,618	260,194
2018			278,839	279,424	273,229
2019				306,579	296,322
2020					277,766
Total					$1,368,186

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31, 2016	2017	2018	2019	2020
2016	$159,810	$211,845	$228,073	$241,212	$ 247,607
2017		155,950	205,356	225,004	238,103
2018			164,483	213,857	231,727
2019				176,745	227,214
2020					154,372
Total					$1,099,023

Net unpaid for accident years 2016 through 2020	$ 269,163
Net unpaid for accident years prior to 2016	11,091
Net unpaid claims and allocated claim adjustment expenses	$ 280,254

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims
2016	$ 4,866	137,317
2017	10,464	136,202
2018	21,157	138,463
2019	34,841	134,587
2020	58,283	87,348

Average Annual Payout	
Year 1	57.9%
Year 2	18.5%
Year 3	6.8%
Year 4	5.0%
Year 5	2.5%
After	9.3%

7. Claim and Claim Adjustment Expense Reserves, continued

Home Insurance

(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Incurred, Net of Reinsurance, as of December 31, 2016	2017	2018	2019	2020
2016	$11,786	$ 8,678	$ 7,806	$ 8,588	$ 7,304
2017		13,308	12,849	14,874	16,511
2018			22,592	26,204	25,681
2019				36,861	35,679
2020					50,388
Total					$135,563

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31, 2016	2017	2018	2019	2020
2016	$ 6,251	$ 7,180	$ 7,148	$ 7,223	$ 7,189
2017		8,492	11,248	12,889	14,045
2018			15,402	21,450	23,029
2019				25,984	31,376
2020					36,889
Total					$112,528

Net unpaid for accident years 2016 through 2020	$ 23,035
Net unpaid for accident years prior to 2016	1,279
Net unpaid claims and allocated claim adjustment expenses	$ 24,314

7. Claim and Claim Adjustment Expense Reserves, continued

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims
2016	$ 77	2,395
2017	713	2,912
2018	431	4,082
2019	666	3,266
2020	2,690	4,871

Average Annual Payout	
Year 1	64.5%
Year 2	16.0%
Year 3	4.5%
Year 4	3.4%
Year 5	2.0%
After	9.6%

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)	2020	2019
Claims and allocated claim adjustment expense reserves at beginning of year	$298,658	$227,271
Claims and allocated claim adjustment expense reserves acquired with Plymouth Rock Assurance Corporation of New York	-0-	57,009
Claims and allocated claim adjustment expenses incurred:		
Current year	328,154	343,440
Prior years	(28,971)	(20,218)
	299,183	323,222
Claims and allocated claim adjustment expenses paid:		
Current year	191,262	202,729
Prior years	102,011	106,115
	293,273	308,844
Claims and allocated claim adjustment expense reserves at end of year	304,568	298,658
Reinsurance recoverable on unpaid claims at end of year	82,089	80,649
Unallocated claim adjustment expense reserves at end of year	23,751	22,498
Intra-group transactions	(386)	-0-
Total claims and claim adjustment expense reserves at end of year	$410,022	$401,805

7. Claim and Claim Adjustment Expense Reserves, continued

During the year ended December 31, 2020, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $29.0 million. This was composed of $27.5 million from automobile business and $1.5 million from home business. During the year ended December 31, 2019, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $20.2 million. This was composed of $18.9 million from automobile business and $1.3 million from home business. Massachusetts private passenger automobile business was the largest contributor to this development in both years.

The amounts shown in the preceding table include $73.5 million and $71.2 million of estimated claim and claim adjustment expense reserves related to Pilgrim Insurance Company's service business as of December 31, 2020 and December 31, 2019, 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, a reinsurer or industry pools 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, 2020, 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, 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 automobile and home coverages which the Palisades Reciprocal Group primarily writes.

7. 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,				
	2016	2017	2018	2019	2020
2016	$418,424	$407,180	$399,411	$397,115	$ 397,086
2017		416,317	395,211	394,748	390,821
2018			434,753	433,060	433,183
2019				453,980	450,225
2020					443,078
Total					$2,114,393

(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31,				
	2016	2017	2018	2019	2020
2016	$184,540	$264,491	$309,897	$353,446	$ 379,422
2017		179,485	257,912	304,448	347,715
2018			195,282	282,466	341,596
2019				206,831	296,496
2020					189,977
Total					$1,555,206

Net unpaid for accident years 2016 through 2020	$ 559,187
Net unpaid for accident years prior to 2016	15,774
Net unpaid claims and allocated claim adjustment expenses	$ 574,961

7. Claim and Claim Adjustment Expense Reserves, continued

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims
2016	$ 2,531	150,449
2017	9,221	143,831
2018	22,329	154,160
2019	56,781	151,578
2020	155,590	119,745

Average Annual Payout	
Year 1	45.3%
Year 2	20.1%
Year 3	12.3%
Year 4	11.0%
Year 5	6.5%
After	4.8%

The 2019 accident year claims and allocated claim adjustment expenses incurred include $3.1 million of Rider Insurance Company activity incurred prior to its purchase on October 17, 2019.

