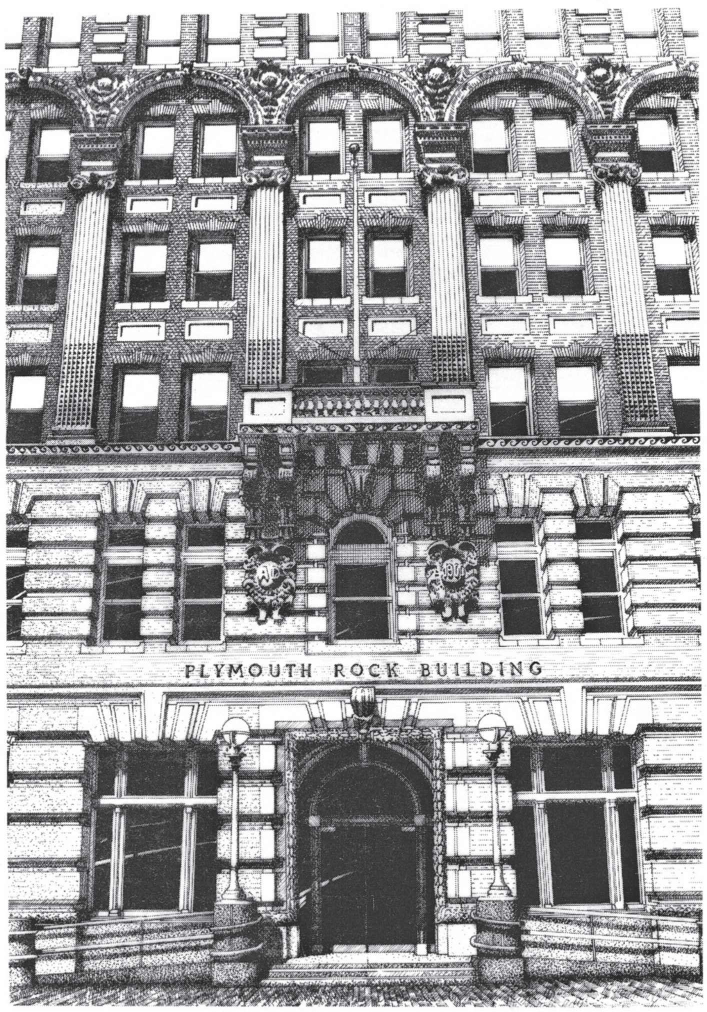
The Plymouth Rock Company



2018 Annual Report

The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 8, 2019

To Our Shareholders:

There is nothing like a storm to wipe the smile from an insurer's face. This past year, 2018, visited mercifully little storm activity on Plymouth Rock's neighborhoods - until the end of December. And the storm that caused us concern at the year's close was not of Mother Nature's making. It was a sudden stock market dip. We have always been clear that profits in 2018 would not match 2017 because the earlier year had profited from a tax cut that boosted the after-tax value of accumulated capital gains. Hal and I had hoped, though, that -- taxes aside -- the past year's performance would rival that of 2017, and we were optimistic until late autumn that the results could approach that mark. The market's year-end decline deflated those aspirations. Nonetheless, let me offer you some comfort by noting that our enterprise-wide insurance underwriting results in 2018 -- more fundamental to us than any single year's investment gains or taxes -- were very similar to those of the prior year.

That the operating results were robust in this period is especially reassuring since, as you well know, we took on a lot of new challenges recently, and new efforts of that magnitude always risk overreach. Yes, we committed to four simultaneous growth goals: supercharging our once-passive homeowners business, building an Internet-driven direct response book, adding two states to our geographical footprint, and creating a state-of-the-art national insurance agency. Yes, we began moving most of our New Jersey staff from their familiar offices to a new unified headquarters. And, yes, we reshaped our entire enterprise reporting structure around product and channel lines rather than jurisdictional lines. But, no, (with vigilance still heightened and Hal skillfully juggling all the pieces into place) we don't appear to have sacrificed performance and regular order by doing all of this.

It is difficult to point to any single set of numbers on our financial statements as a definitive summary of the year's progress. From habit, you may look first at the net income of your stockholder-owned entity, The Plymouth Rock Company, Inc. But this year straightforward comparability is problematic, not just due to the one-time effects of the 2017 tax reduction but also owing to a newly mandated accounting change. Whereas in the past only dividends and *realized* gains from common stock holdings were reflected in net income, beginning in 2018 the net income definition encompasses unrealized capital gains on equities as well. The income statement presented for 2018 shows both treatments. Net income before unrealized securities gains (last year's treatment) was $63.6 million, versus $80.0 in the prior year. This year's accounting treatment brings net income in our situation close to what is called "comprehensive income" and defined to include all equity gains. Comprehensive income was $71.4 million for 2018 as compared with $95.9 million in 2017. To get closer to an apples-to-apples exercise, one can subtract out the tax bonanza from the 2017 number. The comprehensive income numbers for 2017 less the one-time tax relief would have been $78 million, much closer to 2018 comprehensive income. The 2018 results, of course, would have looked more impressive had the stock market behaved similarly in the two years.

When I look at our numbers, I pay at least equal attention to the financial results for the entire Plymouth Rock enterprise as to those in the stockholder-owned segment. After all, we manage through a New Jersey based reciprocal more premium than we underwrite with our own capital. The comprehensive income of the whole enterprise is reported as $125 million in 2018, as compared with $172 million in 2017. These figures are unadjusted for the non-repeating tax benefit that elevated 2017 profits and the 2018 market perturbation.

Shareholders' equity rose during 2018 by $29.0 million or 5.6%, and, like our net income, it would have risen a good deal more had there been no year-end market dip. A more revealing number than the recorded book value is the true economic gain in shareholders' equity, which supplements the change in equity by the dividends that were paid to you from that account in cash and by real estate gains not reflected in book value under generally accepted accounting principles. Unusually large 2018 dividends and after-tax real estate gains, the latter according to independent appraisals, totaled $52.0 million. The addition of this sum to the actual shareholders' equity would have multiplied by 2.8 the year's increase in per-share book value. Taking true economic gain as a percentage of starting equity for the shareholders, the 2018 advance represents a 15.7% return. Since I view Plymouth Rock's return corridor as bounded on the weak side by 10% and on the strong side by 20%, this was all-in-all a quite satisfactory year and would have been superlative had our stock market returns as of September survived the last quarter. The thirty-four year compounded internal rate of return on book value for your Company's owners, including dividends but excluding real estate gains, now stands at 18.0%. The scale of the Plymouth Rock Group, as measured by direct underwritten and managed premium in force, is close to $1.4 billion. Despite our being only a regional carrier, a respected trade publication in our industry has listed us as the 28th largest personal lines insurer in the nation; and the Boston Business Journal shows us as the 14th largest privately owned company in Massachusetts of any stripe. With an ambitious agenda of expansion projects under way, I aim to see us climb on both lists.

Our financial statements are organized according to legal entities, but that is no longer the way Hal and I talk about our business or the way its internal reporting structures work. So I will present my detailed commentary on the year gone by in our preferred format, by line and channel. A good starting point is the Independent Agency Group, our largest operating profit center. Chris Olie, who captained a good portion of that automobile insurance business for nine years, has now entered semi-retirement, and he has been replaced by Mary Boyd. I'd be less than candid if I denied having worried about finding a suitable new chief for our cornerstone business, but the search ended beautifully. Mary has the business judgment, the ambition, and the brainpower to meet all the hopes with which we went into recruitment mode. She comes to us with an unusually strong background in both claims and product management. While she might face some pretty powerful headwinds in her new role, she will, at the same time, enjoy a few tailwinds.

Growth will be the hardest challenge for the Independent Agency Group. As in years past, Plymouth Rock's agency business could not keep pace in 2018 with the expansion of the national direct response companies in the Northeast. The ever-looming fear is that if Massachusetts, still the rare state where auto insurance writings are predominantly controlled by independent agents, continues to evolve toward a more typical channel mix, the independent agency writers may all lose significant market share to the direct response giants. That's the strongest of the potential headwinds on the nearby route forward. That said, our company's independent agency business experienced premium growth of 5%, once again outrunning most of the independent agency companies we consider our rivals in that channel. Beyond the immediate horizon, of course, looms the emergence of autonomous cars and super-safe vehicles, which will someday cut premiums for direct and agency writers alike. As a vector in the opposite direction, Mary will be aided by our expansions into New York and Pennsylvania, and the acquisition of a seasoned book and agency force in New York and beyond. Meanwhile, our existing sports team affiliations and advanced agency partnering capabilities continue to be winners on the marketing side. Mary has the chance to turn a three-quarter of a billion dollar business into a billion dollar business in relatively short order -- and she and I both suspect the dangers may be farther removed in time than many industry commentators seem to recognize.

The fully consolidated net income for the Independent Agency Group represented, before unrealized investment gains, over 40% of the total for the enterprise as a whole. In Massachusetts and New Jersey, independent agency auto insurance produced a combined ratio of just over 96%, which is better than we had expected and superior to results in any recent year. The outcome was greatly helped by favorable development of reserves for prior years. It is my profound wish that our reserving will prove as sensibly conservative as this every year. The combined ratio for our small but relatively stable book of automobile insurance policies in New Hampshire was no better than break-even. Connecticut continues to be more problematic, with an automobile combined ratio close to 107%. The losses, however, are less than last year's, and our Nutmeg State wizards remain confident that they can keep us on their predicted glide path to all-lines black ink on the bottom line in 2019. Volume in Connecticut declined slightly to just over $34 million as a result of curative rate increases. Pilgrim Insurance Company, a third-party service provider to the industry, is a part of the Independent Agency Group as well. Pilgrim makes its money through highly specialized hard work rather than by taking underwriting risk. This past year's hard work helped Pilgrim contribute solidly to enterprise profits.

Our Direct Group, under Gerry Wilson, is comprised of policies we write through a contract with the financial giant Prudential and a direct response book of business, the latter sold over the Internet and telephone by members of Gerry's staff and through various strategic partnerships. The volume from these two sources is now approaching $500 million. While time has eroded more than half the count of our Prudential policies over the fourteen years since that relationship began, the book is still nearly two-thirds its original scale in dollar terms. This balancing of vectors cannot hold forever, as any decent mathematician can tell you, so Ed Fernandez and his team have worked hard with Prudential to expand our New Jersey relationship into Pennsylvania, New York, and Connecticut, and to aim for growth in customer count and written exposures as well as dollars. The growth in Gerry's domain has come from the direct-to-the-consumer business. This segment grew to over $140 million in premiums during 2018, which is 16% more than in the prior year. Tom Lyons, who runs that business unit, predicts he can raise the volume by just short of 20% in 2019. He has as available tools a population footprint quadrupled by the addition of New York and Pennsylvania licenses, increased access to Connecticut and New Hampshire opportunities, and an enhanced ability to link an attractive homeowners offering to auto insurance sales.

The 2018 profit performance story for the Direct Group was solid this past year. Aided, as were the Independent Agency results, by prior-year development in the right direction, the all-lines combined ratio was 92.5%. Gerry's business experienced a small bump in its expense ratio but this is hardly surprising given the costs of direct response acquisition and of moving so many people to a home office that was stripped to the shell at the start of the year. The new space, by the way, is great – light, orderly, and airy with modern styles, ergonomics, and amenities. People seem to love it, and all those who helped make it happen deserve a round of applause. As you are aware, the seasoned Prudential business continues to subsidize the rapidly growing direct response book, at least on a current-year basis. Eventually, the direct response business will have to pay for itself every year. This can occur only with continued improvement in acquisition efficiency and the analytical segmentation that underlies smart pricing. All of us believe that expanded use of telematics with respect to driving quality can help us considerably in both areas. There is no limit to the improvement potential in either acquisition or segmentation. No matter how good a company is at these skills, the treadmill is moving and those who rest will fall off the back.

