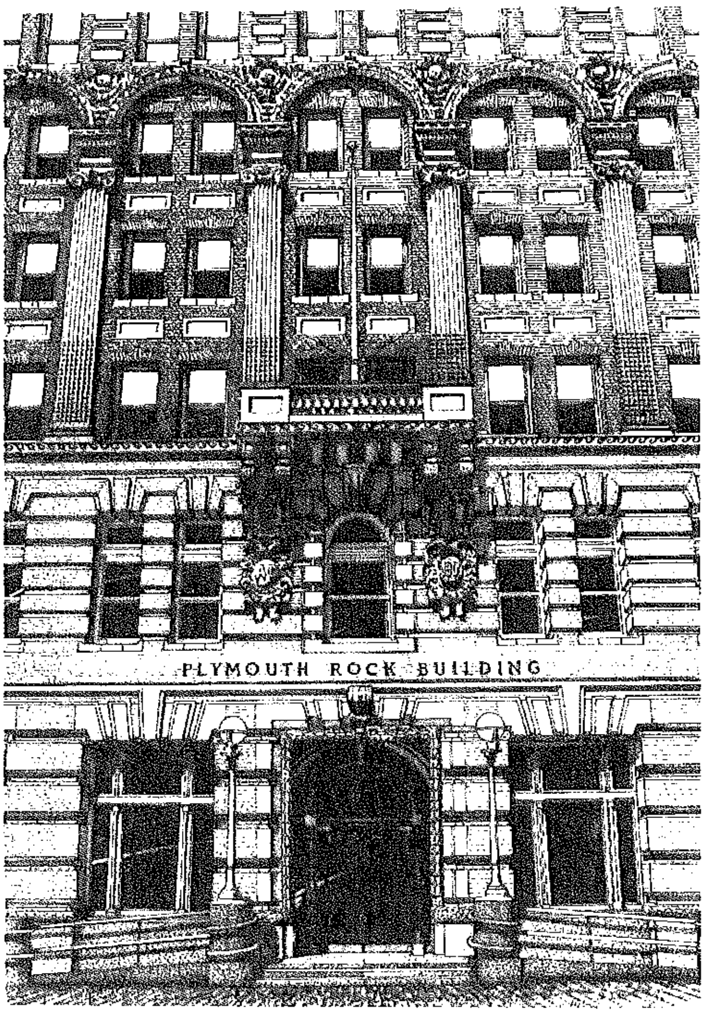
The Plymouth Rock Company



2012 Annual Report

The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 15, 2013

To Our Shareholders:

After a few disappointing years, all signs were pointing toward a healthy turnaround in 2012. Then along came Sandy. The Frankenstorm, as some meteorologists called it, hit New Jersey brutally, changing many lives and our results for the worse. In a period of no more than twelve hours, wind and water caused as much as $50 billion worth of damage in New York and New Jersey. We don't insure in New York, but our share of the Garden State claims and associated expenses reached a whopping $108 million on a gross basis. We can thank goodness for strong capitalization, wonderful staff, and solid reinsurance protection, but those blessings couldn't prevent our consolidated group's suffering its first losing year since 1984, the year when we wrote our very first policies. Consolidated pretax income and comprehensive income were both positive for the year. But net income on a fully consolidated basis, including the managed reciprocals, was in the red -- a loss of about $3.9 million.

Due to our unusual structure, the earnings of the reciprocal group we manage in New Jersey do not directly or immediately affect the profits of the shareholder-owned company. The Plymouth Rock Company earns investment income, a management fee in New Jersey, and any underwriting profits thrown off by our New England operations. None of these three income sources were hurt by Sandy's aggravated assault. In fact, we had quite a solid year with respect to both investments and our New England underwriting businesses. The Plymouth Rock Company's earnings, as a consequence, rebounded from $28.7 million to $48.0 million, representing a 12.8% income statement return on December 31, 2011 equity. Book value, had we paid no shareholder dividends in 2012, would have grown by over $52 million, among the largest increases in our company's history. That increment corresponds to an effective return on equity of 14%. Plymouth Rock's accumulated book value, even after dividend payouts, rose by 8.3% and now stands at $2,215 per common share. The cumulative book value rate of return over the twenty-nine years of the Company's history, taking account of both shareholder dividends and accumulated equity, is 18.1%, down one-tenth of a point from the last reported cumulative number.

As you can plainly see, this past year brought mixed news. The group loss is surely bad news. Worse news is that the volume of business written by the New Jersey reciprocal shrank considerably. The number of automobiles our group insured in 2012 in that state is 10% below its level a year ago; this translates after rate increases to an 8% fall in premiums written. The vehicle count is down 24% from just two years ago, resulting in a two-year premium drop of 15%. Reductions of volume at this magnitude, if allowed to continue, would inevitably diminish the value of our whole enterprise. The good news begins with the shareholder gain, but also encompasses the New England results. Our insurers in the north are doing better than they have done in quite a few years, with every prospect of continuing that success into 2013 despite a winter blizzard.

The bad news stories deserve first placement. Sandy was plainly the most dramatic event of the year. The weather in the northeastern United States had been favorably mild for just shy of ten months in 2012, but in one long night, on Monday, October 29th, the whole year's place in history changed. A disturbance that began as a relatively typical Atlantic hurricane in the Caribbean joined with a wintry storm coming down from Canada, the low pressure of the latter pulling the hurricane towards land and increasing its power when it would otherwise have dissipated over the cold waters of the North Atlantic Ocean. Sandy made a left turn just where the graveyard for most coastal hurricanes beckoned from the right. The storm hit the shoreline, moreover, during a period of full moon tides, which greatly increased flooding. One top academic expert has described this triple confluence as a 1-in-800 year event. Damage in New Jersey was immediate. Houses were bombarded by direct winds and flying tree branches; cars were salt-water flooded; and electricity failed at power stations and along transmission lines serving millions of residents. As the fates would have it, though, just hours before Sandy slammed into the shores of New Jersey, the National Weather Service reclassified it to Post-Tropical Storm status. The causes of the downgrade had no discernible mitigating impact on damage, but a huge impact on homeowners claims costs. Most of our New Jersey policies carry deductibles for the first dollars of wind losses from a hurricane, but these could not be applied because Sandy was no longer officially a hurricane as it struck New Jersey. The gross losses our companies paid as a result of Sandy would have been at least $40 million less had the deductibles been applied. The consolidated profit for the Plymouth Rock Companies would presumably have been written in black ink had the storm not been downgraded.

The damage from Sandy was also persistent. Nearly two weeks went by before most everyone had power again, while completed repairs to homes and replacement of flooded cars often took a month or more. For the first week or so, our own employees, even those with undamaged residences, had limited access to their offices, and the gasoline required for their commutes was hard to come by. These were the conditions that inspired Plymouth Rock of New Jersey's finest hour. The company provided free hot food for all staffers, a bed for those in need of one, and, for their out-of-school children, day care overseen by simultaneously out-of-school teachers. Gerry Wilson and his team even arranged for a gasoline tanker truck to drive to Red Bank and create an improvised filling station of sorts for employees who had vital services to perform for the community. For our customers, our team organized a massive social media effort to reach out to affected policyholders, initiated on-site rapid response appraisals in hard hit towns, sponsored a one-stop "Resource Recovery Day" with representatives of numerous relevant agencies and types of service providers, and even gave out holiday turkeys to the longest-suffering storm victims. We are very proud that the men and women of Plymouth Rock, including those who pitched in from New England, rose to insurance greatness in this crisis. I sincerely doubt that any of our competitors matched our speed of claim settlement or level of teamwork and service.

The issues related specifically to Sandy, we hope, are in the past now. We will revisit our reinsurance protection, though I doubt I would change much given the costs and benefits in covering such unlikely events. We can tweak our disaster recovery protocols at the margin, although Hal and I found many more pleasant surprises than unpleasant ones as we watched the recovery procedures implemented under circumstances that mercilessly tested their robustness. The more chronic New Jersey issues are not yet in the past, and these issues matter more than the 2012 financials can display. As I have so often said, there is only short-run immunization for the shareholders when the reciprocals underperform. Our managed enterprise in New Jersey was already hurting on the top line, and just recovering on the bottom line, when 2012 began. The problems on the bottom line were traceable in part to reserving inadequacies of our own making against a background of unusually escalating statewide no-fault coverage costs. It is in single state disequilibrium situations like the New Jersey no-fault eruption that we feel the pinch from being such a geographically concentrated company, a feature that has always served us well along the service dimension. A fifty-state carrier can ride out a cost crisis in any one state more comfortably than a tightly focused insurer. We felt an absolute need to raise our automobile premium rates decisively. Knowing that there would be a trade-off between profitability and volume, we judged profit restoration to be more essential than volume maintenance. A company can, within limits, grow and shrink in response to fluctuations in its environment and still thrive over the long run. Without profits, it puts its reason for being in jeopardy. Prices were raised and, absent Sandy, Gerry and his team would have been able to boast gains once again this past year. Volume fell, which was directionally as expected, the only problem being that it fell more than any of us liked and more than for our peer competitors.

The impact of insurance price changes on customers is always difficult to calibrate in advance. Overshooting and undershooting are endemic risks in such a complex system. One never knows precisely how much of any rate filing request will translate into actual average premium increase because customers, by their actions, have as much say in that as companies do. Nor can one be sure how much change will cause a customer to leave loyalty behind, overcome inertia, and shop. Gerry, Hal, and I have no regrets about having leaned toward profits and thus risked volume, even if we might have turned the dials differently to avoid some of the sticker shock given perfect hindsight. We could (with bold mendacity) claim to have been geniuses and suppressed the volume intentionally because we somehow foreordained that 2012 would be a losing year for the New Jersey insurers. The direct loss ratio for Plymouth Rock in that state overall was 76% this past year. Without the Superstorm, it would have been a healthy 60%. Given Sandy, it was fortuitous that our writings were downsized, not only because the losses would have been proportionally greater at larger scale, but also because the reductions in volume turned out to match the storm-related losses in capital and thus kept our statutory ratios of premium to surplus at healthy levels. We were in that sense lucky to have shrunk, but enough is enough. The underwritten and managed gross premium volume for our entire group was dragged down by the New Jersey shrinkage, to the effect that total premium volume at yearend 2012 was $1.04 billion, down by $22 million from the equivalent count at last year's close. With rate shock finally behind us, we trust, we would now like to restore the New Jersey volume.