Home Insurance

(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Incurred, Net of Reinsurance, as of December 31,				
	2016	2017	2018	2019	2020
2016	$38,804	$37,088	$36,016	$35,721	$ 35,601
2017		39,052	37,200	36,763	36,272
2018			51,320	51,360	50,113
2019				58,798	56,721
2020					87,577
Total					$266,284

7. Claim and Claim Adjustment Expense Reserves, continued

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31,				
	2016	2017	2018	2019	2020
2016	$25,372	$30,028	$31,648	$32,582	$ 34,372
2017		24,942	32,081	33,339	34,122
2018			36,767	44,961	46,578
2019				38,756	49,000
2020					59,949
Total					$224,021

Net unpaid for accident years 2016 through 2020	$ 42,263
Net unpaid for accident years prior to 2016	8,092
Net unpaid claims and allocated claim adjustment expenses	$ 50,355

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims
2016	$ 869	5,759
2017	955	4,955
2018	1,486	7,760
2019	3,406	7,287
2020	13,913	12,528

Average Annual Payout	
Year 1	70.0%
Year 2	16.8%
Year 3	3.8%
Year 4	2.4%
Year 5	5.0%
After	2.0%

7. Claim and Claim Adjustment Expense Reserves, continued

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

(dollars in thousands)	2020	2019
Claims and allocated claim adjustment expense reserves at beginning of year	$602,348	$571,633
Claims and allocated claim adjustment expense reserves acquired with Rider Insurance Company	-0-	7,023
Claims and allocated claim adjustment expenses incurred:		
Current year	530,655	509,641
Prior years	(13,333)	(14,319)
	517,322	495,322
Claims and allocated claim adjustment expenses paid:		
Current year	249,926	245,587
Prior years	244,428	226,043
	494,354	471,630
Claims and allocated claim adjustment expense reserves at end of year	625,316	602,348
Reinsurance recoverable on unpaid claims at end of year	25,596	27,509
Unallocated claim adjustment expense reserves at end of year	49,364	47,871
Intra-group transactions	(398)	-0-
Total claims and claim adjustment expense reserves at end of year	$699,878	$677,728

During the year ended December 31, 2020, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $13.3 million. This change was composed of $8.9 million from automobile business and $4.4 million from home business. During the year ended December 31, 2019, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $14.3 million. This change was composed of $11.1 million from automobile business and $3.2 million from home business. Improvements in the estimated severity of personal injury protection coverage claims were the largest contributor to this development in both years.

8. Reinsurance

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

The Plymouth Rock Company and Subsidiaries

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

	2020		2019	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$698,369	$389,925	$646,270	$431,939
Ceded	(70,117)	(32,686)	(70,851)	(55,845)
Net	$628,252	$357,239	$575,419	$376,094

Ceded premiums earned for 2020 and 2019 were $70.3 million and $72.0 million, respectively.

8. Reinsurance, continued

Concurrent with its acquisition effective April 1, 2018, Plymouth Rock Assurance Preferred Corporation entered into a 100% quota share reinsurance agreement with 21st Century North America Insurance Company under which Plymouth Rock Assurance Preferred Corporation ceded 100% of the underwriting results of all Plymouth Rock Assurance Preferred Corporation policies issued on 21st Century systems through and until December 2018. Claims and claim adjustment expenses of $157,000 and $1.2 million were ceded under this agreement during 2020 and 2019, respectively. Also concurrent with its acquisition, Plymouth Rock Assurance Preferred Corporation entered into service agreements with 21st Century North America Insurance Company and 21st Century Advantage Insurance Company and a 100% quota share reinsurance agreement with 21st Century North America Insurance Company under which Plymouth Rock Assurance Preferred Corporation services and assumes the underwriting results for all New York private passenger automobile policies issued by Plymouth Rock Assurance Preferred Corporation on Plymouth Rock systems on behalf of 21st Century North America Insurance Company and 21st Century Advantage Insurance Company on and after April 1, 2018. Premiums of $6.4 million and claims and claim adjustment expenses of $3.9 million were assumed under this agreement during 2020, while premiums of $7.8 million and claims and claim adjustment expenses of $6.6 million were assumed under this agreement during 2019.

The Plymouth Rock Company and Subsidiaries also has treaties in place for catastrophe reinsurance for automobile and home lines of business, and per-risk excess-of-loss reinsurance for home, commercial automobile, and umbrella lines of business. During the years ended December 31, 2020 and 2019, the underwriting cost incurred for these treaties was $12.6 million and $10.4 million, respectively.

The Plymouth Rock Company and Subsidiaries also has in place 100% quota share reinsurance with the National Flood Insurance Program for flood coverage written on a direct basis. Premiums ceded under this program were $712,000 and $771,000 in 2020 and 2019, respectively, while ceded claims, claim adjustment expenses and ceding commissions totaled $42,000 and $59,000, 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 Corporation and Pilgrim Insurance Company record their estimated shares of this activity on the basis of information provided by CAR.

8. Reinsurance, continued

Pilgrim Insurance Company provides automobile insurance services to unrelated insurance companies. The Statements of Comprehensive Income for The Plymouth Rock Company and Subsidiaries are reported net of \$52.1 million and \$58.8 million of ceded premiums earned and \$29.2 million and \$54.7 million of claims and claim adjustment expenses incurred and ceded in 2020 and 2019, respectively, related to Pilgrim Insurance Company's third-party business. Pilgrim Insurance Company 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, a reinsurer, or industry pools via quota share reinsurance arrangements. The Statements of Comprehensive Income of The Plymouth Rock Company and Subsidiaries include \$3.8 million and \$4.7 million of net premiums earned in underwriting activities and \$3.0 million and \$4.8 million of net claims and claim adjustment expenses incurred in 2020 and 2019, respectively, for Pilgrim Insurance Company's third-party business. These retained amounts reflect 6.8% and 7.4% of direct premiums earned and 9.3% and 8.1% of direct claims and claim adjustment expenses incurred of the total activity of the business during 2020 and 2019, respectively.

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:

	2020		2019	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	\$933,116	\$603,720	\$849,023	\$571,052
Ceded	(33,941)	(7,714)	(27,304)	(4,542)
Net	\$899,175	\$596,006	\$821,719	\$566,510

Ceded premiums earned for 2020 and 2019 were \$33.2 million and \$26.9 million, respectively.