Our Home Insurance Group had a gangbuster year. Bill Martin has now successfully presided over the transformation of a business we had purposely kept small to its current state of dynamic expansion. Written business was up by about 23% over the prior year, with an even more ambitious growth projection for this year. Some of the progress is already baked-in due to acquisitions of business from Farmers Insurance Group and MAPFRE that are producing a sustained flow as policies reach their renewal dates. Home insurance premium in force at year-end was $112 million. Organic growth should be helped by the upgrade that our whole enterprise received from A.M. Best, our principal rating agency. All of our companies are now rated A-. If that's the good news, the better news is this: despite the costs and risks of rapid growth, the homeowners business has so far remained profitable. The combined ratio for Bill's group in 2018 was under 95%. This past year was relatively gentle with respect to catastrophes, but we feel better protected than ever before if the coming year is rougher. Our homeowners catastrophe protection stretches to higher limits than it used to; the risks are more systematically spread throughout our enterprise; and our treaties run longer than in the past.

All eyes are now on the bold experiment this group is undertaking, with on-line binding of coverage based on pre-fills of data for virtually every home in Pennsylvania. This easy-to-use product has already become one of the most popular offerings Plymouth Rock makes. Most customers can put in nothing but name and address and up will come a bindable quote. We will be thrilled if this past year's profit level can be maintained as more of the incoming business arises from pre-fill. While we will always have to worry about catastrophe risk, perhaps now compounded by climate change, our reinsurance program has been strengthened in every recent year and our underwriting has simultaneously grown stronger. Environmental risks cannot be erased entirely, but we are convinced they are worth accepting for the rewards that a large homeowners business will bring. We will be especially happy if the customers that populate this growing business also buy their auto insurance from us.

Marc Buro is the leader of our effort to build a significant national broker. InsuraMatch has shown impressive growth, from less than $35 million in volume placed to over $75 million in just a few years. Its operating losses, though, exceeded their agreed allowance this past year. The costs were small enough in dollar terms to have had minimal impact on our family of companies as whole, but we don't want them to keep expanding without the disciplines that successful entrepreneurship tend to benefit from. Because the operating losses have arisen largely from imperfections in the sales and service approach that InsuraMatch's economics forced it to employ in its infancy, as well as a few disappointing experiments with outside business originators, Marc and his team have proposed that the year just starting will be a time of fewer irons in the fire and a heavier concentration on building the efficient infrastructure required for rapid growth. Hal and I are not discouraged by InsuraMatch's growing pains. We had no illusions that this would be an easy business to build, and we continue to believe that InsuraMatch's longer-term prospects for economic contribution, coupled with the learning required to make this venture a winner, will strengthen our whole enterprise.

As always, our enterprise's investment portfolio is divided in roughly equal parts between fixed income and equity instruments. Both halves are over a billion dollars in scale now. There is little to report on the bond holdings. We keep such a large portfolio of bonds because we feel effectively required to do so, and we operate it through a professional manager with instructions to take little credit risk and even less duration risk. The obvious consequence is that our bonds return reliably little, and especially little in years when interest rates rise. The tax-adjusted 2018 return on the fixed income portion of our investment portfolio was only 2.2%. We have little or no confidence that we can predict future interest rate changes or credit spreads better than the market, so we have no inclination to stretch credit risk or duration risk to boost yield an inch or two. Jim Bailey, Rick Childs, and I spend most of our time on the equity half of the portfolio.

It's no secret to you that 2018 was the worst year for common stocks since the financial crisis a decade ago. The Standard & Poor's 500 Index, dividends reinvested, fell by 4.4% during the year. Plymouth Rock's marketable equity portfolio did considerably better than the index, with a full-year gain of nearly 9.4%. Our long-term investment record remains a source of satisfaction. Common stock investments have returned in annual capital gains and dividends about 14.7% since we started investing in stocks during the 1990's -- which compares with an 11.1% per annum return for an S&P Index investment. And the Plymouth Rock portfolio has beaten the S&P in four out of the last five years of index decline, having just tied it in the other one. While our investment calls have given us little cause for regret, Jim and I are certainly not exempt from the occasional misstep. Retreating oil prices kept us in the red on the one Master Limited Partnership we still hold, after exiting our positions in three others at a modest profit. We lost a little money in Tapestry, having expected that retailer (previously Coach) to transition to Internet sales more effectively than it has. And our newest position, in India's dominant reinsurance company, is selling below our buy price. That investment is just beginning the long march we found to have attractive potential, so it is not yet costing us sleep. Real estate values in Boston enjoyed a bounce once again. The combination of operating income and appraisal increases on our office buildings in Boston produced a return of 14.6% in 2018. The two office buildings we own, bought for a total of $23 million, are now worth over $131 million. We have been reducing our various hedge fund positions for a while, so their performance year had only a modest impact on overall equity performance. Our private equity investment in Lindsay Goldberg had quite a good year, returning more than 45% on the amount of our capital still actively at work.

A word on the December stock market storm is in order here. A first observation is that the turbulence looks less ominous viewed today than it appeared on Christmas Eve, when the decline in the S&P 500 from its September high hit 20%. As of early February this year, about two-thirds of the surrendered territory had been recaptured. Equally important, while December trashed the calendar year's performance, even at its most painful the dip represented only a fractional retreat from the stock market's rise from its 2016 trough of 60%. For our own enterprise, the pre-tax cost of the final quarter's bear market was over $80 million, no small potatoes, but our 2018 gains to date through September had been over $120 million, so we are hardly a suitable case for tears. As to the causes of the tempest, neither I nor anyone else can offer an explanation with authority, since it is rare that a single dominant cause underlies sudden stock market jolts. The forces that influence the market's balancing point at any moment are many, and they interact in a complex manner. In today's environment, rising interest rates (more feared than experienced) and the irresponsibly expanding deficit brought on by the 2017 tax cut would likely have played some part in destabilizing prices. It is hard to think that the trade conflicts with China, which rationality suggests could have ended by now, can offer other than a downward push. Widespread concern over incivility and worsening paralysis in the nation's capital is now accompanied by fears among laissez-faire aficionados that the open season on all forms of regulation and taxation is over. It cannot help market confidence that so many senior jobs in the current Administration are empty or occupied by what businesses would call "temps". Predictability is the preferred diet of bulls; only bears feed on chaos. International affairs are looking uncomfortably dicey as well. Investors have surely noticed the rise of bullying personalities to positions of power around the globe. If taken much further, this trend could begin to recall the 1930's, which played out in a horrific manner both for humanity as a whole and for those nations that had anointed the bullies of that era. We should all pray that nothing even vaguely paralleling that nightmarish period develops now.

A less catchy, but equally important, source of the December retreat was simply that the market had been running hot. Unbuttressed heights make markets especially susceptible to the effects of negative signals. Markets, like our own bodies, suffer most when intrinsic weaknesses and exogenous threats coincide. With an average common stock holding period of close to a decade, Jim Bailey and I are anything but market timers. I do, however, try to keep an eye on some basic ratios to maintain a view of the market's cyclical rationality. For some time, the relationship between the S&P earnings yield and the yield on long-term Treasuries has made the market look historically rich. The ratio of stock market capitalization to gross domestic product has conveyed a similar case for caution. This vulnerability, when joined by political uncertainties, would be sufficient to explain what happened. While Jim and I might slow down a bit on buying when the market is exuberant and speed up when it is glum, I should emphasize that even this degree of market timing influences our actions only at the margin. Far and away the most important number to us is the long-term return on common stocks. The total return for the S&P 500 Index over the 100-year period ending in 2018 has been 10.1%. It was 11.1% over the last 75 years; 9.8% for the last 50 years; 9.1% over the last 25 years; and 13.1% for the last 10 years. Hold long enough and common stocks will always beat bonds, bank accounts, and most everything else you might store your assets in. A growing private company with no need to spend down capital is in an enviable situation where it is better off being paid for volatility than giving up return to avoid it. That's why our interest in market timing or asset class diversification is so marginal. Our investment core will always be an undiversified portfolio of methodically chosen common stocks, bought with sights only on maximization of total return over the long horizon. Another way to describe this philosophy might be that we purchase "a careful selection of a few investments...having regard to their cheapness in relation to their...intrinsic value over a period of years ahead..." [and we maintain] "a steadfast holding of these in fairly large units through thick and thin." But I can claim no authorship of this cogent phrasing. The words belong to John Maynard Keynes, who hit the nail on the head 80 years ago.

From an underwriting perspective, the year just gone by was a lucky one for an insurer of automobiles and homes in the Northeast. There was no unexpected surge in underlying claims costs or exposure to anything like the awful fires that devastated parts of California, and no hurricanes reached the North Atlantic shores. The challenges and tensions came from our own decision to ratchet up growth. My (less-than-impartial) observation is that, despite the incremental workload, most of our staff relishes the exhilaration that comes from a more ambitious agenda and new experiences. I can say for sure that the top leadership team is taking pleasure from the challenges. It is also clear that, with no small help from Human Resources chief Mary Sprong, Plymouth Rock has today the strongest officer team it has ever had – and by an impressive margin. That bodes well for the future whatever the natural and metaphorical weather patterns may hold in store.

James M. Stone

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017
(dollars in thousands)

Assets	2018	2017
The Plymouth Rock Company and Subsidiaries		
Cash and cash equivalents	$ 80,979	$ 52,788
Investment securities	841,840	792,121
Accrued investment income	3,369	4,335
Premiums receivable	155,713	155,292
Ceded unearned premium reserves	34,686	49,660
Deferred acquisition costs	38,898	33,733
Amounts receivable from reinsurers and pools	74,527	44,126
Amounts due from service clients	569	945
Prepaid expenses, agent loans, and deposits	10,073	9,768
Real estate	33,950	33,834
Fixed assets	44,722	36,759
Goodwill and intangible assets	5,770	6,333
Deferred rental revenue	1,101	925
Other assets	3,896	306
Subtotal	1,330,093	1,220,925
Palisades Reciprocal Group		
Cash and cash equivalents	13,592	34,877
Investment securities	1,368,652	1,282,782
Accrued investment income	6,196	6,985
Premiums receivable	145,666	137,644
Ceded unearned premium reserves	4,072	4,070
Deferred acquisition costs	28,589	26,911
Amounts receivable from reinsurers and pools	31,742	23,287
Goodwill and intangible assets	12,854	10,765
Income tax recoverable	-0-	1,725
Other assets	2,979	1,888
Subtotal	1,614,342	1,530,934
Total assets	$2,944,435	$2,751,859

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017
(dollars in thousands)

Liabilities	2018	2017
The Plymouth Rock Company and Subsidiaries		
Claim and claim adjustment expense reserves	$ 309,147	$ 265,404
Unearned premium reserves	282,886	271,134
Advance premiums	8,255	6,470
Commissions payable and accrued liabilities	88,929	72,342
Amounts payable to reinsurers	21,680	23,231
Deferred revenue	179	4,154
Unearned service fees	4,328	5,056
Secured loan	5,000	5,000
Income tax payable	9,104	3,178
Deferred income taxes	30,905	29,161
Other liabilities	3,047	2,825
Subtotal	763,460	687,955
Palisades Reciprocal Group		
Claim and claim adjustment expense reserves	647,665	641,444
Unearned premium reserves	313,964	297,932
Advance premiums	9,077	7,198
Commissions payable and accrued liabilities	42,877	38,823
Amounts payable to reinsurers	758	619
Deferred revenue	821	919
Income tax payable	2,195	-0-
Deferred income taxes	34,370	30,133
Other liabilities	1,217	1,116
Subtotal	1,052,944	1,018,184
Total liabilities	1,816,404	1,706,139
Equity		
The Plymouth Rock Company and Subsidiaries		
Common stock and paid-in capital	3,112	3,556
Retained earnings	544,994	426,338
Net unrealized gain/(loss) on investments	(1,931)	87,259
The Plymouth Rock Company stockholders' equity	546,175	517,153
Palisades Reciprocal Group	581,856	528,567
Total liabilities and equity	$2,944,435	$2,751,859