The headwind that operates against volume growth in New Jersey remains the success of the competitive direct response writers there. Direct response insurers, who had avoided that state until recently, have recently snatched up more than half the vehicles previously written by independent agency carriers, pushing New Jersey to the far corner among the fifty states in terms of low agency market share. If national logic holds, the shift should be largely over by now, but New Jersey is already an outlier so no one can be certain. Sandy, ironically, may provide the tailwinds we are seeking. Our companies already have a reputation for fine service, as illustrated by our continuing excellence in the New Jersey Insurance Department's published complaint ratio data and amplified by standout performance in the aftermath of the storm. Now, we have to hope that the competition over-learns the lessons of Sandy and reactively puts the screws to the property insurance markets in the extended neighborhood of the Hudson River. Plymouth Rock Assurance will remain open as a source of homeowners coverage for our New Jersey automobile insurance customers, regardless of the proclivities of the competition. Give us both the auto and the homeowners policies, and we've got you covered. Gerry foresees a profitable 2013, with those bleak volume charts flattening out by the time the year ends.

The report on our New England business stands in welcome contrast to the New Jersey story of recent years. After a decade of inadequate performance in our home state, the Massachusetts carrier is now prosperous, ambitious, and primed to set new marks. Chris Olie presided over a profitable year in auto insurance, with a combined ratio of about 98%. This was also a year of growth, with the company's Massachusetts market share in our oldest line of business having risen from 5.6% to 5.8%. More than that, the Bay State carrier has built out a good part of its underwriting analytical staff. Years ago, we were able to boast that our sophistication in underwriting mathematics gave us a durable comparative advantage over our local peers. We inadvertently permitted that lead to dissipate as we concentrated elsewhere, but we are recreating it now and I expect it to pay handsome dividends. At the same time, we are constructing an Internet expertise that can also provide a competitive advantage. I have made no secret of my view that Internet skill will eventually be required for the very survival of an insurer, but for now the youthful state of the web provides more opportunity than danger. Chris has overseen growth in our Massachusetts eSales premium into the seven digits and the launching of an Agent Quote Marketplace that should allow us and our agents to monetize Internet quotes that do not convert immediately to Plymouth Rock policies. It is a source of no small pride that a number of our agents have described us as the clear leader among Massachusetts agency carriers on the path to effective Internet commerce.

Our New England homeowners writer, Bunker Hill, came off a bad weather year in 2011 with an almost unbelievable bounce. The unusually gentle Massachusetts weather of 2012 allowed that company to replace its 127% prior year loss and loss adjustment expense ratio with an equivalent number 82 points lower. One good year, though, does not a good business make. I still have concerns about the homeowners business in the long run. Climate change is an uncertainty, while low decadal risk-adjusted returns on capital, after provision for fully prudent reinsurance levels, have been a certainty. On the other hand, homeowners insurance is important to our agents in completing the personal lines menu. Homeowners premiums, moreover, have been rising more sharply in recent years than in the past, while they have been relatively flat for a decade in automobile insurance. Account-writing, where companies within our family sell both products to a customer also increases persistency and seems to reduce automobile loss ratios. Worries notwithstanding, therefore, Hal, Chris, and I are comfortable to see Bunker Hill expand its homeowners appetite -- but only where our group also has the customer for automobile insurance. Bunker Hill shed some stand-alone homes in 2012, and thus ended the year about 5% smaller than in 2011. The trimming will continue in 2013 but it will be largely balanced by new homeowners volume, matched with insured auto writings. We would be unrealistic to expect a repeat of the 2012 loss ratio.

Pilgrim Insurance, our Massachusetts insurance services provider, is shrinking as the residual market for automobile insurance in Massachusetts continues to contract. This downsizing of the market of last resort is a sign of overall industry health, but Pilgrim is a caregiver of sorts and does best when the other carriers need external assistance. Its revenue is down by 17% from a year ago. Profits under Bill Hartranft's able leadership continue to be strong, at just over $3 million, but if Pilgrim's service business is to grow it must find new sources of client revenue. New Jersey, where Pilgrim is licensed but inactive, is a possibility. Encharter, our subsidiary that invests in and operates insurance agencies, has ambitions to be the model for an agency of the future, fully utilizing all the tools of the Internet age. It has yet to translate its pioneering into large scale, but this task is noticeably rising on agendas here. Mt. Washington Assurance, headquartered in New Hampshire, recovered from a poor year in 2011 to achieve a pure loss ratio in the fifties, but its writings remained flat. Its profit levels are acceptable at the margin but are scarcely noticeable in our group results. I promised you that we would try again to rev up Connecticut. The results so far look promising, with volume on the rise and an accident year loss ratio under 70 points, but it will take a few more years on this track to see if Plymouth Rock's Connecticut writings can become a meaningful factor in that state's insurance industry or in our own enterprise's results. It would be a profoundly satisfying victory if that came to pass.

This was a better year for investment results than the prior two. Considering all classes of investments together, the economic return on the entire portfolio was in excess of 6%. The marketable equity segment of the portfolio, which has generally outperformed the indices in most years, did not keep up with the 16% Standard & Poor's gain this year, in part because we nearly doubled that portfolio's size near year-end (at the expense of our parent company's bond holdings), and thus suffered from the case of Fiscal Cliff Fever the market caught during the last days of December. It was not, moreover, a stellar year for blue chips in general -- and blue-chip chip makers in particular. Our worst performing jumbo-cap stock was Intel. Still, we are quite happy with our undiversified stock portfolio, whose component securities one can still number with a single digit. While the internal rate of return in the new millennium on our stocks is lower than it was during the long boom period of the 1990's, a twenty-year internal rate of return on marketable equities of 15.4% is snappy enough to be a source of satisfaction. The S&P return, which generally approximates the dart board return and slightly exceeds the mutual fund industrywide return, was by contrast under 11% for the same period.

Bond returns were once again expectedly skimpy, which is all that is possible for a fixed income portfolio on which we refuse to take significant credit or interest rate risk. In the prior year, our bonds gave us a tax-equivalent return, with both coupon and price changes considered, of about 4%. This year, as bonds of older vintages matured and were replaced with even lower yielding equivalents of more recent issuance, our yield predictably fell, and the equivalent total return is today more like 3.7%. As you are very well aware, I have never been a fan of holding bonds, which have slightly poorer risk-return characteristics than stocks in many periods -- and grossly worse characteristics in a period of petite yields and hefty inflation risk. We sold the bulk of the Plymouth Rock parent company's fixed-income holdings during the year and, with an eye to available dividends as well as capital gains potential, have replaced those bonds with various equity holdings. Encouraged by Federal Reserve policies, the low-yield environment for short and intermediate bonds seems likely to endure. We will examine carefully, within what rating agencies and regulators find prudent, whether our insurance company bond concentrations can be reduced, at least to some degree, in 2013.

Plymouth Rock's relatively illiquid investments with equity characteristics, including hedge funds, private equity, and real estate holdings, had an especially strong year. Our economic gains in this category averaged somewhere north of 15%. This includes increases in real estate appraisals, which are reflected in neither reported income nor equity. Homesite Insurance Group, in which Plymouth Rock and some of its officers are investors, had a trying year once again. Its premium levels, like those of its competitors in the national homeowners line, are rising faster than at any time in recent memory but have not fully kept pace with historically abnormal weather-related events. Though Homesite finished the year barely above a pretax breakeven, we continue to believe that the company will succeed. Homesite has gathered by now the most skilled collection of homeowners executives in the nation, passed half a billion dollars in revenue, and created a track record of valuable service to its corporate partners, many of whom write automobile insurance but have less (or no) appetite for the accompanying homeowners. Homesite is concentrating these days on raising its rates to match the weather-driven claims results. It has a wonderful opportunity, but it almost goes without saying that it must resume full profitability soon if our investment's value is to grow.

I was asked recently by a reader of this letter whether I was planning to write again about excesses in the derivatives positions of the largest financial institutions. Without endorsing her characterization of my comments on this topic as rants, I admit to having devoted considerable space to derivatives. I could surely do so once again, since neither the boards of directors of the banks nor their government overseers seem yet to be fully cognizant of the individual and systemic hazard inherent in oversized positions or willing to mitigate them. On the other hand, I have little to add on that matter right now, and there is at this time another, more hotly debated, policy subject that deserves some thought. It has been recognized by both major political parties that the burden of the national debt being passed to the young and the unborn is an increasing threat to the country's future. At the same time, the economy, while improving, is still far short of operating at full potential. My party, against this backdrop, has so far been loath to limit entitlement programs that are plainly imbalanced over the long haul, while the other major party has shied from stimulus measures that could revitalize the economy now. Our top leaders are able, and they surely appreciate that there is a logical path back to prosperity and a sensible deficit posture, but they apparently lack the legislative support to lead us there. If this nation wishes to reduce its debt load, it should trim defense spending, temper Medicare costs (perhaps through means-tested copayments), and postpone or reduce retirement obligations (a necessity when lifespans and birth demographics vary so greatly from their patterns in prior decades). Those items, and only those, carry large enough costs to make the requisite difference in the debt. Yes, this should be done with a close eye to national security and humane considerations as well as frugality, but that too is within our grasp if a little imagination and flexibility can be brought to bear. An assurance that the debt has been set on a pronounced downward course over the long horizon could then permit what would be, by comparison, a small increment to short-term stimulus expenditure, aimed principally at upgrades to our stressed and under-maintained infrastructure. I am no pessimist about the future for the United States in this century. Our country's lead in economic creativity is robust, and its competitive outlook still looks rosy to me, even accepting that we cannot forever maintain a nearly 20% share of world GNP for less than 5% of the world's people. It is embarrassing, though, that the road forward has lately become impeded by problems of factional politics that exceed historical norms.

There are a few topics from last year's letter that call for updates this year. The largest is the question of whether climate change represents a serious and continuing threat to the insurance business. The past year was apparently the warmest ever recorded in the United States. The unsettling, costly uptick in hailstorms throughout the central U.S. of recent years persisted. Nothing, however, brought clarity to the picture. It is impossible to tell if these patterns are temporary spikes, new norms, or the inception of some still-to-worsen trend. Although some may disagree, I see Sandy's occurrence as adding no useful evidence about planetary climate. What I do see, however, is enough of a concern to encourage that Plymouth Rock move further toward the cautious end of product offerings and prices for property coverages. The last annual letter also discussed an enterprise-wide systems alignment project under Hal's direction. Among its goals is to ensure that our now disparate automobile insurance offerings in the various states migrate to a common platform. The increase in product uniformity will allow the whole enterprise to share the benefits of analytical research wherever located, to cut the costs of product maintenance, and to expedite updates for pricing and tiering changes. That project continues apace, with implementation expected in this calendar year. Finally, in last year's message, I invited data wizards and modelers to apply for Plymouth Rock jobs. The analytical underwriting staff is being built out nicely, but there are still positions open. You can contact me directly (jstone@prac.com) if you know someone who would be a good fit. The right person could have an opportunity to help establish the most innovative analytical shop in the insurance industry.