8. Reinsurance, continued

Concurrent with its acquisition effective August 1, 2018, AtHome Insurance Company entered into a 100% quota share reinsurance agreement with 21st Century North America Insurance Company under which AtHome Insurance Company cedes 100% of the underwriting results of all policies issued by AtHome prior to its acquisition. Claims and claim adjustment expenses of $1.1 million and $1.2 million were ceded under this agreement during 2020 and 2019, respectively. As of the time of acquisition, AtHome Insurance Company was not transacting business in any state and had non-renewed its pre-acquisition private passenger automobile business in New York.

The Palisades Reciprocal Group has in place catastrophe reinsurance for the automobile and home lines of business, and per-risk excess-of-loss reinsurance treaties on the home, commercial automobile, and umbrella lines of business. During the years ended December 31, 2020 and 2019, the underwriting cost incurred for these treaties was $21.1 million and $17.2 million, respectively.

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. Premiums ceded under this program were $3.2 million and $3.4 million in 2020 and 2019, respectively, while ceded claims, claim adjustment expenses and ceding commissions totaled $590,000 and $639,000, respectively.

9. Secured Loans

At December 31, 2019, The Plymouth Rock Company had outstanding a secured loan from a bank with a carrying value of $5.0 million. This loan was structured with monthly payments of interest only, payable at a variable interest rate based on LIBOR and was paid in full in December 2020. The Plymouth Rock Company had pledged to the bank, as collateral, securities which had a market value of $7.1 million as of December 31, 2019. The Plymouth Rock Company incurred $92,000 and $179,000 of interest expense on this loan during 2020 and 2019, respectively.

10. Subsequent Events

Subsequent events have been evaluated from December 31, 2020 through March 10, 2021. One event was the sale of InsuraMatch, LLC on February 1, 2021, which is discussed further in Note 2. A second event was SRB Corporation establishing a $30.0 million line of credit with a bank on February 25, 2021 for which $50.0 million of securities were pledged by The Plymouth Rock Company to the bank as collateral.

11. Commitments and Contingencies

The Plymouth Rock Company and Subsidiaries incurred real estate rental expenses for 2020 and 2019 totaling $5.9 million and $9.8 million, respectively. Over the next five years, the minimum lease obligations to unrelated third parties decline from $4.2 million in 2021 to $325,000 in 2025. Total obligations of The Plymouth Rock Company and Subsidiaries under real estate and automobile leases are $10.6 million through 2026.

Since December 2011, Plymouth Rock Assurance Corporation 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 Corporation recognized revenue from these sales in the amounts of $153,000 and $737,000 in 2020 and 2019, respectively.

Plymouth Rock Management Company of New Jersey and Palisades Safety and Insurance Association entered into an agreement in September 2019 to purchase $15.0 million of New Jersey economic redevelopment tax credits at a cost of $14.0 million. The credits will be purchased in annual increments of $1.5 million at an annual cost of $1.4 million over a period of 10 years, which is expected to run from 2021 through 2030. The credits are expected to reduce the Palisades Reciprocal Group's premium tax liability by $1.5 million in each year of the 10-year.

12. Goodwill and Intangible Assets

The Plymouth Rock Company and Subsidiaries

InsuraMatch, LLC purchased insurance agencies that resulted in goodwill of $3.4 million at both December 31, 2020 and 2019, respectively. These purchases also gave rise to intangible assets in the form of expirations, noncompetition agreements, and brand names.

During 2017, InsuraMatch, LLC acquired policy expirations and a call center operation. The policy expirations gave rise to intangible assets of $913,000 that are now fully amortized. The acquisition of the call center gave rise to goodwill of $39,000. During 2016, InsuraMatch, LLC entered into an insurance policy renewal rights agreement which gave rise to intangible assets of $11,000 in 2019. Intangible assets, which are amortized over periods ranging from two to 15 years, were carried at $1.7 million and $2.1 million at December 31, 2020 and 2019 respectively. Effective February 1, 2021, the intangible assets associated with the renewal rights agreement entered into 2016 were included in the sale of InsuraMatch, LLC. The value of these intangibles were $1.4 million at December 31, 2020.

12. Goodwill and Intangible Assets, continued

Amortization associated with these intangible assets for 2020 and 2019 was $346,000 and $802,000, respectively. Amortization is expected to decline from $111,000 in 2021 to $21,000 in 2025.

As part of the purchase of Plymouth Rock Assurance Preferred Corporation, Plymouth Rock Assurance Corporation acquired intangible assets in the form of state licenses and a rating plan, as well as an intangible liability for the value of the business acquired valued at $986,000. This liability, which is being amortized over four years, had amortization of $247,000 in both 2020 and 2019 that resulted in a carrying value of $309,000 and $556,000 at December 31, 2020 and 2019, respectively. Amortization is expected to be $247,000 in 2021 and $62,000 in 2022, respectively. As this transaction was accounted for as an asset purchase, the difference between the purchase price and the fair value of financial assets and liabilities, including the value of business acquired, was allocated to the state licenses and the rate plan. The state licenses, which are intangible assets with indefinite lives, had a carrying value of $263,000 at both December 31, 2020 and 2019.

As part of the purchase of Plymouth Rock Assurance Corporation of New York, Plymouth Rock Assurance Corporation also acquired intangible assets in the form of state licenses and the value of the business acquired valued at $310,000 and $1.3 million, respectively, as well as an intangible liability for the value of renewal obligations valued at $7.7 million. The state licenses, which are intangible assets with indefinite lives, had a carrying value of $310,000 at both December 31, 2020 and 2019. The value of business acquired was amortized over 12 months, consistent with the earning of the unearned premium, therefore the entire $1.3 million was amortized in 2019. The renewal obligation liability, which is being amortized over three years, had amortization of $2.6 million in both 2020 and 2019, that resulted in a carrying value of $2.6 million and $5.2 million at December 31, 2020 and 2019, respectively. Amortization for this liability is expected to be $2.6 million in 2021. This transaction was accounted for as a business combination.