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, 2018 and 2017
(dollars in thousands)

	2018		
Revenues	PRC and Subsidiaries	Palisades Reciprocal Group	Fully Consolidated
Premiums earned in underwriting activities	$463,222	$752,638	$1,215,860
Fees earned from service activities	203,075	1,352	204,427
Investment income and capital gains	42,496	28,054	70,550
Subtotal	708,793	782,044	1,490,837
Less: Intra-group transactions			190,087
Total revenues before unrealized gains on equity securities			1,300,750
Expenses			
Claims and claim adjustment expenses	328,957	509,182	838,139
Policy acquisition, underwriting, and general expenses	125,638	232,914	358,552
Service activity expenses	169,893	1,442	171,335
Subtotal	624,488	743,538	1,368,026
Less: Intra-group transactions			190,087
Total expenses			1,177,939
Income before taxes and unrealized gains on equity securities	84,305	38,506	122,811
Income taxes	20,671	5,470	26,141
Net income before unrealized gains on equity securities	63,634	33,036	96,670
Change in unrealized gains on equity securities, net of tax	8,478	20,413	28,891
Net income	72,112	53,449	125,561
Other comprehensive income, net of tax:			
Unrealized gain/(loss) on fixed income securities during year	(668)	(160)	(828)
Comprehensive income	$ 71,444	$ 53,289	$ 124,733

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, 2018 and 2017
(dollars in thousands, except per share data)

	2017		
Revenues	PRC and Subsidiaries	Palisades Reciprocal Group	Fully Consolidated
Premiums earned in underwriting activities	$424,198	$718,394	$1,142,592
Fees earned from service activities	193,290	1,196	194,486
Investment income and capital gains	49,461	38,100	87,561
Subtotal	666,949	757,690	1,424,639
Less: Intra-group transactions			181,458
Total revenues before unrealized gains on equity securities			1,243,181
Expenses			
Claims and claim adjustment expenses	305,595	494,433	800,028
Policy acquisition, underwriting, and general expenses	106,605	215,719	322,324
Service activity expenses	158,914	1,429	160,343
Subtotal	571,114	711,581	1,282,695
Less: Intra-group transactions			181,458
Total expenses			1,101,237
Income before taxes and unrealized gains on equity securities	95,835	46,109	141,944
Income taxes	15,870	(6,827)	9,043
Net income before unrealized gains on equity securities	79,965	52,936	132,901
Change in unrealized gains on equity securities, net of tax	[redacted]		
Net income	79,965	52,936	132,901
Other comprehensive income, net of tax:			
Unrealized gain/(loss) on securities during year	15,923	23,409	39,332
Comprehensive income	$ 95,888	$ 76,345	$ 172,233

The Plymouth Rock Company and Subsidiaries - Per share data

	2018	2017
Weighted average common shares outstanding	122,823	122,823
Net income before unrealized gains on equity securities per share	$ 518.09	$ 651.05
Net income per share	$ 587.12	$ 651.05
Common shares outstanding at end of year	122,823	122,823
Common stockholders' equity per share	$4,446.83	$4,210.54

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, 2018 and 2017
(dollars in thousands)

Cash flows from operating activities	2018	2017
The Plymouth Rock Company and Subsidiaries		
Gross premiums collected	$ 564,049	$ 517,711
Reinsurance premiums paid	(74,464)	(84,715)
Finance charges collected	8,709	8,506
Fees and commissions collected	205,611	192,867
Investment income and capital gains received	31,444	42,355
Gross claims and claim expenses paid	(363,454)	(315,827)
Reinsured claims and claim expenses collected	47,141	26,490
Policy acquisition, underwriting, and general expenses paid	(126,670)	(105,927)
Income taxes paid	(15,238)	(19,062)
Service activity expenses paid	(139,858)	(130,868)
Net cash provided by operating activities	137,270	131,530
Palisades Reciprocal Group		
Gross premiums collected	787,275	736,357
Reinsurance premiums paid	(24,765)	(22,844)
Fees and commissions collected	1,347	1,200
Investment income and capital gains received	37,922	45,677
Gross claims and claim expenses paid	(517,390)	(491,986)
Reinsured claims and claim expenses collected	5,821	8,098
Policy acquisition, underwriting, and general expenses paid	(242,505)	(215,481)
Income taxes paid and recovered	(2,697)	(5,146)
Service activity expenses paid	(1,442)	(1,429)
Net cash provided by operating activities	43,566	54,446
Total net cash provided by operating activities	$ 180,836	$ 185,976

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, 2018 and 2017
(dollars in thousands)

Cash flows from financing activities	2018	2017
The Plymouth Rock Company and Subsidiaries		
Repayment or proceeds of or from secured loan	$ -0-	$ (10,000)
Dividends to stockholders	(41,978)	(19,237)
Net cash used in financing activities	(41,978)	(29,237)
Palisades Reciprocal Group		
Contingent payments for acquisitions	(1,500)	-0-
Net cash used in financing activities	(1,500)	-0-
Net cash provided by		
The Plymouth Rock Company and Subsidiaries	$ 95,292	$ 102,293
Palisades Reciprocal Group	$ 42,066	$ 54,446
Total	$ 137,358	$ 156,739
Investment of net cash provided		
The Plymouth Rock Company and Subsidiaries		
Change in cash and cash equivalents	$ 28,191	$ 15,857
Net investment activity	34,243	59,539
Purchase of intangible assets	636	2,152
Investment in acquisitions	1,415	-0-
Net real estate activity	2,127	1,553
Purchases of fixed assets	28,680	23,192
Net cash provided by investing activities	$ 95,292	$ 102,293
Palisades Reciprocal Group		
Change in cash and cash equivalents	$ (21,285)	$ 29,888
Net investment activity	56,301	24,558
Purchase of intangible assets	2,865	-0-
Investment in acquisitions	4,185	-0-
Net cash provided by investing activities	$ 42,066	$ 54,446
Total net cash invested	$ 137,358	$ 156,739

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, 2018 and 2017
(dollars in thousands)

	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain on Investments	Total Stockholders' Equity	Palisades Reciprocal Group	Total Equity
December 31, 2016	$ 12	$365,610	$71,336	$436,958	$452,222	$ 889,180
Comprehensive income	-0-	79,965	15,923	95,888	76,345	172,233
Stock-based compensation	3,544	-0-	-0-	3,544	-0-	3,544
Dividends to stockholders	-0-	(19,237)	-0-	(19,237)	-0-	(19,237)
December 31, 2017	$ 3,556	$426,338	$87,259	$517,153	$528,567	$1,045,720
New accounting standards	-0-	88,522	(88,522)	-0-	-0-	-0-
Comprehensive income	-0-	72,112	(668)	71,444	53,289	124,733
Stock-based compensation	(444)	-0-	-0-	(444)	-0-	(444)
Dividends to stockholders	-0-	(41,978)	-0-	(41,978)	-0-	(41,978)
December 31, 2018	$ 3,112	$544,994	$ (1,931)	$546,175	$581,856	$1,128,031

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

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

The Plymouth Rock Company is a privately held company which was founded in 1982 and has been headquartered in Boston, Massachusetts since its inception. Its primary business is the ownership and management of property and casualty insurance companies, specializing in coverage for personal automobiles and homes. The Plymouth Rock Company, through a number of operating subsidiaries, insures automobiles and homes in Massachusetts, New 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 that state and Pennsylvania. A management company, which is included in The Plymouth Rock Company and Subsidiaries in these financial statements, provides executive management, accounting, marketing, underwriting, and claim adjustment services in exchange for management fees to nine insurers listed below and to two smaller subsidiaries, all of which are included in the Palisades Reciprocal Group. This subsidiary of The Plymouth Rock Company, Plymouth Rock Management Company of New Jersey, provides services to Palisades Safety and Insurance Association, Palisades Insurance Company, Palisades Property and Casualty Insurance Company, High Point Preferred Insurance Company, High Point Safety and Insurance Company, High Point Property and Casualty Insurance Company, Twin Lights Insurance Company, Teachers Auto Insurance Company of New Jersey and @Home Insurance Company. The Plymouth Rock Company also has subsidiaries that provide various insurance and investment management services to both the Palisades Reciprocal Group and other third-party clients in exchange for negotiated fees.