James M. Stone

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2012 and 2011
(dollars in thousands)

Assets	2012	2011
The Plymouth Rock Company and Subsidiaries		
Cash and cash equivalents	$ 43,047	$ 33,992
Investment securities	523,132	496,481
Accrued investment income	2,721	3,219
Premiums receivable	97,642	86,434
Deferred acquisition costs	23,629	20,882
Amounts receivable from reinsurers and pools	11,364	13,855
Amounts due from service clients	2,268	2,830
Prepaid expenses, agent loans, and deposits	7,090	7,980
Real estate	35,327	35,380
Fixed assets	29,305	29,363
Goodwill and intangible assets	4,626	4,539
Income tax recoverable	1,122	4,104
Other assets	1,038	1,141
Subtotal	782,311	740,200
Palisades Reciprocal Group		
Cash and cash equivalents	33,516	38,312
Investment securities	1,052,635	1,093,846
Accrued investment income	5,764	5,540
Premiums receivable	101,936	109,498
Deferred acquisition costs	13,326	6,269
Amounts receivable from reinsurers and pools	168,701	122,148
Amounts due from service clients	18	27
Prepaid expenses, agent loans, and deposits	353	568
Fixed assets	29	223
Goodwill and intangible assets	16,396	17,955
Income tax recoverable	17,374	13,243
Deferred income taxes	-0-	16,775
Other assets	1,091	4,059
Subtotal	1,411,139	1,428,463
Total assets	$2,193,450	$2,168,663

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2012 and 2011
(dollars in thousands)

Liabilities	2012	2011
The Plymouth Rock Company and Subsidiaries		
Claim and claim adjustment expense reserves	$ 120,386	$ 124,892
Unearned premium reserve	152,490	135,729
Advance premiums	6,201	6,580
Commissions payable and accrued liabilities	51,928	53,005
Amounts payable to reinsurers	1,717	1,466
Unearned service fees	3,783	3,647
Amounts due to service clients	4,914	4,285
Deferred income taxes	15,223	14,511
Other liabilities	2,524	2,357
Subtotal	359,166	346,472
Palisades Reciprocal Group		
Claim and claim adjustment expense reserves	779,692	749,982
Unearned premium reserve	241,780	232,734
Advance premiums	8,507	7,174
Commissions payable and accrued liabilities	75,437	87,206
Amounts payable to reinsurers	7,331	7,353
Surplus notes	25,000	25,000
Other liabilities	5,213	1,341
Subtotal	1,142,960	1,110,790
Total liabilities	1,502,126	1,457,262
Equity		
The Plymouth Rock Company and Subsidiaries		
Common stock and paid-in capital	28,277	27,862
Retained earnings	354,098	327,283
Net unrealized gain on investments	23,258	19,494
The Plymouth Rock Company stockholders' equity	405,633	374,639
Palisades Reciprocal Group	285,691	336,762
Total liabilities and equity	$2,193,450	$2,168,663

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, 2012 and 2011
(dollars in thousands)

Revenues	2012	2011
The Plymouth Rock Company and Subsidiaries		
Premiums earned in underwriting activities	$ 284,958	$ 261,559
Fees earned from service activities	195,860	207,845
Investment income and capital gains	29,108	19,485
Subtotal	509,926	488,889
Palisades Reciprocal Group		
Premiums earned in underwriting activities	578,365	623,567
Fees earned from service activities	535	371
Investment income and capital gains	44,779	39,665
Subtotal	623,679	663,603
Less: Intra-group transactions	173,108	182,410
Total revenues	960,497	970,082
Expenses		
The Plymouth Rock Company and Subsidiaries		
Claims and claim adjustment expenses	196,015	211,492
Policy acquisition, underwriting, and general expenses	86,196	75,748
Service activity expenses	152,688	155,622
Subtotal	434,899	442,862
Palisades Reciprocal Group		
Claims and claim adjustment expenses	501,199	525,188
Policy acquisition, underwriting, and general expenses	164,270	165,413
Service activity expenses	1,176	869
Subtotal	666,645	691,470
Less: Intra-group transactions	173,108	182,410
Total expenses	928,436	951,922
Income before income taxes	32,061	18,160
Income taxes	35,960	5,529
Fully consolidated net (loss) income	(3,899)	12,631
Less: Net loss of Palisades Reciprocal Group	(51,909)	(16,026)
Net income of The Plymouth Rock Company and Subsidiaries	$ 48,010	$ 28,657

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, 2012 and 2011
(dollars in thousands, except per share data)

	2012	2011
The Plymouth Rock Company and Subsidiaries		
Net income	$ 48,010	$ 28,657
Other comprehensive income, net of tax:		
Total unrealized gain on investment securities during the year	4,727	3,052
Less: Gain on investments included in net income	963	3,439
Change in net unrealized gain (loss) on investments during the year	3,764	(387)
Comprehensive income	51,774	28,270
Palisades Reciprocal Group		
Net loss	(51,909)	(16,026)
Other comprehensive income, net of tax:		
Total unrealized gain on investment securities during the year	7,734	4,059
Less: Gain on investments included in net income	6,896	5,126
Change in net unrealized gain (loss) on investments during the year	838	(1,067)
Comprehensive loss	(51,071)	(17,093)
Fully consolidated		
Net (loss) income	(3,899)	12,631
Change in net unrealized gain (loss) on investments during the year	4,602	(1,454)
Comprehensive income	$ 703	$ 11,177

The Plymouth Rock Company and Subsidiaries - Per share data

	2012	2011
Weighted average common shares outstanding	183,115	183,115
Net income per share	$ 262.19	$ 156.50
Common shares outstanding at end of year	183,115	183,115
Common stockholders' equity per share	$2,215.18	$2,045.92

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, 2012 and 2011
(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, 2010	$27,742	$319,025	$19,881	$366,648	$353,855	$720,503
Comprehensive income	-0-	28,657	(387)	28,270	(17,093)	11,177
Issuance of common stock	120	-0-	-0-	120	-0-	120
Dividends to stockholders	-0-	(20,399)	-0-	(20,399)	-0-	(20,399)
December 31, 2011	27,862	327,283	19,494	374,639	336,762	711,401
Comprehensive income	-0-	48,010	3,764	51,774	(51,071)	703
Issuance of common stock	415	-0-	-0-	415	-0-	415
Dividends to stockholders	-0-	(21,195)	-0-	(21,195)	-0-	(21,195)
December 31, 2012	$28,277	$354,098	$23,258	$405,633	$285,691	$691,324

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, 2012 and 2011
(dollars in thousands)

Cash flows from operating activities	2012	2011
The Plymouth Rock Company and Subsidiaries		
Gross premiums collected	$ 308,005	$ 280,322
Reinsurance premiums paid	(17,484)	(15,280)
Finance charges collected	3,957	4,594
Fees and commissions collected	194,099	215,918
Investment income and capital gains received	27,035	16,507
Gross claims and claim expenses paid	(207,738)	(228,568)
Reinsured claims and claim expenses collected	4,657	10,802
Policy acquisition, underwriting, and general expenses paid	(77,605)	(72,741)
Income taxes paid	(25,324)	(15,010)
Service activity expenses paid	(142,628)	(151,226)
Net cash provided by operating activities	66,974	45,318
Palisades Reciprocal Group		
Gross premiums collected	708,934	761,358
Reinsurance premiums paid	(113,846)	(139,196)
Finance charges collected	4,532	5,087
Fees and commissions collected	544	376
Investment income and capital gains received	46,560	43,315
Gross claims and claim expenses paid	(642,618)	(645,227)
Reinsured claims and claim expenses collected	116,135	91,199
Policy acquisition, underwriting, and general expenses paid	(171,504)	(160,468)
Income taxes recovered	3,249	62
Service activity expenses paid	(1,176)	(869)
Net cash used in operating activities	(49,190)	(44,363)
Total net cash provided by operating activities	$ 17,784	$ 955

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, 2012 and 2011
(dollars in thousands)

Cash flows from financing activities	2012	2011
The Plymouth Rock Company and Subsidiaries		
Dividends to stockholders	$ (21,195)	$ (20,399)
Net cash used in financing activities	(21,195)	(20,399)
Palisades Reciprocal Group		
Net cash used in financing activities	-0-	-0-
Total net cash used in financing activities	(21,195)	(20,399)
Net cash provided by / (used in)		
The Plymouth Rock Company and Subsidiaries	$ 45,779	$ 24,919
Palisades Reciprocal Group	$ (49,190)	$ (44,363)
Total	$ (3,411)	$ (19,444)
Investment of net cash provided		
The Plymouth Rock Company and Subsidiaries		
Change in cash and cash equivalents	$ 9,055	$ 2,916
Net investment activity	19,080	6,718
Purchase of goodwill and intangible assets	224	-0-
Net real estate activity	1,619	749
Purchases of fixed assets	15,801	14,536
Net cash related to investing activities	$ 45,779	$ 24,919
Palisades Reciprocal Group		
Change in cash and cash equivalents	$ (4,796)	$ (19,437)
Net investment activity	(44,394)	(24,926)
Purchases of fixed assets	-0-	-0-
Net cash related to investing activities	$ (49,190)	$ (44,363)
Total net cash invested	$ (3,411)	$ (19,444)