12. Goodwill and Intangible Assets, continued

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, which was the carrying value at both December 31, 2020 and 2019. This purchase along with the purchase of renewals from National General Insurance Company in 2017 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, 2020 and 2019, 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 2020 or 2019. The remaining intangible assets for the renewal rights are being amortized over 20 years and had a carrying value of $2.8 million and $3.4 million at December 31, 2020 and 2019, respectively. Amortization associated with these intangible assets was $639,000 in 2020 and $713,000 in 2019. Amortization is expected to decline from $572,000 in 2021 to $371,000 in 2025.

The Palisades Reciprocal Group also acquired intangible assets in the form of state licenses as part of the purchase of AtHome Insurance Company. As this transaction was accounted for as an asset purchase, the difference between the purchase price and the fair value of financial assets and liabilities, including the value of business acquired, was allocated to the state licenses. The state licenses, which are intangible assets with indefinite lives, had a carrying value of $38,000 at both December 31, 2020 and 2019.

Effective June 14, 2018, Palisades Safety and Insurance Association and Palisades Property and Casualty Insurance Company entered into an agreement with American Commerce Insurance Company and MAPFRE U.S.A. Corp. pursuant to which Palisades Safety and Insurance Association and Palisades Property and Casualty Insurance Company acquired the rights to serve as a replacement carrier for American Commerce Insurance Company's New Jersey private passenger automobile and home insurance business, respectively. Palisades Reciprocal Group paid $800,000 related to this acquisition in 2018, with a final payment of $1.9 million made in December 2020 based on the earned premium recorded during the first policy year. These replacement carrier rights are intangible assets that will be amortized over a period of 15 years. Amortization of $175,000 and $192,000 was recorded during 2020 and 2019, respectively, leaving carrying values of $2.3 million and $2.6 million at December 31, 2020 and 2019, respectively. Amortization is expected to be $182,000 annually from 2021 through 2025.

12. Goodwill and Intangible Assets, continued

Effective April 4, 2018, Palisades Property and Casualty Insurance Company also acquired the right to serve as the replacement carrier for Pennsylvania and New York home insurance business from several entities of the Farmers Insurance Group. The purchase price for this business is based on the volume of written premium recorded during the first two policy years, with the final settlement occurring in 2021. These replacement carrier rights are intangible assets that will be amortized over a period of 15 years. The carrying value of these rights was $666,000 and $346,000 at December 31, 2020 and 2019, respectively, with an additional $372,000 of renewal rights being added during 2020. Amortization of $52,000 and $25,000 was recorded during 2020 and 2019, respectively. Amortization is expected to be $50,000 annually from 2021 through 2025.

As part of the purchase of Rider Insurance Company effective October 17, 2019, Palisades Safety and Insurance Association acquired intangible assets in the form of state licenses valued at $655,000, the brand name valued at $25,000, a rating plan valued at $50,000, the value of the business acquired valued at $2.6 million, and renewal obligations at $1.5 million. The state licenses and brand name, which are intangible assets with indefinite lives, had a carrying value of $680,000 at both December 31, 2020 and 2019. The rating plan is being amortized over two years and had amortization of $25,000 and $5,000 in 2020 and 2019, respectively, which left a carrying value of $20,000 and $45,000 at December 31, 2020 and 2019, respectively. Amortization of the rating plan is expected to be $20,000 in 2021. The value of business acquired is amortized over 12 months, consistent with the earning of the unearned premium. There was amortization of $1.7 million and $914,000 on this asset in 2020 and 2019, respectively. The carrying value was $1.7 million at December 31, 2019 and it was fully amortized by the end of 2020. The renewal obligation liability is being amortized over three years and had amortization of $499,000 and $103,000 in 2020 and 2019, respectively, which left carrying values of $894,000 and $1.4 million at December 31, 2020 and 2019, respectively. Amortization for this liability is expected to be $499,000 in 2021 and $395,000 in 2022. This transaction was accounted for as a business combination.

13. 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)	2020	2019
Net income	$105,280	$204,074
Depreciation and amortization	29,778	26,379
Deferred income taxes	497	10,201
Change in unrealized gains on equity securities, net of tax	26,884	(91,088)
Other-than-temporary impairment, net of tax	(712)	(3,065)
Change in operating assets and liabilities:		
Accrued investment income	675	(42)
Premiums receivable	(6,960)	(14,086)
Ceded unearned premium reserves	195	1,191
Deferred acquisition costs	(6,370)	(7,367)
Amounts receivable from reinsurers and pools	(2,086)	(17,962)
Claim and claim adjustment expense reserves	8,603	30,973
Unearned premium reserves	31,301	28,340
Advance premiums	(1)	812
Commissions payable and accrued liabilities	27,756	13,886
Amounts payable to reinsurers	1,837	(3,002)
Unearned service fees	3,645	3,760
Prepaid expenses, agent loans, and deposits	2,501	(4,812)
Income tax recoverable and payable	14,961	(14,677)
Amounts due from service clients	(729)	(2,148)
Other assets and other liabilities	8,694	482
Net cash provided by operating activities	$245,749	$161,849