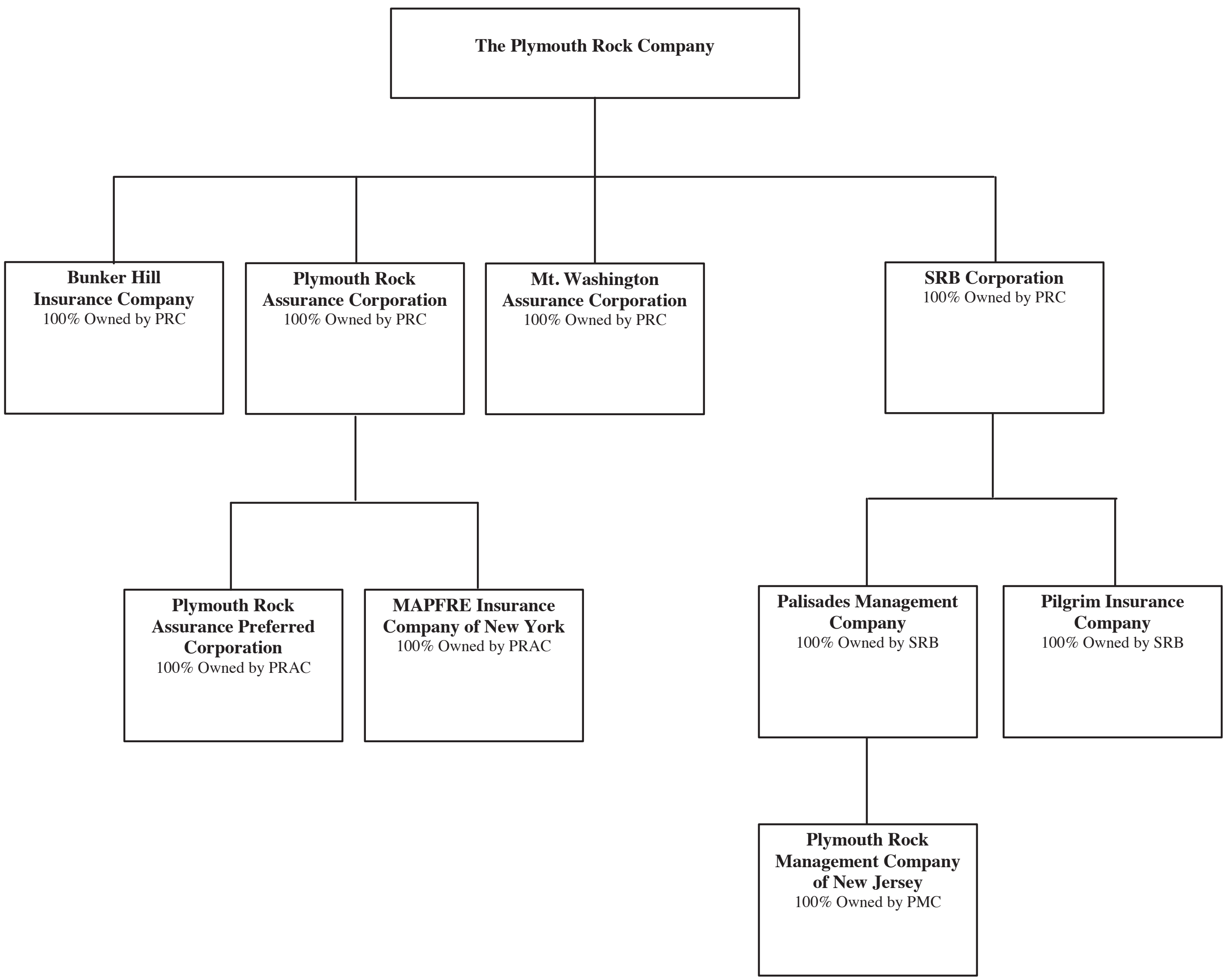
1. Nature of Operations, continued

The Plymouth Rock Company's financial statements consolidate the results of the members of the Palisades Reciprocal Group. Accounting Standards Update No. 2015-02 modified the framework for assessing whether a "variable interest entity" in a service relationship should be consolidated for financial reporting purposes by eliminating certain criteria in assessing whether a service arrangement is considered a variable interest and ultimately whether consolidation is required under Accounting Standards Codification Topic 810. The Plymouth Rock Company and Subsidiaries have provided capital to the Palisades Reciprocal Group in the form of surplus notes and preferred stock that account for $18.6 million, or 3.2 and 3.5 percent, of the equity of the Palisades Reciprocal Group at December 31, 2018 and 2017, respectively. As these surplus notes and preferred stock features are not typical of an ordinary service arrangement, it continues to be appropriate for The Plymouth Rock Company and Subsidiaries to consolidate the results of the members of the Palisades Reciprocal Group under the updated standard. The Plymouth Rock Company and Subsidiaries do not bear direct risk or earn direct rewards on the basis of the performance of the Palisades Reciprocal Group. The results are presented in a consolidated manner despite fundamental legal and regulatory distinctions between The Plymouth Rock Company and Subsidiaries on the one hand and the Palisades Reciprocal Group on the other. 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

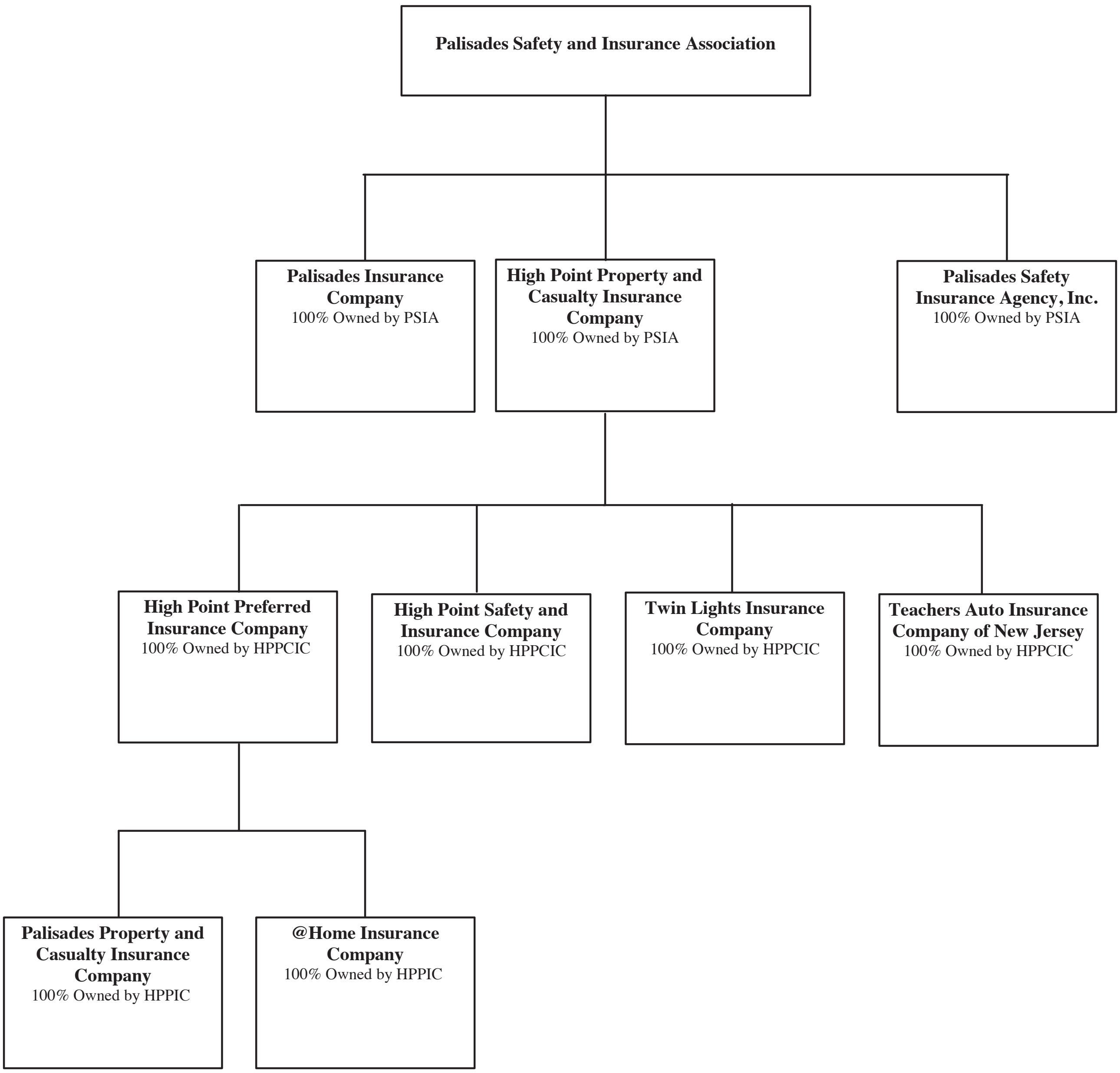
On April 1, 2018, Plymouth Rock Assurance Corporation purchased from 21st Century Security Insurance Company ("Security") all of the issued and outstanding shares of stock of 21st Century National Insurance Company, a property and casualty insurance company that currently underwrites private passenger automobile business only in the State of New York. Subsequent to its acquisition, 21st Century National Insurance Company was renamed Plymouth Rock Assurance Preferred Corporation. Plymouth Rock Assurance Corporation made a payment of $3.7 million at closing, and one more payment of $132,000 later in 2018. A final payment is contingent on the amount of direct and assumed business that Plymouth Rock Assurance Preferred writes related to this acquisition in the first six months after closing. This final payment will be made in March 2019, and a liability of $1.0 million was recorded for it at December 31, 2018. This transaction was accounted for as an asset purchase.

On January 1, 2019, the Company purchased from ACIC Holding Co., Inc. all of the issued and outstanding shares of MAPFRE Insurance Company of New York ("MICNY"), which underwrites private passenger automobile and home insurance business in the State of New York. Plymouth Rock Assurance Corporation paid $22.7 million in cash to acquire the shares of MICNY based on MICNY's estimated closing balance sheet as of December 31, 2018. This purchase price is subject to adjustments during 2019 based on the final closing balance sheet to be completed by the end of March 2019 as well as MAPFRE U.S.A. Corp.'s 2018 federal tax return that will be filed in October 2019.

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

3. Organization of the Palisades Reciprocal Group

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



3. Organization of the Palisades Reciprocal Group, continued

On August 1, 2018, in connection with the purchase of National, High Point Preferred Insurance Company purchased from Mid-Century Insurance Company all of the issued and outstanding shares of stock of Security, a property and casualty insurance company. Subsequent to its acquisition, Security was renamed @Home Insurance Company. High Point Preferred Insurance Company made a payment of $9.2 million at closing, and a subsequent payment of $1.0 million later in 2018. This transaction was accounted for as an asset purchase.

4. Summary of Significant Accounting Policies

A. Principles of Consolidation

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

B. Equity

The Palisades Reciprocal Group had retained earnings and net unrealized gains and losses on investments of $585.9 million and $(4.0) million at December 31, 2018. As of December 31, 2017 these balances were $421.6 million and $107.0 million, respectively. Effective January 1, 2018, $110.8 million was moved from net unrealized gains and losses on investments to retained earnings as required by the adoption of a new accounting standard that is discussed in greater detail in the accompanying footnotes.

4. Summary of Significant Accounting Policies, continued

C. 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.

D. 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.

E. Cash and Investments

Cash and cash equivalents include money market funds and short-term money market instruments with maturity dates no longer than 90 days from the date of acquisition. As of December 31, 2018 and 2017 there was no liability for outstanding checks for The Plymouth Rock Company and Subsidiaries. Liabilities for outstanding checks for the Palisades Reciprocal Group of $20.5 million and $20.4 million are included in accrued liabilities at December 31, 2018 and 2017, 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. The Company adopted Accounting Standards Update 2016-01 effective January 1, 2018. From that date forward, changes in the fair value of marketable equity securities available for sale, after deduction of applicable deferred income taxes, will be credited or charged directly to net income and will affect equity through retained earnings. Prior to January 1, 2018, changes in the fair value of marketable equity securities available for sale, after deduction of applicable deferred income taxes, were credited or charged directly to equity. Changes in the fair value of marketable fixed income securities will continue to be credited or charged directly to equity. Upon adoption, the cumulative net unrealized gain on marketable equity securities, after deduction of applicable deferred income taxes, was reclassified within equity from net unrealized gain on investments to retained earnings on January 1, 2018. These balances on that date were $88.3 million for The Plymouth Rock Company and Subsidiaries and $110.2 million for the Palisades Reciprocal Group.

4. Summary of Significant Accounting Policies, continued

E. Cash and Investments, continued

During 2017, The Plymouth Rock Company and Subsidiaries invested in the initial public offering of a foreign entity. Changes in the foreign exchange rate are recorded directly to stockholders' equity through net unrealized capital gain or loss. During 2018, The Plymouth Rock Company and Subsidiaries recorded a loss before applicable taxes of $981,000 from foreign exchange rate changes related to this investment. During 2017, The Plymouth Rock Company and Subsidiaries recorded a benefit before applicable taxes of $276,000 for the same reason. 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.

F. Deferred Acquisition Costs

Commissions and premium taxes are deferred and amortized pro rata over the contract periods in which the related premiums are earned. All amounts deferred as of December 31 are charged to operations in the following year as the related premiums are earned. Deferred acquisition costs are presented net of an equivalent amount of deferred commission income on ceded reinsurance, with any deferred ceding commission income in excess of the deferred acquisition costs recorded as a liability. The amortization of deferred acquisition costs and deferred ceding commission income, including any excess portion, are presented on a net basis as policy acquisition expense on the statement of comprehensive income. Net amortization associated with these deferred costs for 2018 and 2017 for The Plymouth Rock Company and Subsidiaries was $65.9 million and $55.0 million, respectively, while the net amortization for the Palisades Reciprocal Group for 2018 and 2017 was $76.0 million and $69.9 million, respectively.

4. Summary of Significant Accounting Policies, continued

G. Recognition of Premium Revenues

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

Premiums receivable are net of reserves for doubtful collections. At December 31, 2018 and 2017, the reserves for doubtful collections for The Plymouth Rock Company and Subsidiaries were $1.8 million and $1.4 million, respectively. The reserves for doubtful collections of the Palisades Reciprocal Group at December 31, 2018 and 2017 were $7.2 million and $5.1 million, respectively.