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

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

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

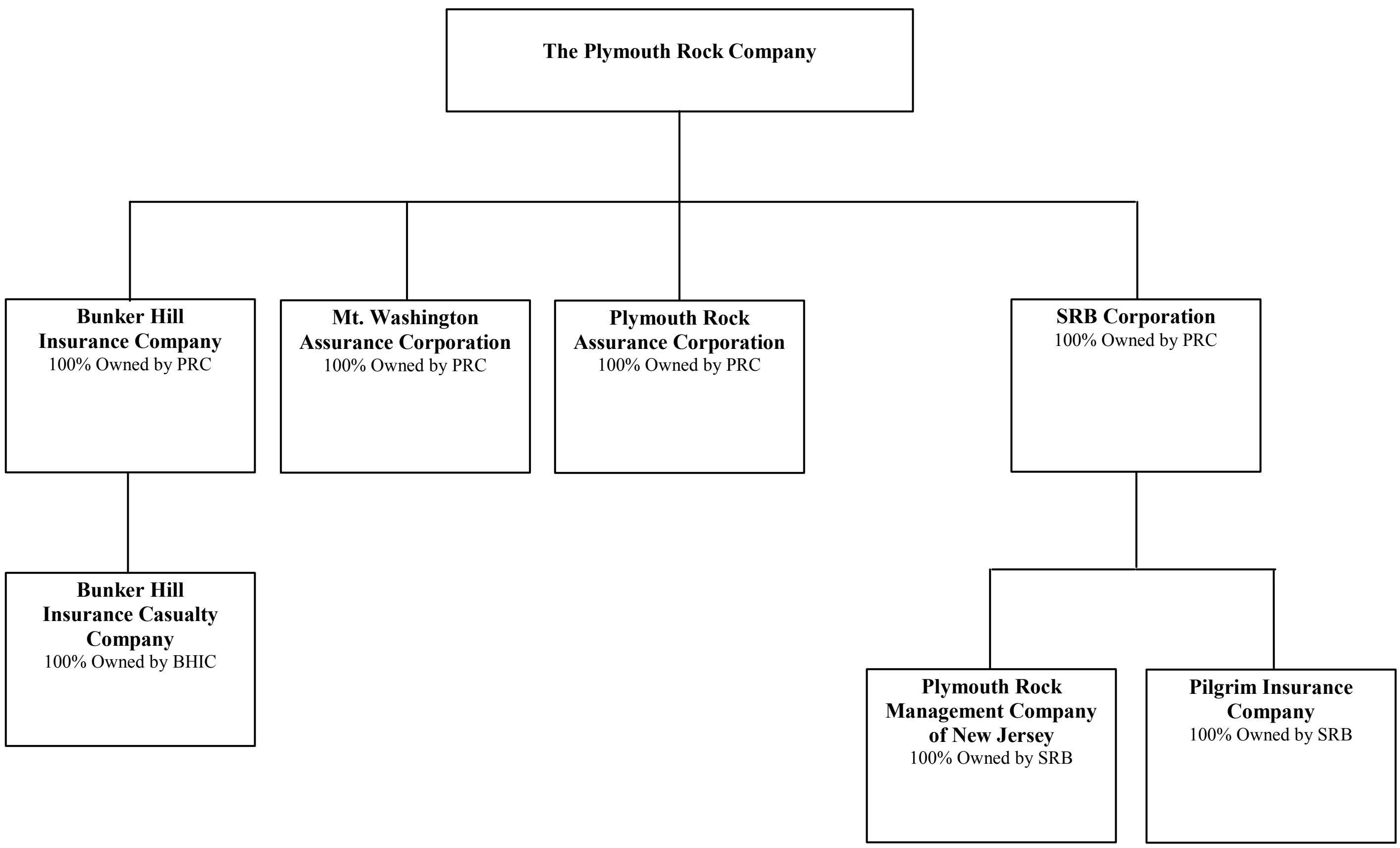
Among The Plymouth Rock Company's largest businesses is the management of a reciprocal insurance group in New Jersey, which is conducted through a subsidiary. The members of that reciprocal group of companies, which are referred to in these financial statements as the "Palisades Reciprocal Group", are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

1. Nature of Operations, continued

In accordance with Accounting Standards Codification Topic 810, The Plymouth Rock Company's financial statements consolidate the results of the members of the Palisades Reciprocal Group effective January 1, 2010. The Plymouth Rock Company and Subsidiaries have in the past provided capital to the Palisades Reciprocal Group in the form of surplus notes and preferred stock that account for $18.6 million, or 6.5 percent and 5.5 percent, of the equity of the Palisades Reciprocal Group at December 31, 2012 and 2011, respectively. 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. Under present accounting standards, a service provider is required to consolidate variable interest entities that it services if it has the power to direct the activities that most significantly affect the performance of those entities and if the fees paid for those services are significant relative to the service recipient's overall economic performance. The Plymouth Rock Company and Subsidiaries manage all activities of the Palisades Reciprocal Group, and the servicing fees received by The Plymouth Rock Company and Subsidiaries are significant relative to the financial results of the Palisades Reciprocal Group; therefore the results are presented in a consolidated manner despite fundamental legal and regulatory distinctions between The Plymouth Rock Company and Subsidiaries on one hand and the Palisades Reciprocal Group on the other.

2. Organization of The Plymouth Rock Company and Subsidiaries

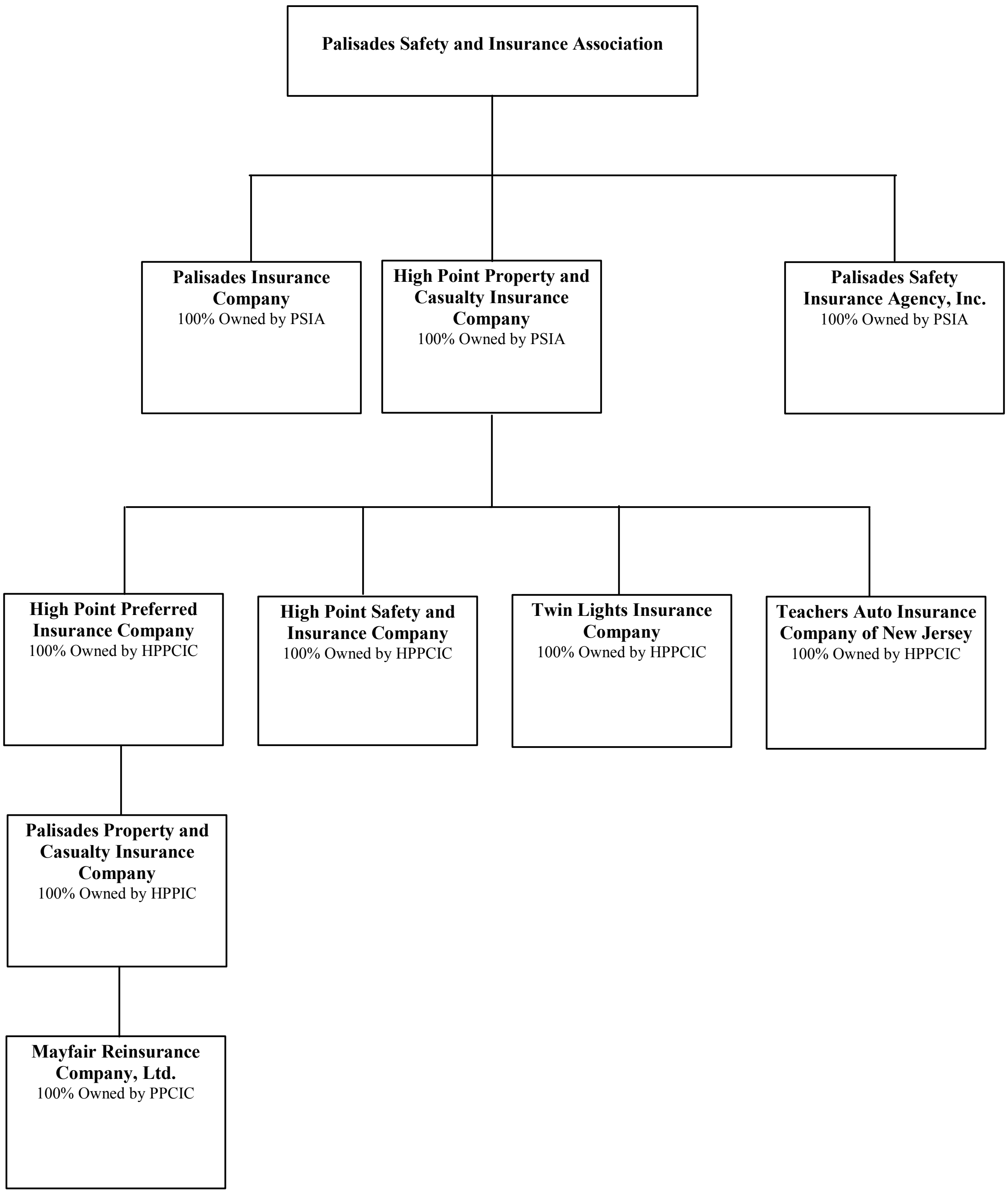
The corporate and ownership structure of The Plymouth Rock Company and principal subsidiaries is shown in the following chart:



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

3. Organization of the Palisades Reciprocal Group

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



4. Revision of Prior Period Amounts

Prior period balances in The Plymouth Rock Company's consolidated financial statements have been revised to reflect adjustments related to the equity method accounting for investments in Homesite Group Incorporated and accounting for assessments by the New Jersey Property Liability Insurance Guaranty Association.

Equity Method Accounting for Investments in Homesite Group Incorporated

The Plymouth Rock Company and Palisades Reciprocal Group each have investments in the non-marketable common stock of Homesite Group Incorporated that are valued using equity method accounting. Historically, the carrying values of these investments have been adjusted only for The Plymouth Rock Company's and Palisades Reciprocal Group's shares of Homesite's net income or loss in each accounting period based on their percentage ownership of the outstanding common stock. This approach did not capture changes in the carrying value of the investments that resulted from Homesite capital transactions, nor did it reflect changes in the carrying value attributable to Homesite's unrealized gains or losses on investments.

These statements include revised balances for investments, deferred taxes, and the equity accounts at December 31, 2010 and 2011 as a result of fully applying the equity method. The equity of The Plymouth Rock Company and Subsidiaries as of both December 31, 2010 and December 31, 2011 has been increased by $9.5 million. The equity of the Palisades Reciprocal Group as of both December 31, 2010 and December 31, 2011 has been reduced by $242,000. Full application of the equity method during 2011 would have resulted in $120,000 lower net income and $169,000 higher net unrealized gains than previously reported for The Plymouth Rock Company and Subsidiaries, and $62,000 lower net income and $86,000 higher net unrealized gains for the Palisades Reciprocal Group. As these amounts are not deemed to be material to either 2011 or 2012 results, they have been recorded in 2012.

4. Revision of Prior Period Amounts

New Jersey Property Liability Insurance Guaranty Association Accounting

The Palisades Reciprocal Group writes insurance in New Jersey, which subjects it to assessments by the New Jersey Property Liability Insurance Guaranty Association to fund past insolvencies of other insurance companies. These assessments are recoverable through future surcharges to policyholders. Starting with the initial consolidation of the Palisades Reciprocal Group in 2010, the accounting for the New Jersey guaranty fund reflected in The Plymouth Rock Company's consolidated financial statements has been consistent with generally more conservative statutory accounting principles. Those principles, based on the New Jersey Administrative Code, prescribe recording a receivable in recognition of the expected future recovery at the time that the assessment is paid. In contrast, generally accepted accounting principles do not permit an asset to be established until the premiums upon which the surcharges can be assessed have been written.

These statements include revised balances for the Palisades Reciprocal Group's other assets, deferred taxes, and equity at December 31, 2010 and 2011 as a result of the change in accounting for the recovery of New Jersey guaranty fund assessments. Palisades Reciprocal Group equity has been reduced by $3.4 million as of each December 31, 2010 and December 31, 2011. Net Income for 2011 under the required accounting would have been $282,000 lower than previously reported. As this amount is not deemed to be material to either 2011 or 2012 results, it has been recorded in 2012.