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

Palisades Reciprocal Group

(dollars in thousands)	2020	2019
Net income	$ 3,825	$123,816
Depreciation and amortization	2,717	1,960
Deferred income taxes	1,258	(2,553)
Change in unrealized gains on equity securities, net of tax	45,493	(111,170)
Other-than-temporary impairment, net of tax	5,509	(5,509)
Gain recognized on business combination	-0-	(3,709)
Change in operating assets and liabilities:		
Accrued investment income	25	654
Premiums receivable	(16,535)	(10,148)
Ceded unearned premium reserves	(708)	(382)
Deferred acquisition costs	(9,467)	(9,148)
Amounts receivable from reinsurers and pools	1,523	3,378
Claim and claim adjustment expense reserves	22,548	21,476
Unearned premium reserves	31,761	28,147
Advance premiums	(379)	131
Commissions payable and accrued liabilities	5,737	(3,509)
Amounts payable to reinsurers	728	454
Income tax recoverable	11,346	(6,895)
Other assets and other liabilities	(5,318)	2,650
Net cash provided by operating activities	$100,063	$ 29,643

14. Consolidated Revenues

Revenues, net of reinsurance, by company or group for 2020 and 2019 were:

(dollars in thousands)	2020	2019
Underwriting company revenues:		
Plymouth Rock Assurance Group	$ 549,994	$ 497,093
Plymouth Rock Home Assurance Group	86,672	66,667
Palisades Reciprocal Group	945,903	829,587
Subtotal	1,582,569	1,393,347
Management company revenues:		
The Plymouth Rock Company	69,240	115,309
SRB Corporation	110,624	112,165
InsuraMatch, LLC	8,576	7,783
Pilgrim Insurance Company	30,730	32,606
Plymouth Rock Management Company of New Jersey	213,630	198,744
Subtotal	432,800	466,607
Eliminations with subsidiaries of The Plymouth Rock Company:		
Technology costs	(54,967)	(48,512)
Dividends	(81,197)	(116,118)
Other	(40,260)	(35,596)
Subtotal	(176,424)	(200,226)
Elimination of intra-group transactions	(217,977)	(199,520)
Total revenues before unrealized gains on equity securities	$1,620,968	$1,460,208

The reference above to Plymouth Rock Assurance Group refers to the combined revenue of Plymouth Rock Assurance Corporation, Plymouth Rock Assurance Corporation of New York, Plymouth Rock Assurance Preferred Corporation and Mt. Washington Assurance Corporation. The reference above to Plymouth Rock Home Assurance Group refers to the combined revenue of Plymouth Rock Home Assurance Corporation, Bunker Hill Insurance Company, Bunker Hill Insurance Casualty Company, Bunker Hill Preferred Insurance Company and Bunker Hill Property Insurance Company.

15. Compensation Plans

The Plymouth Rock Company and Subsidiaries maintain a plan under Section 401(k) of the Internal Revenue Code. This plan is a defined contribution plan that covers all employees. Expenses of $11.7 million and $9.2 million were incurred related to this plan during 2020 and 2019, 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 $6.6 million and $5.0 million during 2020 and 2019, respectively.

Effective January 15, 2015, stock incentive awards of 6,577 shares were granted to four key officers. The vesting period for these shares ended during 2019 with 4,330 of the shares vesting based on financial performance during the period and an appraised price of $10,950 for The Plymouth Rock Company's Class A common shares. These awards were exercised for a combination of common stock of The Plymouth Rock Company and cash. Expenses of $2.8 million were recorded related to these awards during 2019.

Effective June 1, 2019, stock incentive awards of 6,115 shares were granted to nine key officers. These awards vest in 2024 contingent upon certain financial performance and service requirements being met. On the basis of financial performance, expenses of $3.2 million and $1.2 million were recorded related to these awards during 2020 and 2019, respectively.

For awards to be exercised for common shares of The Plymouth Rock Company, the cost to the Company is determined using the Black-Scholes valuation model.

16. Fixed Assets

The table below summarizes fixed assets at December 31, 2020 and 2019.

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	Useful Lives	2020	2019
Computers and software development	3-5 years	$134,131	$118,416
Leasehold improvements	10 years	25,106	24,992
Furniture and fixtures	5-10 years	10,727	10,424
Vehicles	3 years	480	480
Total cost		170,444	154,312
Less: accumulated depreciation		117,410	104,004
Net book value		$ 53,034	$ 50,308

Fixed assets of $265,000 were added during 2019 as part of the acquisition of Plymouth Rock Assurance Corporation of New York. Depreciation expenses incurred were $27.9 million and $24.0 million during 2020 and 2019, respectively. As a result of an accounting policy change, any furniture and fixtures placed into service on or after January 1, 2020 will be depreciated over 10 years.

Palisades Reciprocal Group

(dollars in thousands)	Useful Lives	2020	2019
Computers and software development	2-3 years	$ 1,696	$ 1,696
Total cost		1,696	1,696
Less: accumulated depreciation		969	204
Net book value		$ 727	$ 1,492

Fixed assets of $1.7 million were added during 2019 as part of the acquisition of Rider. Depreciation expenses incurred were $765,000 and $204,000 during 2020 and 2019, respectively.