H. Recognition of Fees Earned from Service Activities

The Plymouth Rock Company and Subsidiaries earn management fees from the Palisades Reciprocal Group and other unaffiliated companies for providing sales, underwriting, policy issuance, claim adjusting, accounting, and other insurance-related services. Fees from service activities are earned over the applicable policy terms. In 2018 and 2017, fees of $190.1 million and $181.5 million, respectively, earned from the Palisades Reciprocal Group were eliminated upon consolidation. The balance sheet item “other liabilities” includes balances owed to insurers for which Pilgrim Insurance Company provides services.

I. Amortization of Goodwill and Intangible Assets

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

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

No impairment of the goodwill or intangible assets with indefinite lives of either The Plymouth Rock Company and Subsidiaries or the Palisades Reciprocal Group was recorded in either 2018 or 2017.

4. Summary of Significant Accounting Policies, continued

J. Real Estate and Fixed Assets

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

5. Income Taxes

Income taxes on the statements of comprehensive income for 2018 and 2017 consist of:

(dollars in thousands)	2018	2017
The Plymouth Rock Company and Subsidiaries	$ 23,117	$ 15,870
Palisades Reciprocal Group	10,896	(6,827)
Total	$ 34,013	$ 9,043

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. Effective January 1, 2018, changes in the fair value of marketable equity securities, after deduction of applicable deferred income taxes, are credited or charged directly to net income and will affect total equity through retained earnings. The net unrealized gain on all other investments is presented in equity, net of an estimate of applicable deferred income taxes. The reported provisions for income taxes for The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group are less than those computed by applying the federal and state income tax rates for these years to income before income taxes. These differences arise principally because of the favorable federal income tax treatment of dividend income and interest from state and municipal bonds, as well as federal income tax deductions for state taxes paid by The Plymouth Rock Company and Subsidiaries. The Tax Cuts and Jobs Act of 2017 (the “Tax Act”) also resulted in a reduction of the 2017 effective tax rate, as discussed below.

5. Income Taxes, continued

The Tax Act was enacted on December 22, 2017 and contained provisions that generally took effect beginning on January 1, 2018. The key provision of tax reform affecting The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group was the reduction of the corporate income tax rate from 35% to 21%, which caused deferred tax balances to be measured at the lower rate as of the date of enactment. The net deferred tax liabilities of The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group as of December 31, 2017 were reduced by $17.9 million and $19.3 million, respectively, as a result of the Tax Act, with corresponding decreases to total tax expense. Accounting Standards Codification Topic 740 requires the impact of a change in tax rate to be reported through the income tax expense line on the income statement as of the date of enactment. The Tax Act modified the provisions applicable in determining the tax basis of net unpaid loss reserves. These changes will result in a transition adjustment to be included in taxable income over a period of eight years beginning in 2018. As of December 31, 2018 the balance of this transaction adjustment included in deferred tax liabilities was $1.1 million and $2.8 million for The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group, respectively.

While Plymouth Rock Management Company of New Jersey has paid New Jersey state income tax since its inception, recent analysis indicates that the management company should not be subject to state income tax; therefore, payments in recent years may be refundable on the basis that the management company and the Palisades Reciprocal Group constitute a single insurance business for tax purposes, for which the Palisades Reciprocal Group pays taxes on the basis of its written premiums. Plymouth Rock Management Company of New Jersey has filed amended New Jersey returns for the 2012 through 2015 tax years; these amended returns and the recently filed 2016 and 2017 tax year returns reflect no state income tax liability for these six years. New Jersey income tax liability continues to be accrued for financial statement purposes until such time that it is determined that Plymouth Rock Management Company of New Jersey need not pay state income tax.

5. Income Taxes, continued

As of December 31, 2018, Plymouth Rock Management Company of New Jersey has filed amended tax returns through which refunds totaling $16.5 million are expected to be received. While the Company believes that this position is very well supported, there is uncertainty as to the outcome; therefore, no benefit has been accrued for the anticipated refunds and an additional state income tax liability of $4.4 million and $3.7 million and interest expense of $257,000 and $43,000 have been accrued for the 2018 and 2017 tax years, respectively. No penalties have been accrued. The Plymouth Rock Company and Subsidiaries reported equity as of December 31, 2018 would be $20.1 million higher if this matter was favorably resolved. We expect there to be further discussion during 2019 with the taxing authority in response to our amended returns, but any potential impact on the 2019 financial statements cannot be reasonably estimated at this time.

There are no other tax positions of questionable merit that require a reserve for potential disallowance. As of December 31, 2018, neither The Plymouth Rock Company and Subsidiaries nor the Palisades Reciprocal Group is subject to federal examinations for tax years prior to 2014. Neither The Plymouth Rock Company and Subsidiaries nor the Palisades Reciprocal Group have examinations by state taxing authorities presently in progress.

The Plymouth Rock Company and Subsidiaries

Income taxes on the statements of comprehensive income for 2018 and 2017 consist of:

(dollars in thousands)	2018	2017
Current year federal income taxes	$15,340	$23,767
Current year state income taxes	5,708	4,698
Change in deferred federal taxes	(630)	(13,039)
Change in deferred state taxes	253	444
Sub-total	20,671	15,870
Change in deferred federal taxes on equity securities	2,294	[redacted]
Change in deferred state taxes on equity securities	152	[redacted]
Total	$23,117	$15,870

5. Income Taxes, continued

Deferred income taxes on the balance sheets as of December 31, 2018 and 2017 consist of the net effects of these temporary differences:

(dollars in thousands)	2018	2017
Net unrealized gain on investments	$(33,708)	$(30,206)
Unearned premiums	10,749	9,574
Compensation expense	9,164	6,596
Depreciation	(8,599)	(5,456)
Deferred acquisition expense	(8,145)	(6,106)
Investment and partnership timing differences	(3,277)	(4,601)
Discounting of claim reserves	1,490	1,231
Other	1,421	(193)
Total	$(30,905)	$(29,161)

<u>Palisades Reciprocal Group</u>

Income taxes on the statements of comprehensive income for 2018 and 2017 consist of:

(dollars in thousands)	2018	2017
Current year federal income taxes	$ 6,612	$ 6,844
Current year state income taxes	5	2
Change in deferred federal taxes	(1,147)	(13,673)
Sub-total	5,470	(6,827)
Change in deferred federal taxes on equity securities	5,426	[redacted]
Total	$10,896	$(6,827)

5. Income Taxes, continued

Deferred income taxes on the balance sheets as of December 31, 2018 and 2017 consist of the net effects of these temporary differences:

(dollars in thousands)	2018	2017
Net unrealized gain on investments	$(40,018)	$(34,634)
Deferred acquisition expense	(14,239)	(13,447)
Unearned premiums	13,397	12,645
Discounting of claim reserves	3,646	3,481
Guaranty fund accrual	1,808	1,819
Reserves for doubtful collections	1,523	1,075
Investment and partnership timing differences	(273)	(1,071)
Intangibles	191	292
Other	(405)	(293)
Total	$(34,370)	$(30,133)

There were no federal net operating loss carryforwards available as of December 31, 2018.

6. Claim and Claim Adjustment Expense Reserves

Claim reserves represent the estimated liabilities for claims that have already been reported and for claims that have been incurred but not yet reported. Claim adjustment expense reserves represent the estimated expenses that will be required to settle these claims. Claim and claim adjustment expense reserves are presented on the consolidated balance sheets before estimated recoveries for reinsurance. There are a variety of actuarial methods used to estimate claim reserves and claim adjustment expense reserves, including paid and incurred development methods. When deciding among methods, the credibility of each method based on the basis of the maturity of the data available and the claims settlement practices for each particular line of insurance business or coverage within a line of insurance business is evaluated. The methods used are reviewed regularly, and any adjustments to these reserves are reflected in income currently.

6. Claim and Claim Adjustment Expense Reserves, continued

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, 2018, 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, 2014, 2015 and 2016 are unaudited. Five years of data are presented, as any claim and claim adjustment expense development beyond that point would be insignificant for the relatively short-tail personal automobile and home insurance coverages which The Plymouth Rock Company and Subsidiaries primarily write.

Automobile Insurance

(dollars in thousands)

Accident	Claims and Allocated Claim Adjustment Expenses Incurred, Net of Reinsurance, as of December 31,				
Year	2014	2015	2016	2017	2018
2014	$212,840	$211,580	$209,152	$207,720	$ 206,276
2015		238,650	234,861	232,801	230,061
2016			267,093	260,431	256,876
2017				268,238	257,726
2018					278,839
Total					$1,229,778

6. Claim and Claim Adjustment Expense Reserves, continued

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31,				
	2014	2015	2016	2017	2018
2014	$132,416	$173,915	$186,825	$195,588	$ 201,470
2015		148,065	190,534	206,317	216,323
2016			159,810	211,845	228,073
2017				155,950	205,356
2018					164,483
Total					$1,015,705

Net unpaid for accident years 2014 through 2018	$ 214,073
Net unpaid for accident years prior to 2014	2,520
Net unpaid claims and allocated claim adjustment expenses	$ 216,593

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims	Average Annual Payout	
2014	$ 939	98,083	Year 1	60.1%
2015	4,679	115,868	Year 2	19.2%
2016	9,739	115,503	Year 3	6.4%
2017	17,028	112,222	Year 4	4.3%
2018	37,855	108,087	Year 5	2.9%
			After	7.1%

6. 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,				
	2014	2015	2016	2017	2018
2014	$11,619	$13,114	$14,150	$14,402	$14,701
2015		20,897	20,285	19,071	18,679
2016			11,786	8,678	7,806
2017				13,308	12,849
2018					22,592
Total					$76,627

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31,				
	2014	2015	2016	2017	2018
2014	$8,836	$11,410	$12,575	$13,441	$14,445
2015		17,113	18,322	18,262	18,042
2016			6,251	7,180	7,148
2017				8,492	11,248
2018					15,402
Total					$66,285

Net unpaid for accident years 2014 through 2018	$10,342
Net unpaid for accident years prior to 2014	336
Net unpaid claims and allocated claim adjustment expenses	$10,678

6. Claim and Claim Adjustment Expense Reserves, continued

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims	Average Annual Payout	
2014	$ 68	1,839	Year 1	65.1%
2015	21	4,674	Year 2	14.4%
2016	312	1,643	Year 3	2.5%
2017	779	2,088	Year 4	2.4%
2018	2,313	3,155	Year 5	6.8%
			After	8.8%

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)	2018	2017
Claims and allocated claim adjustment expense reserve at beginning of year	$214,619	$199,204
Claims and allocated claim adjustment expenses incurred:		
Current year	301,431	281,546
Prior years	(20,843)	(17,687)
	280,588	263,859
Claims and allocated claim adjustment expenses paid:		
Current year	179,885	164,442
Prior years	88,051	84,002
	267,936	248,444
Claims and allocated claim adjustment expense reserve at end of year	227,271	214,619
Reinsurance recoverable on unpaid claims at end of year	63,582	35,129
Unallocated claim adjustment expense reserve at end of year	18,294	15,656
Total claims and claim adjustment expense reserves at end of year	$309,147	$265,404

6. Claim and Claim Adjustment Expense Reserves, continued

During the year ended December 31, 2018, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $20.8 million. This change resulted from favorable development of $19.1 million and $1.7 million in automobile and home lines of business, respectively. The biggest contributor to this development was Massachusetts private passenger automobile, with improvements across all coverage groups including higher estimates for salvage and subrogation recoveries. During the year ended December 31, 2017, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $17.7 million. This change resulted primarily from favorable development of $12.6 million and $5.1 million in automobile and home lines of business, respectively. The automobile development arose from the private passenger automobile in all three New England states, while the home development was partly attributable to a downward estimate in the cost of 2015 winter storm claims and 2016 accident year claim costs.