Summary of Revised Balances

The revised balances for the equity accounts at December 31, 2010 and 2011 relating to the two accounting changes discussed above are as follows:

(dollars in thousands)	December 31, 2011		December 31, 2010	
	Revised	Originally Presented	Revised	Originally Presented
Common stock and paid-in capital	$ 27,862	$ 27,862	$ 27,742	$ 27,742
Retained earnings	327,283	318,314	319,025	310,056
Net unrealized gain on investments	19,494	19,010	19,881	19,397
Total stockholders' equity	374,639	365,186	366,648	357,195
Palisades Reciprocal Group	336,762	340,368	353,855	357,461
Total equity	$711,401	$705,554	$720,503	$714,656

4. Revision of Prior Period Amounts

The changes to other balance sheet accounts at December 31, 2010 and 2011 are as follows:

The Plymouth Rock Company and Subsidiaries

	December 31, 2011		December 31, 2010	
(dollars in thousands)	Revised	Originally Presented	Revised	Originally Presented
Investment securities	$496,481	$480,674	$490,273	$474,466
Deferred income tax liability	$ 14,511	$ 8,156	$ 12,485	$ 6,130

Palisades Reciprocal Group

	December 31, 2011		December 31, 2010	
(dollars in thousands)	Revised	Originally Presented	Revised	Originally Presented
Investment securities	$1,093,846	$1,094,219	$1,122,309	$1,122,682
Deferred income tax asset	$ 16,775	$ 14,833	$ 7,371	$ 5,429
Other assets	$ 4,059	$ 9,234	$ 1,687	$ 6,862

5. 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 note 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.

5. Summary of Significant Accounting Policies, continued

B. Stock-Based Compensation

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

C. Use of Estimates

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

D. Cash and Investments

Cash and cash equivalents include money market funds and short-term money market instruments with maturity dates no longer than 90 days from the date of acquisition. Liabilities for outstanding checks for The Plymouth Rock Company and Subsidiaries of $2.9 million and $5.8 million are included in accrued liabilities at December 31, 2012 and 2011, respectively. Liabilities for outstanding checks for the Palisades Reciprocal Group of $5.4 million and $14.4 million are included in accrued liabilities at December 31, 2012 and 2011, 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. 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. The portion of the loss attributable to credit quality is reported as a component of net realized capital gains, while any portion of the loss attributable to other factors, such as fluctuations in interest rates, is reported as a component of other comprehensive income. Net unrealized gains or losses on securities available for sale, after deduction of applicable deferred income taxes, are credited or charged directly to 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. Investments in Homesite Group Incorporated, which derives underwriting revenue from personal lines property and casualty insurance, primarily homeowners, throughout most of the United States, are valued using the equity method, with all changes in unrealized gains on investments included in other comprehensive income.

5. Summary of Significant Accounting Policies, continued

E. Real Estate and Fixed Assets

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

F. Deferred Acquisition Costs

Commissions and premium taxes are deferred and amortized pro rata over the contract periods in which the related premiums are earned. All amounts deferred as of December 31 are charged to operations in the following year as the related premiums are earned. Deferred acquisition costs are presented net of deferred commission income on ceded reinsurance. Net amortization associated with these deferred costs for 2012 and 2011 for The Plymouth Rock Company and Subsidiaries was $44.7 million and $40.9 million, respectively, while the 2012 and 2011 net amortization for the Palisades Reciprocal Group was $19.7 million and $21.0 million, respectively. The 2011 net amortization for the Palisades Reciprocal Group includes a $2.5 million reversal of an overstatement of the deferred acquisition cost asset as of both January 1, 2010 and December 31, 2010 upon its initial consolidation into The Plymouth Rock Company's financial statements. This reversal was deemed to not have a material effect on reported 2011 results.

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 and are presented net of reinsurance.

Premiums receivable are net of reserves for doubtful collections. At December 31, 2012 and 2011, the reserves for doubtful collections for The Plymouth Rock Company and Subsidiaries were $1.1 million and $901,000, respectively. The reserves for doubtful accounts of the Palisades Reciprocal Group at December 31, 2012 and 2011 were $3.1 million and $2.8 million, respectively.

5. Summary of Significant Accounting Policies, continued

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. The balance sheet items "amounts due from (or to) service clients" consist of balances with insurers for which Pilgrim Insurance Company provides services. In 2012 and 2011, fees of $173.1 million and $182.4 million, respectively, earned from the Palisades Reciprocal Group are eliminated upon consolidation.

I. Income Taxes

Income taxes in the statements of income for 2012 and 2011 consist of:

(dollars in thousands)	2012	2011
The Plymouth Rock Company and Subsidiaries	$ 27,017	$ 17,370
Palisades Reciprocal Group	8,943	(11,841)
Total	$ 35,960	$ 5,529

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. Detailed assessments of recent and projected future results indicate that there will more likely than not be sufficient future taxable income at The Plymouth Rock Company and Subsidiaries to realize all deferred tax assets. Despite projections of taxable income for the Palisades Reciprocal Group in 2013 and future years, the presence of taxable losses arising from reserve strengthening in 2010 and extraordinary weather catastrophes in 2011 and 2012 are sufficient evidence of the uncertainty of future taxable income to require that a full valuation allowance be recorded against the $26.5 million net deferred tax asset as of December 31, 2012. This valuation allowance is recorded through the statement of income in 2012. We will assess the likelihood of future taxable income and the continued need for a valuation allowance on an annual basis. Any future reversal of the valuation allowance would be recorded through the statement of income in the year of reversal.

5. Summary of Significant Accounting Policies, continued

I. Income Taxes, continued

The net unrealized gain on investments is presented in equity, net of an estimate of applicable deferred income taxes. The reported provision for income taxes for The Plymouth Rock Company and Subsidiaries is less than that computed by applying the federal and state income tax rates for these years to income before income taxes. This difference arises principally because of federal income tax deductions for state taxes, where applicable, as well as significant amounts of dividend income and interest from state and municipal bonds, all of which receive favorable federal tax treatment. With the Palisades Reciprocal Group reporting a loss before income taxes, the reported provision for income taxes would typically be a benefit exceeding the 35% federal income tax rate because of the favorable treatment of dividend income and interest from state and municipal bonds. The valuation allowance recorded against the deferred tax asset in 2012 has the effect of turning this tax benefit into a reported net tax expense for the year.

There are no tax positions of questionable merit that require a reserve for potential disallowance. As of December 31, 2012, neither The Plymouth Rock Company and Subsidiaries nor the Palisades Reciprocal Group is subject to examinations for tax years prior to 2008. Examinations by taxing authorities are presently in progress for both The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group covering the years 2008 through 2010. At this time, we are not aware of any findings that would result in a material change to either group's financial position.

The Plymouth Rock Company and Subsidiaries

Income taxes in the statements of income for 2012 and 2011 consist of:

(dollars in thousands)	2012	2011
Current year federal income taxes	$23,905	$10,940
Current year state income taxes	4,401	4,281
Change in deferred federal taxes	(1,278)	2,116
Change in deferred state taxes	(11)	33
Total	$27,017	$17,370

5. Summary of Significant Accounting Policies, continued

I. Income Taxes, continued

Deferred income taxes in the balance sheets as of December 31, 2012 and 2011 consist of the net effects of these temporary differences:

(dollars in thousands)	2012	2011
Net unrealized gain on investments	$(12,666)	$(10,665)
Unearned premiums	11,110	9,605
Investment and partnership timing differences	(9,346)	(9,430)
Deferred acquisition expense	(8,270)	(7,309)
Compensation expense	7,655	7,493
Depreciation	(7,471)	(8,257)
Discounting of claim reserves	2,250	2,863
Stock options expense	886	752
Other	629	437
Total	$(15,223)	$(14,511)

Palisades Reciprocal Group

Income taxes in the statement of income for 2012 and 2011 consist of:

(dollars in thousands)	2012	2011
Current year federal income taxes	$ (7,393)	$ (3,106)
Current year state income taxes	13	93
Change in deferred federal taxes	16,323	(8,828)
Total	$8,943	$(11,841)

5. Summary of Significant Accounting Policies, continued

I. Income Taxes, continued

Deferred income taxes in the balance sheet as of December 31, 2012 and 2011 consist of the net effects of these temporary differences:

(dollars in thousands)	2012	2011
Net operating loss carryforward	$ 21,692	$ 11,549
Unearned premiums	17,520	16,794
Net unrealized gain on investments	(17,163)	(16,711)
Deferred acquisition expense	(16,717)	(14,632)
Discounting of claim reserves	12,391	14,416
Guaranty fund accrual	4,324	1,811
Investment and partnership timing differences	2,414	1,888
Intangibles	862	823
Depreciation	413	376
Other	746	461
Subtotal	$ 26,482	$ 16,775
Less: Valuation allowance	26,482	-0-
Total	$ -0-	$ 16,775

Federal net operating loss carryforwards of $62.0 million will expire in 2032. The Palisades Reciprocal Group also has alternative minimum tax credit carryforwards of $891,000 that do not expire.

J. Claim and Claim Adjustment Expense Reserves

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

5. Summary of Significant Accounting Policies, continued

J. Claim and Claim Adjustment Expense Reserves, continued

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

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	2012	2011
Balance at beginning of year	$124,892	$129,495
Claims and claim adjustment expenses incurred:		
Current year	200,702	222,018
Prior years	(2,209)	(7,384)
	198,493	214,634
Claims and claim adjustment expenses paid:		
Current year	137,099	158,102
Prior years	63,359	58,773
	200,458	216,875
Change in reinsurance recoverable on unpaid claims	(2,541)	(2,362)
Balance at end of year	$120,386	$124,892

During the year ended December 31, 2012, reserves for claims and claim adjustment expenses for prior years developed favorably by $2.2 million. The favorable development from prior years during 2012 was primarily related to the property coverage under Massachusetts homeowners policies. During the year ended December 31, 2011, reserves for claims and claim adjustment expenses for prior years developed favorably by $7.4 million. The favorable development from prior years during 2012 was primarily related to bodily injury coverage under Massachusetts private passenger auto policies.

The amounts for claims and claim adjustment expenses incurred shown above include expenses for service activity clients of $2.5 million and $3.1 million reported in service activity expenses in the consolidated statements of income for 2012 and 2011, respectively.