17. Investment Securities and Investment Income

A. Marketable Securities

The Plymouth Rock Company and Subsidiaries

At December 31, 2020 and 2019, amortized cost, unrealized gains and losses before federal income taxes, and market value of marketable fixed income securities classified as available for sale and marketable common stocks were as follows:

At December 31, 2020: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 95,898	$ 799	$ 8	$ 96,689
State and municipal securities	52,803	1,263	6	54,060
Corporate debt securities	308,332	4,699	2	313,029
Asset-backed securities	4,112	155	-0-	4,267
Common stocks	451,283	244,850	3,597	692,536
Total	$912,428	$251,766	$3,613	$1,160,581

At December 31, 2019: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$116,494	$ 817	$ 113	$ 117,198
State and municipal securities	55,769	581	29	56,321
Corporate debt securities	310,328	2,765	15	313,078
Asset-backed securities	36,825	253	10	37,068
Common stocks	298,071	278,085	4,475	571,681
Total	$817,487	$282,501	$4,642	$1,095,346

17. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2020 and 2019, maturities of marketable securities were as follows:

	2020		2019	
(dollars in thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in 90 days or less	$ 62,241	$ 62,294	$ 77,784	$ 77,813
Due after 90 days and in one year or less	92,078	92,727	104,255	104,697
Due after one year and in five years or less	299,586	305,315	291,748	294,934
Due after five years and in ten years or less	3,128	3,442	8,349	8,697
Due after ten years	-0-	-0-	455	456
Asset-backed securities	4,112	4,267	36,825	37,068
Common stocks	451,283	692,536	298,071	571,681
Total	$912,428	$1,160,581	$817,487	$1,095,346

All marketable fixed income securities are classified as available for sale. At December 31, 2020 and 2019, common stocks that had been in an unrealized loss position for longer than twelve months had a total market value of $1.4 million and $1.8 million, respectively. Gross unrealized losses related to these common stocks were $312,000 and $354,000 at December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, other marketable securities were held that had been in an unrealized loss position for longer than twelve months with a total market value of $3,000 and $18.2 million, respectively. Gross unrealized losses related to these other marketable securities were $0 and $41,000 at December 31, 2020 and 2019, respectively. These losses are viewed as resulting from market conditions and are believed to be temporary.

17. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

Palisades Reciprocal Group

At December 31, 2020 and 2019, amortized cost, unrealized gains and losses before federal income taxes, and market value of marketable fixed income securities classified as available for sale and marketable common stocks were as follows:

At December 31, 2020: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 277,728	$ 4,792	$ 23	$ 282,497
State and municipal securities	43,522	182	-0-	43,704
Corporate debt securities	495,635	6,677	1	502,311
Asset-backed securities	32,683	372	1	33,054
Preferred stocks	133	-0-	9	124
Common stocks	391,471	281,447	2,670	670,248
Total	$1,241,172	$293,470	$2,704	$1,531,938

At December 31, 2019: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 211,344	$ 2,104	$ 178	$ 213,270
Foreign government securities	160	-0-	-0-	160
State and municipal securities	37,278	32	25	37,285
Corporate debt securities	437,335	3,917	48	441,204
Asset-backed securities	105,236	270	90	105,416
Preferred stocks	133	-0-	2	131
Common stocks	341,931	347,053	3,722	685,262
Total	$1,133,417	$353,376	$4,065	$1,482,728

17. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2020 and 2019, maturities of marketable securities were as follows:

	2020		2019	
(dollars in thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in 90 days or less	$ 79,238	$ 79,344	$ 78,158	$ 78,181
Due after 90 days and in one year or less	163,289	164,805	150,219	150,782
Due after one year and in five years or less	574,161	584,153	456,989	462,209
Due after five years and in ten years or less	197	210	751	748
Asset-backed securities	32,683	33,054	105,236	105,416
Preferred stocks	133	124	133	131
Common stocks	391,471	670,248	341,931	685,261
Total	$1,241,172	$1,531,938	$1,133,417	$1,482,728

All marketable fixed income securities are classified as available for sale. At December 31, 2020 and 2019, common stocks that had been in an unrealized loss position for longer than twelve months had a total market value of $765,000 and $8.9 million, respectively. Gross unrealized losses related to these common stocks were $138,000 and $1.6 million at December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, other marketable securities classified as available for sale that had been in an unrealized loss position for longer than twelve months had total market values of $11,000 and $69.7 million, respectively. Gross unrealized losses related to these other marketable securities were $1,000 and $149,000 at December 31, 2020 and 2019, respectively. These losses are viewed as resulting from market conditions and are believed to be temporary.

B. Non-Marketable Securities

The Plymouth Rock Company and Subsidiaries have investments in privately held stocks. Such investments were carried at $105,000 at both December 31, 2020 and 2019.

17. Investment Securities and Investment Income, continued

C. Alternative Equity Investments

Investments in marketable alternative equities include positions in entities that focus on a diverse range of investment strategies. 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, 2020 and 2019, The Plymouth Rock Company and Subsidiaries recorded values for these marketable alternative equity investments, which include realized and unrealized gains, of $44.0 million and $54.6 million, respectively. At December 31, 2020 and 2019, the Palisades Reciprocal Group recorded values for these marketable alternative equity investments of $30.1 million and $40.7 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 $30.0 million and $32.3 million at December 31, 2020 and 2019, respectively. The Palisades Reciprocal Group recorded values for non-marketable alternative equity investments of $19.5 million and $18.1 million at December 31, 2020 and 2019, respectively.

As of December 31, 2020, The Plymouth Rock Company and Subsidiaries had commitments outstanding to invest $49.7 million in 14 private equity funds. Three of these funds are Lindsay Goldberg & Bessemer L.P. III (Fund III), Lindsay Goldberg & Bessemer L.P. IV (Fund IV), and Lindsay Goldberg & Bessemer L.P. V (Fund V). The Chairman of The Plymouth Rock Company is a member of the general partner that manages each of these funds. At December 31, 2019, The Plymouth Rock Company and Subsidiaries had commitments outstanding to invest $57.1 million in 15 private equity funds. Four of these funds are Lindsay Goldberg & Bessemer L.P. II (Fund II), Lindsay Goldberg & Bessemer L.P. III (Fund III), Lindsay Goldberg & Bessemer L.P. IV (Fund IV), and Lindsay Goldberg & Bessemer L.P. V (Fund V). The Chairman of The Plymouth Rock Company is a member of the general partner that manages each of these four funds.