The amounts shown in the table above include $60.3 million and $36.1 million of estimated claim and claim adjustment expense reserves under the contracts of Pilgrim Insurance Company service clients as of December 31, 2018 and December 31, 2017, respectively. Offsetting amounts are included in “amounts receivable from reinsurers and pools” as assets on the balance sheet. While these policies are issued by Pilgrim, most of the underwriting results have been ceded either to its clients or to a reinsurer via quota share reinsurance arrangements such that Pilgrim retains only a relatively small amount of the underwriting risk.

Palisades Reciprocal Group

The following tables provide data regarding incurred and paid claims and claim adjustment expense development as of December 31, 2018, 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, 2014, 2015 and 2016 are unaudited. Five years of data are presented, as any claim and claim adjustment expense development beyond that point would be insignificant for the relatively short-tail personal automobile and home coverages which the Palisades Reciprocal Group primarily writes.

6. Claim and Claim Adjustment Expense Reserves, continued

Automobile Insurance

(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Incurred, Net of Reinsurance, as of December 31, 2014	2015	2016	2017	2018
2014	$368,491	$366,211	$364,758	$361,348	$ 359,956
2015		390,896	381,236	380,786	374,375
2016			418,424	407,180	399,411
2017				416,317	395,211
2018					434,754
Total					$1,963,707

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31, 2014	2015	2016	2017	2018
2014	$167,484	$240,750	$282,759	$322,498	$ 346,405
2015		174,373	247,825	294,973	333,305
2016			184,540	264,491	309,897
2017				179,485	257,912
2018					195,282
Total					$1,442,801

Net unpaid for accident years 2014 through 2018	$ 520,906
Net unpaid for accident years prior to 2014	12,245
Net unpaid claims and allocated claim adjustment expenses	$ 533,151

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims	Average Annual Payout	
2014	$ 579	134,311	Year 1	45.93%
2015	4,789	143,617	Year 2	19.96%
2016	24,103	150,213	Year 3	11.88%
2017	57,498	142,972	Year 4	10.64%
2018	139,407	143,821	Year 5	6.64%
			After	4.95%

6. 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,				
	2014	2015	2016	2017	2018
2014	$34,184	$32,739	$31,176	$30,380	$ 30,448
2015		42,019	41,614	41,530	40,555
2016			38,804	37,088	36,016
2017				39,052	37,200
2018					51,320
Total					$195,539

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31,				
	2014	2015	2016	2017	2018
2014	$21,314	$26,606	$27,764	$28,922	$ 29,258
2015		26,602	33,750	36,609	38,177
2016			25,372	30,028	31,648
2017				24,942	32,081
2018					36,767
Total					$167,931

Net unpaid for accident years 2014 through 2018	$ 27,608
Net unpaid for accident years prior to 2014	10,874
Net unpaid claims and allocated claim adjustment expenses	$ 38,482

6. Claim and Claim Adjustment Expense Reserves, continued

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims	Average Annual Payout	
2014	$ 899	7,704	Year 1	68.95%
2015	1,017	6,518	Year 2	16.78%
2016	1,813	5,749	Year 3	5.12%
2017	3,292	4,912	Year 4	3.83%
2018	7,580	7,403	Year 5	1.10%
			After	4.22%

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)	2018	2017
Claims and allocated claim adjustment expense reserve at beginning of year	$572,973	$561,081
Claims and allocated claim adjustment expenses incurred:		
Current year	486,074	455,369
Prior years	(46,710)	(25,252)
	439,364	430,117
Claims and allocated claim adjustment expenses paid:		
Current year	232,049	204,427
Prior years	208,655	213,798
	440,704	418,225
Claims and allocated claim adjustment expense reserve at end of year	571,633	572,973
Reinsurance recoverable on unpaid claims at end of year	29,509	22,227
Unallocated claim adjustment expense reserve at end of year	46,523	46,244
Total claims and claim adjustment expense reserves at end of year	$647,665	$641,444

6. Claim and Claim Adjustment Expense Reserves, continued

During the year ended December 31, 2018, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $46.7 million. This change resulted primarily from favorable development of $40.3 million and $6.4 million in the automobile and home insurance lines of business. During the year ended December 31, 2017, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $25.3 million. This change resulted primarily from favorable development of $21.2 million and $4.1 million in the automobile and home insurance lines of business, respectively. The higher favorable development recognized in 2018 was largely attributable to significant improvements in the estimated severity of personal injury protection and bodily injury coverage claims.

7. Reinsurance

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

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

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

	2018		2017	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$561,209	$396,816	$533,821	$346,805
Ceded	(71,261)	(67,859)	(97,669)	(41,210)
Net	$489,948	$328,957	$436,152	$305,595

Ceded premiums earned for 2018 and 2017 were $87.9 million and $73.6 million, respectively.

7. Reinsurance, continued

Concurrent with its acquisition, 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 cedes 100% of the underwriting results of all policies issued on 21st Century systems until the last policy expired in December 2018. Premiums of $2.5 million and claims and claim adjustment expenses of $3.1 million were ceded under this agreement during 2018. Also concurrent with its acquisition, Plymouth Rock Assurance Preferred Corporation entered into service agreements with 21st Century North America and 21st Century Advantage Insurance Company and a 100% quota share reinsurance agreements with 21st Century North America Insurance Company under which Plymouth Rock Assurance Preferred Company services and assumes the underwriting results for all New York private passenger automobile policies issued by Plymouth Rock Assurance Preferred Corporation on behalf of 21st Century North America Insurance Company and 21st Century Advantage Insurance Company on and after April 1, 2018. Premiums of $2.8 million and claims and claim adjustment expenses of $2.3 million were assumed under this agreement during 2018.

The Plymouth Rock Company and Subsidiaries had treaties in place for quota share reinsurance for home business, but these treaties were not renewed effective July 1, 2018. Home insurance premiums earned totaling $14.1 million and $25.3 million were ceded in 2018 and 2017, respectively, at a cession rate of 50 percent. The ceding commissions received under the home insurance treaties vary on the basis of loss ratio. The statements of comprehensive income for The Plymouth Rock Company and Subsidiaries are reported net of ceded premiums earned of $22.4 million and $34.3 million, respectively, in 2018 and 2017, and net of claims, claim expenses, and ceding commission expenses of $21.8 million and $28.3 million, respectively.

There are also 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, 2018 and 2017, the costs incurred for these treaties were $7.6 million and $6.6 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 $805,000 and $784,000 in 2018 and 2017, respectively, while ceded claims, claim adjustment expenses and ceding commissions totaled $407,000 and $261,000, respectively.

7. Reinsurance, continued

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

Pilgrim provides automobile insurance services to unrelated insurance companies. The statements of comprehensive income for The Plymouth Rock Company and Subsidiaries are reported net of $61.8 million and $41.0 million of ceded premiums earned and $55.5 million and $33.6 million of claims and claim adjustment expenses incurred and ceded in 2018 and 2017, respectively, related to Pilgrim's third-party business. Pilgrim began to retain a small amount of underwriting risk relating to these third-party service arrangements during 2015, but continued to cede most of the underwriting risk either to its clients or to a reinsurer via quota share reinsurance arrangements during both 2018 and 2017. The statements of comprehensive income of The Plymouth Rock Company and Subsidiaries include $4.6 million and $4.4 million of net premiums earned in underwriting activities and $4.2 million and $3.9 million of net claims and claim adjustment expenses incurred in 2018 and 2017, respectively, for Pilgrim's third-party business. These retained amounts reflect 7.0% and 9.8% of direct premiums earned and 7.1% and 10.5% of direct claims and claim adjustment expenses incurred of the total activity of the business during 2018 and 2017, respectively.

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

7. Reinsurance, continued

Palisades Reciprocal Group

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

	2018		2017	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$793,572	$512,825	$751,440	$497,113
Ceded	(24,904)	(3,643)	(22,780)	(2,680)
Net	$768,668	$509,182	$728,660	$494,433

Ceded premiums earned for 2018 and 2017 were $24.9 million and $23.0 million, respectively.

Concurrent with its acquisition, @Home Insurance Company entered into a 100% quota share reinsurance agreement with 21st Century North America Insurance Company under which @Home Insurance Company cedes 100% of the underwriting results of all policies issued by @Home Insurance Company prior to its acquisition. Claims and claim adjustment expenses of $152,000 were ceded under this agreement during 2018. As of the time of acquisition, @Home 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, 2018 and 2017, the Palisades Reciprocal Group incurred costs of $19.5 million and $16.4 million, respectively, under these treaties.

The Palisades Reciprocal Group also has in place 100% quota share reinsurance with the National Flood Insurance Program for flood coverage that it writes on a direct basis. For 2018, revenues and expenses ceded under this program were $3.7 million and $1.5 million, respectively. For 2017, revenues and expenses ceded under this program were $3.9 million and $1.6 million, respectively.

8. Secured Loan

On July 24, 2013, The Plymouth Rock Company took out a secured loan for $45.0 million from a bank. This loan was payable in full by July 24, 2016, and was structured with monthly payments of interest only, payable at a variable interest rate based on LIBOR. The Plymouth Rock Company prepaid $30.0 million of the balance of this loan without penalty during 2014. During 2015, The Plymouth Rock Company increased its borrowing by $20.0 million, and the date on which the loan is payable in full was extended to August 31, 2018. The Plymouth Rock Company prepaid without penalty $20.0 million of the balance of this loan in 2016 and $10.0 million in 2017. During 2018, the loan was extended a second time to August 31, 2021. The carrying value of this loan of $5.0 million at both December 31, 2018 and 2017, respectively, reflected its fair value. The Plymouth Rock Company had pledged to the bank, as collateral, securities which had a market value of approximately $8.7 million and $7.9 million as of December 31, 2018 and 2017, respectively. The Plymouth Rock Company incurred $147,000 and $258,000 of interest expense on this loan during 2018 and 2017, respectively.

9. Subsequent Events

Subsequent events have been evaluated from December 31, 2018 through March 14, 2019. There are no material subsequent events other than the purchase of MICNY on January 1, 2019.

10. Commitments and Contingencies

The Plymouth Rock Company and Subsidiaries incurred real estate rental expenses for 2018 and 2017 totaling $9.3 million and $7.7 million, respectively. For the years 2019 through 2023, the minimum lease obligations to unrelated third parties range from $5.4 million to $9.5 million annually. Total obligations of The Plymouth Rock Company and Subsidiaries under real estate and automobile leases are $72.4 million through 2031.

During 2014, Plymouth Rock Management Company of New Jersey vacated certain office space with the anticipation of subleasing this space for the remaining periods of the applicable leases. As the sublease rental income was expected to be less than the management company’s rental expense obligation for the remainder of the lease terms, a charge of approximately $2.3 million was recorded at December 31, 2014 to reflect the expected unrecoverable amount under these lease obligations. As of December 31, 2018, a lease for part of this space expired and was not renewed. The management company recorded additional expense of $331,000 and $318,000 in 2018 and 2017, respectively, related to the original leases.

10. Commitments and Contingencies, continued

During 2018, the management company vacated certain other office space with the anticipation of subleasing that space for the remaining periods of the applicable leases. As the sublease rental income is expected to be less than the management company's rental expense obligation for the remainder of the lease terms, a charge of approximately $1.5 million was recorded at December 31, 2018 to reflect the expected unrecoverable amount under these lease obligations.

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 $1.5 million and $1.2 million in 2018 and 2017, respectively. During 2018, Plymouth Rock Assurance Corporation entered into agreements with four companies to sell surplus credit premiums that are expected to generate revenue of $680,000 during 2019.

Plymouth Rock Assurance Corporation entered into an agreement in 2011 to purchase $6.7 million of Massachusetts low-income housing tax credits at a cost of $4.6 million. The $4.6 million purchase price was paid in February 2013. These credits were being used to reduce that company's Massachusetts premium tax liability by $6.7 million over the five-year period from 2013 through 2017. A benefit of $1.3 million was recognized in 2017.