5. Summary of Significant Accounting Policies, continued

J. Claim and Claim Adjustment Expense Reserves, continued

Palisades Reciprocal Group

(dollars in thousands)	2012	2011
Balance at beginning of year	$749,982	$754,858
Claims and claim adjustment expenses incurred:		
Current year	504,667	522,844
Prior years	(3,468)	2,344
	501,199	525,188
Claims and claim adjustment expenses paid:		
Current year	266,730	254,888
Prior years	257,850	291,838
	524,580	546,726
Change in reinsurance recoverable on unpaid claims	53,091	16,662
Balance at end of year	$779,692	$749,982

During the year ended December 31, 2012, reserves for claims and claim adjustment expenses for prior years developed favorably by $3.5 million. This change resulted primarily from favorable development of $7.3 million in homeowners business, which was partially offset by unfavorable development of $3.5 million in auto business. During the year ended December 31, 2011, reserves for claims and claim adjustment expenses for prior years developed unfavorably by $2.3 million. This change resulted primarily from unfavorable development of $4.0 million in commercial auto business, which was partially offset by favorable development in other liability business.

K. Reinsurance

Treaty reinsurance is used to reduce exposure to large losses under catastrophe, quota share, and 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 its voluntary risks.

5. Summary of Significant Accounting Policies, continued

K. Reinsurance, continued

The Plymouth Rock Company and Subsidiaries

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

	2012		2011	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$319,454	$199,994	$284,257	$222,817
Ceded	(17,735)	(3,979)	(16,478)	(11,325)
Net	$301,719	$196,015	$267,779	$211,492

Ceded premiums earned for 2012 and 2011 were $17.5 million and $16.6 million, respectively.

The Plymouth Rock Company and Subsidiaries have had treaties for quota share reinsurance for homeowners and Massachusetts private passenger auto. Approximately $11 million of homeowners premiums are ceded at a 30 percent cession rate. The ceding commission received under the homeowners treaty varies on the basis of loss ratio. The most recent Massachusetts private passenger auto quota share treaty expired on May 1, 2010. All unearned premiums, under this treaty, net of ceding commission, were returned by the reinsurer. For 2012, revenues and expenses are reflected net of quota share reinsurance totaling $11.2 million and $7.5 million, respectively. For 2011, revenues and expenses are reflected net of quota share reinsurance totaling $11.1 million and $14.9 million, respectively.

There are also in place a treaties for catastrophe reinsurance and excess reinsurance per risk for homeowners and umbrella coverages. During the years ended December 31, 2012 and 2011, the costs incurred for these treaties were $5.1 million and $4.5 million, respectively.

5. Summary of Significant Accounting Policies, continued

K. Reinsurance, continued

Two subsidiaries of The Plymouth Rock Company, Plymouth Rock Assurance Corporation and Pilgrim Insurance Company, are members of Commonwealth Automobile Reinsurers (CAR) and record their estimated share of this activity on the basis of information provided by CAR. The private passenger auto pool is now in run-off, as Massachusetts transitioned to an assigned risk structure in 2009.

Pilgrim provides auto insurance services to certain unrelated insurance companies. The income statement and reinsurance activity for The Plymouth Rock Company and Subsidiaries exclude \$19.2 million and \$29.6 million of premiums earned and \$15.2 million and \$24.8 million of claims and claim adjustment expenses incurred in 2012 and 2011, respectively, related to Pilgrim's third-party business. In connection with these arrangements, claim and claim adjustment expense reserves exclude \$25.4 million and \$36.6 million at December 31, 2012 and 2011, respectively. While Pilgrim does not retain any underwriting risk, it does have reinsurance recoverable from service clients under the terms of certain service arrangements.

To achieve a better balance of reinsurance cost and risk retention at Bunker Hill Insurance Company, The Plymouth Rock Company and Bunker Hill have entered into a Statutory Capital Support Agreement. This agreement provides that The Plymouth Rock Company will make a capital contribution to Bunker Hill if that company's surplus falls below a certain threshold. As security for its obligations under this agreement, The Plymouth Rock Company has purchased an irrevocable standby letter of credit from a bank in the amount of \$5.1 million. Although this letter of credit is not expected to be drawn upon, The Plymouth Rock Company has pledged to the bank as collateral securities that it owns which had a market value of approximately \$6.0 million as of December 31, 2012. The Statutory Capital Support Agreement, as well as the letter of credit, is scheduled to expire on June 30, 2013, by which date The Plymouth Rock Company and Bunker Hill expect to renew this agreement and the letter of credit. During 2011, Bunker Hill's surplus dropped below the specified threshold, which is presently \$20.0 million, and The Plymouth Rock Company made a capital contribution in the amount of \$2.4 million to Bunker Hill under this agreement. The letter of credit was not drawn upon. No capital contribution was made under this agreement during 2012.

5. Summary of Significant Accounting Policies, continued

K. Reinsurance, continued

Palisades Reciprocal Group

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

	2012		2011	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$701,234	$672,328	$752,503	$640,351
Ceded	(113,823)	(171,129)	(139,180)	(115,163)
Net	$587,411	$501,199	$613,323	$525,188

Ceded premiums earned for 2012 and 2011 were $137.7 million and $156.6 million, respectively.

The Palisades Reciprocal Group has multiple homeowners and personal auto quota share reinsurance treaties in place. High Point Preferred Insurance Company ceded $43.6 million and $43.5 million of homeowners premiums in 2012 and 2011, respectively, at a 45 percent cession rate. Through September 30, 2011, Palisades Safety and Insurance Association ceded 30 percent of its personal auto liability and physical damage premiums under a quota share treaty that was not renewed as of that date. The premiums ceded under this treaty in 2011 were $13.6 million. From June 1, 2010 through May 31, 2011, High Point Safety and Insurance Company had quota share reinsurance in place under which it ceded 30 percent of its personal auto liability and physical damage premiums. The premiums ceded under this treaty in 2011 were $9.0 million. This contract was not renewed. From October 1, 2011 through September 30, 2012, High Point Safety and Insurance Company had quota share reinsurance in place under which it ceded 58 percent of its personal auto liability and physical damage premiums. The premiums ceded under this treaty in 2012 and 2011 were $47.8 million and $49.2 million, respectively. This contract was not renewed.

The ceding commissions received under all the auto reinsurance treaties described above vary on the basis of loss ratio and range from 27.5 to 38.0 percent of premiums ceded.

5. Summary of Significant Accounting Policies, continued

K. Reinsurance, continued

For 2012, revenues and expenses are reflected net of quota share reinsurance totaling $119.5 million and $139.5 million, respectively. For 2011, revenues and expenses are reflected net of quota share reinsurance totaling $137.3 million and $135.0 million, respectively.

The Palisades Reciprocal Group has in place catastrophe and excess reinsurance treaties on homeowners, commercial auto, and umbrella coverages. As a result of significant losses related to Superstorm Sandy in October 2012, the Palisades Reciprocal Group ceded $19.9 million to catastrophe reinsurers in 2012. This utilization of the catastrophe reinsurance program required the payment of a reinstatement premium in the amount of $1.3 million to maintain the same catastrophe coverage for the remainder of the contract term. During the years ended December 31, 2012 and 2011, the Palisades Reciprocal Group incurred costs of $10.7 million and $11.3 million, respectively, for these treaties, including the 2012 reinstatement premium.

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. New Jersey was affected by weather events that caused flood losses in both 2011 and 2012, with significant loses arising from Superstorm Sandy in 2012. The net reinsurance benefit related to the National Flood Insurance Program totaled $46.0 million and $23.1 million in 2012 and 2011, respectively.

L. Subsequent Events

Subsequent events have been evaluated from December 31, 2012 through March 1, 2013. No material subsequent events have been identified.

6. Commitments and Contingencies

The Plymouth Rock Company and Subsidiaries incurred real estate rental expenses for 2012 and 2011 totaling $8.9 million and $7.9 million, respectively. For the years 2013 through 2017, the minimum lease obligations to unrelated third parties range from $7.0 million to $8.6 million annually. Total obligations of The Plymouth Rock Company and Subsidiaries under real estate and automobile leases are $51.9 million through 2021.

During December 2010, Pilgrim entered into an agreement to sublease office space that it formerly occupied for the remaining period of its lease. Since the sublease rental income will be less than Pilgrim's rental expense obligation for the remainder of the lease term through September 30, 2015, a charge of approximately $1.4 million was recorded in 2010 to reflect the expected unrecoverable amount of this lease obligation. As of December 31, 2012 Pilgrim has a remaining obligation of approximately $1.6 million under the original lease. Under the sublease, Pilgrim is scheduled to receive approximately $855,000 from January 1, 2013 through September 30, 2015.

Plymouth Rock Assurance entered into agreements in December 2011 and June 2012 with four companies that write Massachusetts private passenger auto insurance to sell surplus residual market credit premium for a total of $587,500 during 2012 and $87,500 in 2013. Plymouth Rock Assurance had generated a surplus of this credit premium, which can be used to reduce a company's residual market assignments. In December 2012, Plymouth Rock Assurance entered into agreements with three companies to sell additional credit premium for a total of $980,000 during 2013.

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

7. Goodwill and Intangible Assets

The Plymouth Rock Company and Subsidiaries

One subsidiary, BCS Holding Company, LLC, has purchased insurance agencies that resulted in goodwill of $3.3 million at both December 31, 2012 and 2011. This goodwill represents the excess of the purchase price over the estimated fair value of net assets acquired. Goodwill is reviewed annually for impairment; no impairment was recorded in 2012 or 2011.

These purchases of insurance agencies have also given rise to intangible assets in the form of expirations, noncompetition agreements, and brand names. Intangible assets, which are amortized over periods ranging from three to 15 years, were valued at $1.2 million and $1.1 million at December 31, 2012 and 2011, respectively. In March 2012, expirations of $224,000 were purchased from another insurance agency. These expirations will be amortized over 13.5 years. Amortization associated with these intangible assets for 2012 and 2011 was $136,000 and $158,000, respectively. The annual amortization is expected to decrease from $123,000 in 2013 to $107,000 in 2017, resulting in a balance of $665,000 at December 31, 2017.

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, 2012 and 2011. This goodwill represents the excess of the purchase price over the estimated fair value of net assets acquired. Goodwill is reviewed annually for impairment; no impairment was recorded in 2012 or 2011. The purchases in 2007 of the Teachers Auto Insurance Company and of renewals from National General Insurance Company also resulted in intangible assets. Intangible assets are in the form of a trademark, renewal rights, and a state license. At both December 31, 2012 and 2011, the value of the trademark was $2.4 million and the value of the state license was $150,000. These intangible assets are reviewed annually for impairment; no impairment was recorded in 2012 or 2011. The remaining intangible assets are being amortized over twenty years and were valued at $10.6 million and $12.1 million at December 31, 2012 and 2011, respectively. Amortization associated with these intangible assets was $1.6 million and $1.9 million in 2012 and 2011, respectively. Amortization is expected to range from $1.4 million to $889,000 annually in years 2013 through 2017, resulting in a balance of $4.9 million at December 31, 2017.