As of December 31, 2020, the Palisades Reciprocal Group had commitments outstanding to invest $17.4 million in nine private equity funds.

17. 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 $1,243 million and $1,200 million at December 31, 2020 and 2019, respectively. Assets in this category valued using either the equity method or the cost method totaled $74 million and $87 million, respectively, at December 31, 2020 and 2019. The other assets in this category were reported at fair values totaling $1,169 million and $1,113 million, respectively, at December 31, 2020 and 2019.

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

At December 31, 2020: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 8,649	$ -0-	$-0-	$ 8,649
U.S. government securities	96,673	16	-0-	96,689
State and municipal securities	-0-	54,060	-0-	54,060
Corporate debt securities	-0-	313,029	-0-	313,029
Asset-backed securities	-0-	4,267	-0-	4,267
Marketable common stocks	692,536	-0-	-0-	692,536
Total fair value	$797,858	$371,372	$-0-	$1,169,230
Assets valued using either the equity method or the cost method				74,076
Total value of cash, cash equivalents, and investment securities				$1,243,306

17. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

At December 31, 2019: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 17,172	$ -0-	$-0-	$ 17,172
U.S. government securities	117,180	18	-0-	117,198
State and municipal securities	-0-	56,321	-0-	56,321
Corporate debt securities	-0-	313,078	-0-	313,078
Asset-backed securities	-0-	37,068	-0-	37,068
Marketable common stocks	571,681	-0-	-0-	571,681
Total fair value	$706,033	$406,485	$-0-	$1,112,518
Assets valued using either the equity method or the cost method				86,972
Total value of cash, cash equivalents, and investment securities				$1,199,490

Palisades Reciprocal Group

Cash, cash equivalents, and investment securities totaled $1,583 million and $1,547 million at December 31, 2020 and 2019, respectively. Assets in this category that are valued using either the equity method or the cost method totaled $50 million and $59 million at December 31, 2020 and 2019, respectively. The fair values of the other assets in this category totaled $1,533 million and $1,488 million at December 31, 2020 and 2019, respectively.

17. 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, 2020: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 1,491	$ -0-	$-0-	$ 1,491
U.S. government securities	282,489	8	-0-	282,497
State and municipal securities	-0-	43,704	-0-	43,704
Corporate debt securities	-0-	502,311	-0-	502,311
Asset-backed securities	-0-	33,054	-0-	33,054
Marketable preferred stocks	124	-0-	-0-	124
Marketable common stocks	670,248	-0-	-0-	670,248
Total fair value	$954,352	$579,077	$-0-	$1,533,429
Assets valued using either the equity method or the cost method				49,633
Total value of cash, cash equivalents, and investment securities				$1,583,062

At December 31, 2019: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 4,961	$ -0-	$-0-	$ 4,961
U.S. government securities	213,260	10	-0-	213,270
Foreign government securities	160	-0-	-0-	160
State and municipal securities	-0-	37,285	-0-	37,285
Corporate debt securities	-0-	441,204	-0-	441,204
Asset-backed securities	-0-	105,416	-0-	105,416
Marketable preferred stocks	131	-0-	-0-	131
Marketable common stocks	685,262	-0-	-0-	685,262
Total fair value	$903,774	$583,915	$-0-	$1,487,689
Assets valued using either the equity method or the cost method				58,788
Total value of cash, cash equivalents, and investment securities				$1,546,477

17. 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 2020 and 2019 were as follows:

(dollars in thousands)	2020	2019
Interest income and dividends from securities	$ 24,239	$ 26,491
Earnings from non-marketable securities and alternative equity investments	4,366	(529)
Rental income	7,001	6,734
Finance charges on premiums receivable	8,888	8,637
Gross investment income	44,494	41,333
Rental expenses	(4,885)	(7,170)
Investment expenses	(3,331)	(2,733)
Investment income	36,278	31,430
Net realized capital gains (losses)	30,347	41,904
Investment income and capital gains before unrealized gains on equity securities	66,625	73,334
Change in unrealized gains on equity securities	(34,587)	115,949
Investment income and capital gains	$ 32,038	$189,283

17. Investment Securities and Investment Income, continued

E. Analysis of Investment Income and Capital Gains, continued

Palisades Reciprocal Group

The components of investment income and capital gains before federal income taxes during 2020 and 2019 were as follows:

(dollars in thousands)	2020	2019
Interest income and dividends from securities	$ 34,254	$ 36,929
Earnings from non-marketable securities and alternative equity investments	3,539	3,245
Finance charges on premiums receivable	-0-	85
Gross investment income	37,793	40,259
Investment expenses	(9,993)	(9,406)
Investment income	27,800	30,853
Net realized capital gains (losses)	48,352	3,268
Investment income and capital gains before unrealized gains on equity securities	76,152	34,121
Change in unrealized gains on equity securities	(57,588)	140,721
Investment income and capital gains	$ 18,564	$174,842

17. Investment Securities and Investment Income, continued

F. Investment Activity

The Plymouth Rock Company and Subsidiaries

Activity in investment securities during 2020 and 2019 was as follows:

(dollars in thousands)	2020	2019
Balance at beginning of year	$1,182,318	$ 841,840
Change in marketable securities:		
Proceeds from maturities	(303,077)	(257,331)
Proceeds from sales	(500,748)	(348,726)
Purchases, including acquired in acquisition	898,752	818,574
Net change in marketable securities	94,927	212,517
Net change in alternative equity investments	(12,896)	385
Net investment activity	82,031	212,902
Net change in sales and purchases in process	14	2,224
Net change in unrealized gain/(loss) on marketable and non-marketable securities	(29,706)	125,352
Balance at end of year	$1,234,657	$1,182,318