Plymouth Rock Assurance Corporation entered into an agreement in December 2017 to purchase $859,000 of Massachusetts historic rehabilitation tax credits at costs of $799,000. The purchase price of $799,000 was paid in December 2017. These credits were used to reduce that company's Massachusetts premium tax liability by $859,000 in 2017.

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

11. Goodwill and Intangible Assets

The Plymouth Rock Company and Subsidiaries

One subsidiary, InsuraMatch, LLC, has made purchases of insurance agencies that resulted in goodwill of $3.4 million and $3.3 million at December 31, 2018 and 2017, respectively. These purchases have also given rise to intangible assets in the form of expirations, noncompetition agreements, and brand names.

During 2017, InsuraMatch acquired policy expirations and a call center operation. The policy expirations gave rise to intangible assets of $847,000 that are being amortized over a period of two years. An additional $66,000 of policy expirations were purchased in 2018 and are also being amortized over two years. 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 $680,000 and $1.3 million in 2018 and 2017, respectively. Intangible assets, which are amortized over periods ranging from two to 15 years, were recorded at $2.8 million and $2.9 million at December 31, 2018 and 2017, respectively. Amortization associated with these intangible assets for 2018 and 2017 was $785,000 and $209,000, respectively. Amortization is expected to range from $347,000 to $765,000 annually from 2019 through 2023.

As part of the purchase of Plymouth Rock Assurance Preferred Corporation effective April 1, 2018, Plymouth Rock Assurance Corporation also 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 4 years, had amortization of $185,000 recorded in 2018 that resulted in a carrying value of $801,000 at December 31, 2018. Amortization is expected to range from $62,000 to $247,000 annually from 2019 through 2022. 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 indefinite-lived intangibles, had a carrying value of approximately $263,000 at December 31, 2018.

11. 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 at both December 31, 2018 and 2017. The purchases in 2007 of Teachers Auto Insurance Company of New Jersey and of renewals from National General Insurance Company also resulted in the creation of intangible assets. These intangible assets are in the form of a trademark, a state license and renewal rights. At both December 31, 2018 and 2017, 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 2018 or 2017. The remaining intangible assets are being amortized over 20 years and were recorded at $4.1 million and $4.9 million at December 31, 2018 and 2017, respectively. Amortization associated with these intangible assets was $796,000 and $889,000 in 2018 and 2017, respectively. Amortization is expected to range from $460,000 to $713,000 annually from 2019 through 2023.

The Palisades Reciprocal Group also acquired intangible assets in the form of state licenses as part of the purchase of @Home Insurance Company effective August 1, 2018. 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 indefinite-lived intangibles, had a carrying value of approximately $38,000 at December 31, 2018.

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 due in 2020 based on the earned premium recorded during the first policy year. That payment in 2020 is estimated to be $1.7 million based on assumed policy conversion rates. These replacement carrier rights are intangible assets that will be amortized over a period of 15 years. Amortization of $28,000 was recorded during 2018, leaving a carrying value of $2.5 million at December 31, 2018. Amortization is expected to be $167,000 annually from 2019 through 2023.

11. 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 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 fair value of these rights was $380,000. Amortization of $9,000 was recorded during 2018, resulting in a carrying value of $371,000 at December 31, 2018. Amortization is expected to be $25,000 annually from 2019 through 2023.

Palisades Property and Casualty Insurance Company also reached an agreement in April 2018 to acquire the rights to serve as the replacement carrier for New York home insurance business from two entities of the Farmers Insurance Group. Subject to regulatory approvals, this transaction is not expected to be implemented until 2019.

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

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

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	2018	2017
Net income	$ 72,112	$ 79,965
Depreciation and amortization	23,330	22,147
Deferred income taxes	(1,875)	(12,595)
Change in unrealized gains on equity securities, net of tax	(8,478)	[redacted]
Other-than-temporary impairment, net of tax	(4,602)	[redacted]
Change in operating assets and liabilities:		
Accrued investment income	966	(898)
Premiums receivable	(421)	(16,401)
Ceded unearned premium reserves	14,974	(24,064)
Deferred acquisition costs	(5,165)	(1,834)
Amounts receivable from reinsurers and pools	(30,401)	(15,622)
Claim and claim adjustment expense reserves	43,743	30,980
Unearned premium reserves	11,752	36,018
Advance premiums	1,785	(445)
Commissions payable and accrued liabilities	19,016	5,892
Amounts payable to reinsurers	(1,551)	12,967
Deferred revenue	(3,975)	424
Unearned service fees	1,268	1,735
Prepaid expenses, agent loans, and deposits	(305)	2,803
Income tax recoverable and payable	5,926	9,403
Amounts due from service clients	738	485
Other assets and other liabilities	(1,567)	570
Net cash provided by operating activities	$137,270	$131,530

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

Palisades Reciprocal Group

(dollars in thousands)	2018	2017
Net income	$53,449	$52,936
Depreciation and amortization	820	891
Deferred income taxes	(1,147)	(13,673)
Change in unrealized gains on equity securities, net of tax	(20,413)	[redacted]
Change in operating assets and liabilities:		
Accrued investment income	789	(578)
Premiums receivable	(8,022)	(14,376)
Ceded unearned premium reserves	(2)	181
Deferred acquisition costs	(3,675)	(2,808)
Amounts receivable from reinsurers and pools	(8,455)	5,748
Claim and claim adjustment expense reserves	6,221	4,930
Unearned premium reserves	16,032	10,085
Advance premiums	1,879	(708)
Commissions payable and accrued liabilities	4,262	7,597
Amounts payable to reinsurers	139	(63)
Deferred revenue	(98)	(49)
Income tax recoverable	3,920	1,700
Other assets and other liabilities	(2,133)	2,633
Net cash provided by operating activities	$43,566	$54,446

13. Consolidated Revenues

Revenues, net of reinsurance, by company or group for 2018 and 2017 were:

(dollars in thousands)	2018	2017
Underwriting company revenues:		
Plymouth Rock Assurance Group	$ 436,084	$ 417,564
Bunker Hill Insurance Group	44,197	26,059
Palisades Reciprocal Group	782,044	757,690
Subtotal:	1,262,325	1,201,313
Management company revenues:		
The Plymouth Rock Company	59,215	63,865
SRB Corporation	91,557	87,610
InsuraMatch, LLC	8,757	8,207
Pilgrim Insurance Company	34,529	31,599
Plymouth Rock Management Company of New Jersey	192,774	187,113
Subtotal:	386,832	378,394
Eliminations with subsidiaries of The Plymouth Rock Company:		
Technology costs	(46,822)	(41,426)
Dividends	(68,140)	(71,977)
Other	(43,358)	(41,665)
Subtotal:	(158,320)	(155,068)
Elimination of intra-group transactions	(190,087)	(181,458)
Total revenues before unrealized gains on equity securities	$1,300,750	$1,243,181

14. Compensation Plans

The Plymouth Rock Company and Subsidiaries maintain two plans under Section 401(k) of the Internal Revenue Code. These plans are defined contribution plans that together cover all employees. Expenses of $8.3 million and $7.7 million were incurred related to these plans during 2018 and 2017, 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 $3.8 million and $2.9 million during 2018 and 2017, respectively.

Effective January 15, 2015, stock incentive awards of 6,577 shares were granted to four key officers. These awards will vest in 2019 provided that certain financial performance and service requirements are met. On the basis of financial performance, expenses of $2.5 million and $3.5 million were recorded related to these awards during 2018 and 2017, respectively.

15. Fixed Assets

The table below summarizes fixed assets at December 31, 2018 and 2017.

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	Useful Lives	2018	2017
Computers and software development	3-5 years	$124,108	$109,924
Leasehold improvements	10 years	21,740	19,987
Furniture and fixtures	5 years	8,507	4,934
Vehicles	3 years	87	87
Total cost		154,442	134,932
Less: accumulated depreciation		109,720	98,173
Net book value		$ 44,722	$ 36,759

Depreciation expenses incurred were $20.7 million and $19.9 million during 2018 and 2017, respectively

16. Investment Securities and Investment Income

A. Marketable Securities

The Plymouth Rock Company and Subsidiaries

At December 31, 2018 and 2017, amortized cost, unrealized gains and losses before federal income taxes, and market value of marketable fixed income and equity securities were as follows:

At December 31, 2018: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 26,821	$ 86	$ 5	$ 26,902
State and municipal securities	105,601	4	909	104,696
Corporate debt securities	138,259	138	551	137,846
Asset-backed securities	62,231	9	264	61,976
Common stocks	269,780	167,701	13,702	423,779
Total	$602,692	$167,938	$15,431	$755,199

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

At December 31, 2018 and 2017, maturities of marketable securities were as follows:

	2018		2017	
(dollars in thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in 90 days or less	$ 16,578	$ 16,562	$ 28,077	$ 28,061
Due after 90 days and in one year or less	48,827	48,658	87,757	87,554
Due after one year and in five years or less	205,251	204,198	148,516	147,048
Due after five years and in ten years or less	21	22	26	27
Due after ten years	4	4	6	6
Asset-backed securities	62,231	61,976	32,894	32,704
Common stocks	269,780	423,779	231,666	370,056
Total	$602,692	$755,199	$528,942	$665,456

16. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

These marketable securities are classified as available for sale. At December 31, 2018 and 2017, common stocks were held that had been in an unrealized loss position for longer than twelve months with a total market value of $2.7 million and $2.0 million, respectively. Gross unrealized losses related to these common stocks were $814,000 and $416,000 at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, other marketable securities were held that had been in an unrealized loss position for longer than twelve months with a total market value of $119.0 million and $52.5 million, respectively. Gross unrealized losses related to these other marketable securities were $1.2 million and $1.8 million at December 31, 2018 and 2017, respectively. These losses are viewed as resulting from market conditions and are believed to be temporary. A loss of $6.0 million was recorded during the year ended December 31, 2018 for other-than-temporary impairment of one common stock holding. There were no securities deemed other-than-temporarily impaired at December 31, 2017.

Palisades Reciprocal Group

At December 31, 2018 and 2017, amortized cost, unrealized gains and losses before federal income taxes, and market value of marketable fixed income and equity securities classified as available for sale were as follows:

At December 31, 2018: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 97,045	$ 346	$ 125	$ 97,266
State and municipal securities	151,452	-0-	1,422	150,030
Corporate debt securities	338,264	295	2,605	335,954
Asset-backed securities	190,545	19	1,605	188,959
Common stocks	331,997	212,725	17,067	527,655
Total	$1,109,303	$213,385	$22,824	$1,299,864

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

16. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2018 and 2017, maturities of marketable securities were as follows:

(dollars in thousands)	2018 Amortized Cost	2018 Market Value	2017 Amortized Cost	2017 Market Value
Due in 90 days or less	$ 41,943	$ 41,893	$ 41,920	$ 41,911
Due after 90 days and in one year or less	109,994	109,500	144,531	144,223
Due after one year and in five years or less	434,692	431,723	356,125	352,885
Due after five years and in ten years or less	132	134	12	13
Due after ten years	-0-	-0-	2	2
Asset-backed securities	190,545	188,959	200,008	198,669
Common stocks	331,997	527,655	251,155	420,975
Total	$1,109,303	$1,299,864	$993,753	$1,158,678

These marketable securities are classified as available for sale. At December 31, 2018 and 2017, common stocks classified as available for sale that had been in an unrealized loss position for longer than twelve months had total market values of $1.9 million and $1.4 million, respectively. Gross unrealized losses related to these common stocks were $578,000 and $261,000 at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, 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 $361.2 million and $286.1 million, respectively. Gross unrealized losses related to these other marketable securities were $4.7 million and $3.8 million at December 31, 2018 and 2017, respectively. These losses are viewed as resulting from market conditions and are believed to be temporary. There were no securities deemed other-than-temporarily impaired at either December 31, 2018 or 2017.