8. 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)	2012	2011
Net income	$48,010	$28,657
Depreciation and amortization	17,664	18,013
Deferred income taxes	(1,289)	2,149
Change in operating assets and liabilities:		
Accrued investment income	498	497
Premiums receivable	(11,208)	(2,019)
Deferred acquisition costs	(2,747)	(1,139)
Amounts receivable from reinsurers and pools	2,491	1,724
Claim and claim adjustment expense reserves	(4,506)	(4,603)
Unearned premium reserve	16,761	6,220
Advance premiums	(379)	843
Commissions payable and accrued liabilities	(2,883)	(8,744)
Amounts payable to reinsurers	251	1,199
Unearned service fees	(1,741)	(4,338)
Amounts due from and to service clients	1,466	6,984
Prepaid expenses, agent loans, and deposits	890	(732)
Income tax payable	2,982	211
Other assets and other liabilities	714	396
Net cash provided by operating activities	$66,974	$45,318

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

Palisades Reciprocal Group

(dollars in thousands)	2012	2011
Net losses	$(51,909)	$(16,026)
Depreciation and amortization	1,754	2,385
Deferred income taxes	16,323	(8,828)
Change in operating assets and liabilities:		
Accrued investment income	(224)	2,180
Premiums receivable	7,562	11,017
Deferred acquisition costs	(5,177)	6,872
Amounts receivable from reinsurers and pools	(46,553)	(20,177)
Claim and claim adjustment expense reserves	29,710	(4,876)
Unearned premium reserve	9,046	(10,244)
Advance premiums	1,333	(2,161)
Commissions payable and accrued liabilities	(13,662)	10,375
Amounts payable to reinsurers	(22)	(15)
Amounts due from and to service clients	(280)	(8,452)
Prepaid expenses, agent loans, and deposits	215	307
Income tax payable	(4,131)	(2,951)
Other assets and other liabilities	6,825	(3,769)
Net cash used in operating activities	$(49,190)	$(44,363)

9. Consolidated Revenues

Revenues, net of reinsurance, by company for 2012 and 2011 were:

(dollars in thousands)	2012	2011
Underwriting company revenues:		
Plymouth Rock Assurance Corporation	$279,505	$255,596
Mt. Washington Assurance Corporation	77	74
Bunker Hill Insurance Company	23,372	23,530
Palisades Reciprocal Group	623,679	663,603
	926,633	942,803
Management company revenues:		
The Plymouth Rock Company	47,515	41,654
SRB Corporation	68,680	74,097
BCS Holding Company, LLC	4,250	4,407
Pilgrim Insurance Company	16,595	19,791
Plymouth Rock Management Company of New Jersey	172,226	181,807
	309,266	321,756
Eliminations with subsidiaries of The Plymouth Rock Company:		
Technology costs	(35,485)	(33,084)
Dividends	(52,745)	(64,745)
Other	(14,064)	(14,238)
	(102,294)	(112,067)
Elimination of intra-group transactions	(173,108)	(182,410)
Total revenues	$960,497	$970,082

10. Fixed Assets

The table below summarizes fixed assets at December 31, 2012 and 2011.

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	Useful Lives	2012	2011
Computers and software development	3 years	$ 90,410	$ 87,521
Leasehold improvements	10 years	16,894	16,877
Furniture and fixtures	5 years	11,738	11,701
Vehicles	3 years	1,422	1,737
Total cost		120,464	117,836
Less: accumulated depreciation and amortization		91,159	88,473
Net book value		$ 29,305	$ 29,363

Depreciation and amortization expenses incurred were $15.9 million and $16.1 million during 2012 and 2011, respectively.

Palisades Reciprocal Group

(dollars in thousands)	Useful Lives	2012	2011
Computers and software development	3 years	$1,561	$1,561
Less: accumulated depreciation and amortization		1,532	1,338
Net book value		$ 29	$ 223

Depreciation and amortization expenses incurred were $195,000 and $470,000 during 2012 and 2011, respectively.

11. Compensation Plans

The Plymouth Rock Company and Subsidiaries maintain two plans under Section 401(k) of the Internal Revenue Code. These plans are defined contribution plans that together cover all employees. Expenses of $6.8 million and $6.6 million were incurred related to these plans during 2012 and 2011, respectively. Deferred compensation plans have been established at The Plymouth Rock Company and several of its subsidiaries for officers, directors, and managers other than the founding shareholders. In general, these plans provide for a rate of return on deferred compensation equal each year to the rate of return earned by The Plymouth Rock Company and Subsidiaries that year. Incurred expenses related to these plans were $1.8 million and $1.7 million during 2012 and 2011, respectively.

11. Compensation Plans, continued

In 1997, a stock incentive award plan was implemented to reward key employees. The last awards under this plan were granted in 2003. They vested in 2008 in accordance with this plan's five-year vesting period. Under the terms of this plan, the vested awards were held in notional accounts for a two-year maturation period, after which they were distributed to participants with accrued returns. The last distribution related to this plan occurred in December 2011.

On May 1, 2005, a stock incentive award of 1,110 shares was granted to a key officer. This officer received additional awards of 222 shares on May 1 of each of 2006 through 2010. All of the awards granted to this officer will vest at different times during a period that started in 2006 and will end in 2015, provided that certain financial performance and service requirements are met. Awards granted in 2007 did not vest during 2012, as certain financial performance requirements were not met. During 2011, 222 awards granted in 2006 vested and were exercised for cash. The cost of these awards is based on an annual appraisal of the shares of common stock of The Plymouth Rock Company. Expenses of \$114,000 and \$131,000 related to the 2008 through 2010 awards were recorded in 2012 and 2011, respectively, with the expectation that financial performance and service requirements will be met. A credit to expenses of \$83,000 was recorded in 2012 to recognize the final cost of the 2007 awards.

Another key officer received stock incentive awards totaling 625 shares effective May 1, 2007. These awards were eligible for vesting and subsequent cash payment at different times during a period that started in 2008 and ended in 2012, provided that certain financial performance and service requirements were met. None of these awards vested during 2012 or 2011. Expenses of \$54,000 related to these awards were recorded in 2011, and a credit to expenses of \$157,000 was recorded in 2012 to recognize the final cost of these awards.

Effective February 2, 2004, a long-term compensation package was provided to a key officer. This package included a grant of 3,150 shares of restricted stock with an appraised value at the time of grant of \$990 per share. This grant was accompanied by an option to purchase 200 shares of restricted stock; this option was exercised on March 26, 2004. During 2010, 3,250 shares of restricted stock vested. The remaining 100 shares vested in 2011. No expenses relating to these shares were recorded in 2011.

Effective June 11, 2009, stock incentive awards were granted to three key officers totaling 8,472 shares. These shares will vest in 2014, provided that certain financial performance and service requirements are met. Expenses of \$331,000 and \$120,000 related to these awards were recorded in 2012 and 2011, respectively, on the basis of financial performance for those years.

11. Compensation Plans, continued

Effective February 16, 2011, a stock incentive award of 701 shares was granted to another key officer. This award will vest in 2016 provided that certain financial performance and service requirements are met. An expense of $282,000 related to this award was recorded in 2012 on the basis of financial performance in 2012. No expense related to this award was recorded in 2011.

12. Investment Securities and Investment Income

A. Marketable Securities

The Plymouth Rock Company and Subsidiaries

At December 31, 2012 and 2011, 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, 2012: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 3,415	$ 40	$ 1	$ 3,454
State and municipal securities	159,748	2,119	144	161,723
Corporate debt securities	29,125	1,111	5	30,231
Asset-backed securities	19,590	565	0	20,155
Common stocks	147,251	32,730	1,929	178,052
Preferred stocks	4,946	39	0	4,985
Total	$364,075	$36,604	$2,079	$398,600

At December 31, 2011: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 16,292	$ 25	$ 2	$ 16,315
State and municipal securities	191,368	3,309	103	194,574
Corporate debt securities	35,456	1,057	147	36,366
Asset-backed securities	27,036	555	3	27,588
Common stocks	81,322	25,928	1,270	105,980
Total	$351,474	$30,874	$1,525	$380,823

12. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2012, maturities of marketable securities were as follows:

(dollars in thousands)	Amortized Cost	Market Value
Due in 90 days or less	$ 834	$ 836
Due after 90 days and in one year or less	14,405	14,589
Due after one year and in five years or less	164,710	167,327
Due after five years and in ten years or less	7,716	7,976
Due after ten years	4,623	4,680
Asset-backed securities	19,590	20,155
Common stocks	147,251	178,052
Preferred stocks	4,946	4,985
Total	$364,075	$398,600

These marketable securities are classified as available for sale. At December 31, 2012 and 2011, securities were held that had been in an unrealized loss position for longer than twelve months with a total market value of $100,000 and $2.6 million, respectively. Unrealized losses related to these securities were $200 and $101,000 at December 31, 2012 and 2011, respectively. These losses are viewed as resulting from market conditions and are believed to be temporary. During 2012, a loss of $826,000 was recorded for other-than-temporary impairment on one common stock holding. No losses were recorded for other-than-temporary impairment in 2011.

Palisades Reciprocal Group

At December 31, 2012 and 2011, 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, 2012: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 93,316	$ 2,379	$ 4	$ 95,691
State and municipal securities	73,222	650	58	73,814
Corporate debt securities	285,538	10,677	42	296,173
Asset-backed securities	272,883	8,955	22	281,816
Common stocks	169,639	27,868	2,022	195,485
Total	$894,598	$50,529	$2,148	$942,979

12. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2011: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$134,219	$ 3,607	$ 6	$137,820
State and municipal securities	31,481	646	211	31,916
Corporate debt securities	266,474	8,435	1,301	273,608
Asset-backed securities	338,106	9,465	282	347,289
Common stocks	171,569	30,431	3,417	198,583
Total	$941,849	$52,584	$5,217	$989,216

At December 31, 2012, maturities of marketable securities were as follows:

(dollars in thousands)	Amortized Cost	Market Value
Due in 90 days or less	$ 4,016	$ 4,030
Due after 90 days and in one year or less	30,206	30,708
Due after one year and in five years or less	388,590	400,365
Due after five years and in ten years or less	28,104	29,411
Due after ten years	1,160	1,164
Asset-backed securities	272,883	281,816
Common stocks	169,639	195,485
Total	$894,598	$942,979

These marketable securities are classified as available for sale. At December 31, 2012 and 2011, securities classified as available for sale that had been in an unrealized loss position for longer than twelve months had total market values of $385,000 and $10.3 million, respectively. Unrealized losses related to these securities were $15,000 and $1.6 million at December 31, 2012 and 2011, respectively. These losses are viewed as resulting from market conditions and are believed to be temporary. During 2012, a loss of $220,000 was recorded for other-than-temporary impairment on one asset-backed security. No losses were recorded for other-than-temporary impairment in 2011.