Palisades Reciprocal Group

Activity in investment securities during 2020 and 2019 was as follows:

(dollars in thousands)	2020	2019
Balance at beginning of year	$1,541,516	$1,368,652
Change in marketable securities:		
Proceeds from maturities	(301,967)	(215,201)
Proceeds from sales	(495,399)	(313,359)
Purchases, including acquired in acquisition	904,389	551,812
Net change in marketable securities	107,023	23,252
Net change in alternative equity investments	(9,159)	(9,996)
Net investment activity	97,864	13,256
Net change in sales and purchases in process	736	859
Net change in unrealized gain/(loss) on marketable and non-marketable securities	(58,545)	158,749
Balance at end of year	$1,581,571	$1,541,516

18. Real Estate

At December 31, 2018, The Plymouth Rock Company and Subsidiaries owned properties located at 695 Atlantic Avenue and 99 Bedford Street in Boston. In 2019, the Company sold the property at 99 Bedford Street and acquired a property at 711 Atlantic Avenue in Boston as part of a reverse like-kind exchange under Section 1031 of the Internal Revenue Code. The property at 99 Bedford Street was sold for a price of $50.3 million, which resulted in a pre-tax gain of $41.0 million and a gain net of deferred taxes of $29.8 million.

On December 3, 2020, The Plymouth Rock Company and Subsidiaries purchased a property located at 581 Main Street in Woodbridge, New Jersey.

The purchase of the property at 581 Main Street added $11.9 million in land and $50.1 million in building assets during 2020. The purchase of the property at 711 Atlantic Avenue added $20.8 million in land and $48.7 million building assets during 2019. In addition to these purchase and sale activities, building improvement costs of $18.3 million and $2.9 million were incurred on properties in 2020 and 2019, respectively. The table below summarizes the real estate costs and carrying values at December 31, 2020 and 2019:

(dollars in thousands)	2020	2019
Land	$ 38,634	$ 26,741
Buildings, improvements, and other	156,920	88,554
Total cost	195,554	115,295
Less: accumulated depreciation	22,545	18,729
Net book value	$173,009	$ 96,566

Rental income from lessees other than The Plymouth Rock Company and Subsidiaries totaled $7.0 million and $6.7 million in 2020 and 2019, respectively. For each of the years 2021 through 2025, minimum annual rent receivable by The Plymouth Rock Company and Subsidiaries is $4.4 million. Total obligations to The Plymouth Rock Company and Subsidiaries from non-affiliated lessees through 2025 are $30.5 million. Buildings and improvements are depreciated over their useful lives, which range from three to 39 years.

18. Real Estate, continued

The properties at 695 Atlantic Avenue and 711 Atlantic Avenue were appraised at $109.5 million and $73.0 million, respectively, as of December 1, 2019. The property at 695 Atlantic Avenue was appraised at $96.5 million as of October 1, 2020 in conjunction with a re-financing plan. While the property at 695 Atlantic Avenue is not at risk of impairment given its carrying value of $34.6 million as of December 31, 2020, we considered the decline in its value to be a triggering event that required an evaluation of potential impairment of the property at 711 Atlantic Avenue. After evaluating expected future cash flows of the property at 711 Atlantic Avenue, it was determined that no adjustment to its carrying value of $76.5 million as of December 31, 2020 was necessary. Because of changing market conditions and uncertainties inherent in the appraisal process, especially during the current pandemic, the amounts that could be realized if the properties were actually offered for sale may differ from their appraised values.

19. Stockholders' Equity

A. Common Stock

Common stock of The Plymouth Rock Company at December 31, 2020 and 2019 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 64,226 were issued and outstanding at both December 31, 2020 and 2019.

There are 90,000 Class B common shares authorized, of which 59,783 were issued and outstanding at both December 31, 2020 and 2019. 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.

19. Stockholders' Equity, continued

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 $540.1 million and $463.6 million at December 31, 2020 and 2019, respectively. The combined net income of these subsidiaries on a statutory accounting basis was $76.9 million and $25.5 million in 2020 and 2019, respectively.

Capital and surplus of the insurance companies in the Palisades Reciprocal Group totaled $661.2 million and $641.6 million at December 31, 2020 and 2019, respectively. The combined net income on a statutory accounting basis for these insurance companies in 2020 was $68.3 million. The combined net loss on a statutory accounting basis for these insurance companies in 2019 was $9.6 million.

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.

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

Directors and Officers of the Principal Plymouth Rock Companies

Non-Management Directors

Donald I. Bryan
Kerry A. Emanuel
John C. Hill
Neil N. Jasey
Michael J. Johnston
Wilmot H. Kidd, III
Julie A. Rochman
Norman L. Rosenthal
Sandra A. Urie
Sir Peter J. Wood

Management Directors and Corporate Officers

Richard F. Adam
James N. Bailey
Daniel C. Barrett
Harry M. Baumgartner
Hal Belodoff
Mary J. Boyd
Jeffrey E. Briglia
Frederick C. Childs
Kristin V. Collins
Sarah J. Cook
David A. Eastes
Edward J. Fernandez
Howard R. Goldberg
Colleen M. Granahan
William D. Hartranft
Brendan M. Kirby
Charles A. Kordes
Scott N. Kwiker
Andrew J. Leeds
Paul D. Luongo
Thomas J. Lyons
Richard J. Mariani
Wilbur L. Martin IV
Louis C. Palomeque
David L. Pearlmutter
Anne M. Petruff
Mary A. Sprong
Douglas F. Sprous
Karen L. Stickel
Stephen D. Stojanovich
James M. Stone
Barry O. Tagen
Aaron M. Wheaton

Counsel:
Ropes & Gray LLP

Independent Auditor:
PricewaterhouseCoopers LLP