B. Non-Marketable Securities

The Plymouth Rock Company and Subsidiaries have investments in privately held stocks. Such investments amounted to $105,000 and $901,000 at December 31, 2018 and 2017, respectively.

16. Investment Securities and Investment Income, continued

C. Alternative Equity Investments

Investments in marketable alternative equities include positions in entities that focus predominantly on arbitrage relating to publicly announced mergers and acquisitions. Substantially all of the investments made by these entities are in publicly traded securities, and investors have contractual rights to withdraw funds from these entities each year. At December 31, 2018 and 2017, The Plymouth Rock Company and Subsidiaries recorded values for these marketable alternative equity investments, which include realized and unrealized gains, of $55.1 million and $92.1 million, respectively. At December 31, 2018 and 2017, the Palisades Reciprocal Group recorded values for these marketable alternative equity investments of $53.2 million and $109.2 million, respectively.

Non-marketable alternative equity investments include interests in partnerships that invest in companies that are not publicly traded. These investments are valued by applying the equity method to values in their most recently available financial statements. The Plymouth Rock Company and Subsidiaries recorded values for non-marketable alternative equity investments of $31.5 million and $33.6 million at December 31, 2018 and 2017, respectively. The Palisades Reciprocal Group recorded values for non-marketable alternative equity investments of $15.6 million and $14.9 million at December 31, 2018 and 2017, respectively.

As of December 31, 2018, The Plymouth Rock Company and Subsidiaries had commitments outstanding to invest $30.5 million in 13 private equity funds. Five of these funds are Lindsay Goldberg & Bessemer L.P. I (Fund I), Lindsay Goldberg & Bessemer L.P. II (Fund II), Lindsay Goldberg & Bessemer L.P. III (Fund III), 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 five funds. At December 31, 2018, The Plymouth Rock Company and Subsidiaries had $1,000, $294,000, $1.4 million and $18.7 million invested in Fund I, Fund II, Fund III, Fund IV and Fund V, respectively, with outstanding commitments to Fund II, Fund III, Fund IV and Fund V at that date of $1.1 million, $848,000, $13.8 million and $30.0 million, respectively.

As of December 31, 2018, the Palisades Reciprocal Group had commitments outstanding to invest $8.9 million in seven private equity funds.

16. Investment Securities and Investment Income, continued

D. Fair Value Measurements

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

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

Cash, cash equivalents, and investment securities totaled \$922.8 million and \$844.9 million at December 31, 2018 and 2017, respectively. Assets in this category valued using either the equity method or the cost method totaled \$86.6 million and \$126.6 million, respectively, at December 31, 2018 and 2017. The other assets in this category were reported at fair values totaling \$836.2 million and \$718.3 million, respectively, at December 31, 2018 and 2017.

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

At December 31, 2018: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 80,979	$ -0-	$-0-	$ 80,979
U.S. government securities	26,877	25	-0-	26,902
State and municipal securities	-0-	104,696	-0-	104,696
Corporate debt securities	-0-	137,846	-0-	137,846
Asset-backed securities	-0-	61,976	-0-	61,976
Marketable common stocks	423,779	-0-	-0-	423,779
Total fair value	$531,635	$304,543	$-0-	836,178
Assets valued using either the equity method or the cost method				86,641
Total value of cash, cash equivalents, and investment securities				$922,819

16. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

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

During 2016, an investment in the non-marketable shares of preferred stock of Consumer United, Inc. was determined to be other-than-temporarily impaired and it was carried at its cost of $54,000 as of December 31, 2017 as the estimate of fair value. This investment was written off during 2018.

Palisades Reciprocal Group

Cash, cash equivalents, and investment securities totaled $1,382.2 million and $1,317.7 million at December 31, 2018 and 2017, respectively. Assets in this category that are valued using either the equity method or the cost method totaled $68.8 million and $124.1 million at December 31, 2018 and 2017, respectively. The fair values of the other assets in this category totaled $1,313.5 million and $1,193.6 million at December 31, 2018 and 2017, respectively.

16. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

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

At December 31, 2018: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 13,592	$ -0-	$ -0-	$ 13,592
U.S. government securities	97,253	13	-0-	97,266
State and municipal securities	-0-	150,030	-0-	150,030
Corporate debt securities	-0-	335,954	-0-	335,954
Asset-backed securities	-0-	188,959	-0-	188,959
Marketable common stocks	527,655	-0-	-0-	527,655
Total fair value	$638,500	$674,956	$ -0-	1,313,456
Assets valued using either the equity method or the cost method				68,788
Total value of cash, cash equivalents, and investment securities				$1,382,244

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

16. Investment Securities and Investment Income, continued

E. Analysis of Investment Income and Capital Gains

The Plymouth Rock Company and Subsidiaries

The components of investment income and capital gains before federal income taxes during 2018 and 2017 were as follows:

(dollars in thousands)	2018	2017
Interest income and dividends from securities	$17,704	$14,484
Earnings from non-marketable securities and alternative equity investments	8,013	16,506
Rental income	5,003	4,777
Finance charges on premiums receivable	8,709	8,507
Gross investment income	39,429	44,274
Rental expenses	(3,762)	(3,967)
Investment expenses	(2,694)	(2,293)
Investment income	32,973	38,014
Net realized capital gains (losses)	9,523	11,447
Investment income and capital gains before unrealized gains on equity securities	42,496	49,461
Change in unrealized gains on equity securities	10,924	[redacted]
Investment income and capital gains	$53,420	$49,461

16. 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 2018 and 2017 were as follows:

(dollars in thousands)	2018	2017
Interest income and dividends from securities	$28,443	$25,023
Earnings from non-marketable securities and alternative equity investments	5,358	16,072
Gross investment income	33,801	41,095
Investment expenses	(9,079)	(8,155)
Investment income	24,722	32,940
Net realized capital gains (losses)	3,332	5,160
Investment income and capital gains before unrealized gains on equity securities	28,054	38,100
Change in unrealized gains on equity securities	25,839	[redacted]
Investment income and capital gains	$53,893	$38,100

16. Investment Securities and Investment Income, continued

F. Investment Activity

The Plymouth Rock Company and Subsidiaries

Activity in investment securities during 2018 and 2017 was as follows:

(dollars in thousands)	2018	2017
Balance at beginning of year	$ 792,121	$ 704,843
Change in marketable securities:		
Proceeds from maturities	(114,375)	(46,100)
Proceeds from sales	(150,218)	(133,152)
Purchases	342,416	225,060
Net change in marketable securities	77,823	45,808
Net change in non-marketable securities	(797)	(118)
Net change in alternative equity investments	(39,228)	13,849
Net investment activity	37,798	59,539
Net change in sales and purchases in process	(4,072)	2,462
Net change in unrealized gain on marketable and non-marketable securities	15,993	25,277
Balance at end of year	$ 841,840	$ 792,121

Palisades Reciprocal Group

Activity in investment securities during 2018 and 2017 was as follows:

(dollars in thousands)	2018	2017
Balance at beginning of year	$1,282,782	$1,221,955
Change in marketable securities:		
Proceeds from maturities	(178,975)	(28,862)
Proceeds from sales	(184,423)	(138,616)
Purchases	479,156	197,835
Net change in marketable securities	115,758	30,357
Net change in alternative equity investments	(55,316)	(5,799)
Net investment activity	60,442	24,558
Net change in sales and purchases in process	(208)	(52)
Net change in unrealized gain on marketable and non-marketable securities	25,636	36,321
Balance at end of year	$1,368,652	$1,282,782

17. Real Estate

At December 31, 2018 and 2017, The Plymouth Rock Company and Subsidiaries owned properties located at 695 Atlantic Avenue and 99 Bedford Street in Boston.

Building improvement costs of $2.1 million and $1.6 million were incurred on these properties in 2018 and 2017, respectively. The table below summarizes the real estate costs and carrying values at December 31, 2018 and 2017:

(dollars in thousands)	2018	2017
Land	$ 7,449	$ 7,449
Buildings, improvements, and other	53,665	51,538
Total cost	61,114	58,987
Less: accumulated depreciation	27,164	25,153
Net book value	$33,950	$33,834

Rental income from lessees other than The Plymouth Rock Company and Subsidiaries totaled $5.0 million and $4.8 million in 2018 and 2017, respectively. For each of the years 2019 through 2023, minimum annual rent receivable by The Plymouth Rock Company and Subsidiaries is $1.5 million. Total obligations to The Plymouth Rock Company and Subsidiaries from non-affiliated lessees through 2023 are $21.0 million. Buildings and improvements are depreciated over their useful lives, which range from three to 39 years.

The total appraised value of these two real estate interests as of December 1, 2018 and 2017, as determined by an independent appraiser using the income and sales comparison approaches, was $131.5 million and $119.0 million, respectively. Because of uncertainties inherent in the appraisal process, as well as changing market conditions, the amounts that could be realized if the properties were actually offered for sale may differ from their appraised values.

18. Stockholders' Equity

A. Common Stock

Common stock of The Plymouth Rock Company at December 31, 2018 and 2017 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 60,410 and 58,729 were issued and outstanding on both December 31, 2018 and 2017, respectively.

There are 90,000 Class B common shares authorized, of which 62,413 and 64,094 were issued and outstanding on both December 31, 2018 and 2017, respectively. The Class A common shares are fully transferable and have the right to elect 20 percent of the Board of Directors. The Class B common shares are not transferable, but may be converted to Class A common shares on a one-for-one basis at any time at the option of the holder, and are converted automatically upon the occurrence of certain events. The Class B common shares have the right to elect 80 percent of the Board of Directors, a right which has never been exercised in full. Presently, two directors are elected by the Class B shareholders and all other directors are elected by the Class A shareholders.

B. Statutory Surplus and Dividend Availability

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

On a statutory accounting basis, capital and surplus of the insurance company subsidiaries of The Plymouth Rock Company totaled $310.9 million and $282.3 million at December 31, 2018 and 2017, respectively. The combined net income of these subsidiaries on a statutory accounting basis was $18.9 million and $21.9 million in 2018 and 2017, respectively.

Capital and surplus of the insurance companies in the Palisades Reciprocal Group totaled $529.7 million and $480.5 million at December 31, 2018 and 2017, respectively. The combined net income on a statutory accounting basis for these insurance companies was $49.9 million and $32.5 million in 2018 and 2017, respectively.

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

18. Stockholders' Equity

C. Earnings Per Share

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

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, 2018 and 2017, and the related consolidated statements of comprehensive income, cash flows and changes in equity for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Plymouth Rock Company and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 14, 2019

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Directors and Officers of The Plymouth Rock Company

Directors

James M. Stone, *Chairman*

James N. Bailey

Hal Belodoff

Colleen M. Granahan

Michael J. Johnston

Wilmot H. Kidd, III

Norman L. Rosenthal

Sandra A. Urie

Sir Peter J. Wood

Officers

James M. Stone
Chief Executive Officer

James N. Bailey
Treasurer and Clerk

Hal Belodoff
President and Chief Operating Officer

Colleen M. Granahan
Vice President

Mary A. Sprong
Vice President

Gerald I. Wilson
Vice President

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Kerry A. Emanuel
John C. Hill
Neil N. Jasey
Michael J. Johnston
Wilmot H. Kidd, III
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Sandra A. Urie
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Barry O. Tagen
Aaron M. Wheaton
Gerald I. Wilson

Counsel:
Ropes & Gray LLP

Independent Auditor:
PricewaterhouseCoopers LLP