12. Investment Securities and Investment Income, continued

B. Non-Marketable Securities

The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group both have investments in privately held stocks. Such investments of The Plymouth Rock Company and Subsidiaries amounted to $26.4 million and $26.9 million at December 31, 2012 and 2011, respectively. Such investments of the Palisades Reciprocal Group amounted to $15.7 million and $16.4 million at December 31, 2012 and 2011, respectively. These amounts primarily consist of investments in Homesite Group Incorporated, which were valued using the equity method at $25.4 million at December 31, 2012 and $26.9 million at December 31, 2011 for The Plymouth Rock Company and Subsidiaries, and at $15.7 million at December 31, 2012 and $16.4 million at December 31, 2011 for the Palisades Reciprocal Group. The investments above included unrealized gains before tax. For The Plymouth Rock Company and Subsidiaries, these unrealized gains were $1.4 million and $0.8 million at December 31, 2012 and 2011, respectively. For Palisades Reciprocal Group, unrealized gains were $0.7 million and $0.4 million at December 31, 2012 and 2011, respectively.

During 2012, The Plymouth Rock Company exercised its rights to convert a note receivable into an equity interest in Consumers United, Inc. After the conversion, The Plymouth Rock Company owned preferred stock and common stock warrants. These warrants were exercised immediately upon the conversion of the note. In December 2012, The Plymouth Rock Company sold all of its shares of Consumers United common stock and 77% of its shares of preferred stock for $3.8 million. This transaction resulted in a realized gain of $4.6 million, which includes both a gain on the securities sold and an increase in the fair value of The Plymouth Rock Company's remaining shares of preferred stock. The fair value of these remaining shares of preferred stock was $1.0 million at December 31, 2012.

In February 2009, The Plymouth Rock Company's investment in Direct Response Corporation was liquidated as a result of the acquisition of that company by Trinity Universal Insurance Company, a subsidiary of Unitrin, Inc. A portion of The Plymouth Rock Company's share of the net purchase price amounting to $1.2 million was placed in escrow in February 2009, with payment scheduled to be made in 2011 contingent upon the development of loss reserves for the acquired business. At December 31, 2010, it appeared doubtful that any of this $1.2 million contingent receivable would be collected. This amount was recorded, before taxes, as a realized loss in 2010. The final estimate of ultimate loss reserves for the transferred business turned out to be more favorable than previously expected, and $402,000 of the escrowed funds were collected and recorded, before taxes, as a realized gain in 2011.

12. Investment Securities and Investment Income, continued

C. Alternative Equity Investments

Investments in marketable alternative equities include positions in entities that focus predominantly on arbitrage relating to publicly announced mergers and acquisitions. Substantially all of the investments made by these entities are in publicly traded securities, and there exist contractual rights to withdraw funds from these entities each year. At December 31, 2012 and 2011, The Plymouth Rock Company and Subsidiaries recorded values for these marketable alternative equity investments, which include realized and unrealized gains, of $54.5 million and $46.5 million, respectively. At December 31, 2012 and 2011, the Palisades Reciprocal Group recorded values for these marketable alternative equity investments of $80.8 million and $75.7 million, respectively.

Non-marketable alternative equity investments include interests in partnership entities 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 $43.6 million and $42.3 million at December 31, 2012 and 2011, respectively. The Palisades Reciprocal Group recorded values for non-marketable alternative equity investments of $13.1 million and $12.6 million at December 31, 2012 and 2011, respectively.

As of December 31, 2012, The Plymouth Rock Company and Subsidiaries had commitments outstanding to invest $15.3 million in 15 private equity funds. Three of these funds are Lindsay Goldberg & Bessemer L.P. I (Fund I), Lindsay Goldberg & Bessemer L.P. II (Fund II), and Lindsay Goldberg & Bessemer L.P. III (Fund III). The Chairman of The Plymouth Rock Company is a member of the general partner of each of these three funds. At December 31, 2012, The Plymouth Rock Company and Subsidiaries had $9.6 million, $18.1 million, and $11.2 million invested in Fund I, Fund II, and Fund III, respectively, with outstanding commitments to those three funds at that date of $429,000, $1.9 million, and $8.8 million, respectively.

As of December 31, 2012, the Palisades Reciprocal Group had investment commitments outstanding to invest $15.9 million in six private equity funds.

12. Investment Securities and Investment Income, continued

D. Fair Value Measurements

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

The Plymouth Rock Company and Subsidiaries

Cash, cash equivalents, and investment securities totaled $566.2 million and $530.5 million at December 31, 2012 and 2011, respectively. Assets in this category valued using either the equity method or the cost method totaled $123.5 million and $115.7 million, respectively, at December 31, 2012 and 2011. The other assets in this category were reported at fair values totaling $442.6 million and $414.8 million, respectively, at December 31, 2012 and 2011.

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

At December 31, 2012: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 43,047	$ -0-	$ -0-	$ 43,047
U.S. government securities	3,331	123	-0-	3,454
State and municipal securities	-0-	161,723	-0-	161,723
Corporate debt securities	-0-	30,231	-0-	30,231
Asset-backed securities	-0-	20,155	-0-	20,155
Marketable common stocks	178,052	-0-	-0-	178,052
Marketable preferred stocks	4,985	-0-	-0-	4,985
Non-marketable preferred stocks	-0-	-0-	1,000	1,000
Total fair value	$229,415	$212,232	$1,000	442,647
Assets valued using either the equity method or the cost method				123,532
Total value of cash, cash equivalents, and investment securities				$566,179

12. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

At December 31, 2011: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 33,992	$ -0-	$ -0-	$ 33,992
U.S. government securities	16,180	135	-0-	16,315
State and municipal securities	-0-	194,574	-0-	194,574
Corporate debt securities	-0-	36,366	-0-	36,366
Asset-backed securities	-0-	27,588	-0-	27,588
Marketable common stocks	105,980	-0-	-0-	105,980
Total fair value	$156,152	$258,663	$ -0-	414,815
Assets valued using either the equity method or the cost method				115,658
Total value of cash, cash equivalents, and investment securities				$530,473

Investments with fair values derived using internal and external judgments as of December 31, 2012 consisted of $1.0 million of non-marketable shares of preferred stock of Consumer United, Inc. The fair value of this investment as of December 31, 2012 was determined using the sale price of the majority of The Plymouth Rock Company's shares of preferred stock in December 2012.

Palisades Reciprocal Group

Cash, cash equivalents, and investment securities totaled $1,086.2 million and $1,132.2 million at December 31, 2012 and 2011, respectively. Assets in this category that are valued using either the equity method or the cost method totaled $109.7 million and $104.6 million at December 31, 2012 and 2011, respectively. The fair values of the other assets in this category totaled $976.5 million and $1,027.5 million at December 31, 2012 and 2011, respectively.

12. 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, 2012: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 33,516	$ -0-	$ -0-	$ 33,516
U.S. government securities	95,657	34	-0-	95,691
State and municipal securities	-0-	73,814	-0-	73,814
Corporate debt securities	-0-	296,173	-0-	296,173
Asset-backed securities	-0-	281,816	-0-	281,816
Marketable common stocks	195,485	-0-	-0-	195,485
Total fair value	$324,658	$651,837	$ -0-	976,495
Assets valued using either the equity method or the cost method				109,656
Total value of cash, cash equivalents, and investment securities				$1,086,151

At December 31, 2011: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 38,312	$ -0-	$ -0-	$ 38,312
U.S. government securities	137,784	36	-0-	137,820
State and municipal securities	-0-	31,916	-0-	31,916
Corporate debt securities	-0-	273,608	-0-	273,608
Asset-backed securities	-0-	347,289	-0-	347,289
Marketable common stocks	198,583	-0-	-0-	198,583
Total fair value	$374,679	$652,849	$ -0-	1,027,528
Assets valued using either the equity method or the cost method				104,630
Total value of cash, cash equivalents, and investment securities				$1,132,158

12. 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 2012 and 2011 were as follows:

(dollars in thousands)	2012	2011
Interest income and dividends from securities	$ 8,398	$ 8,993
Earnings from non-marketable securities and alternative equity investments	11,727	2,202
Rental income	3,684	3,449
Finance charges on premiums receivable	3,957	4,594
Gross investment income	27,766	19,238
Rental expenses	(3,048)	(2,916)
Investment expenses	(1,385)	(1,119)
Investment income	23,333	15,203
Net realized capital gains	5,775	4,282
Investment income and capital gains	$29,108	$19,485

Palisades Reciprocal Group

The components of investment income and capital gains before federal income taxes during 2012 and 2011 were as follows:

(dollars in thousands)	2012	2011
Interest income and dividends from securities	$25,548	$30,550
Earnings from non-marketable securities and alternative equity investments	7,901	555
Finance charges on premiums receivable	4,532	5,087
Gross investment income	37,981	36,192
Investment expenses	(6,537)	(6,556)
Investment income	31,444	29,636
Net realized capital gains	13,335	10,029
Investment income and capital gains	$44,779	$39,665

12. Investment Securities and Investment Income, continued

F. Investment Activity

The Plymouth Rock Company and Subsidiaries

Activity in investment securities during 2012 and 2011 was as follows:

(dollars in thousands)	2012	2011
Balance at beginning of year	$496,481	$490,273
Change in marketable securities:		
Proceeds from maturities	(3,100)	(7,635)
Proceeds from sales	(174,605)	(196,712)
Purchases	188,501	211,775
Net change in marketable securities	10,796	7,428
Net change in non-marketable securities	(1,048)	(4,354)
Net change in alternative equity investments	9,332	3,644
Net investment activity	19,080	6,718
Net change in purchases in process	1,806	-0-
Net change in unrealized gain on marketable and non-marketable securities	5,765	(510)
Balance at end of year	$523,132	$496,481

Palisades Reciprocal Group

Activity in investment securities during 2012 and 2011 was as follows:

(dollars in thousands)	2012	2011
Balance at beginning of year	$1,093,846	$1,122,309
Change in marketable securities:		
Proceeds from maturities	(25,790)	(28,870)
Proceeds from sales	(516,390)	(414,785)
Purchases	493,038	412,755
Net change in marketable securities	(49,142)	(30,900)
Net change in non-marketable securities	(962)	(980)
Net change in alternative equity investments	5,710	6,954
Net investment activity	(44,394)	(24,926)
Net change in purchases in process	1,893	(1,893)
Net change in unrealized gain on marketable and non-marketable securities	1,290	(1,644)
Balance at end of year	$1,052,635	$1,093,846

13. Surplus Notes

On October 31, 2003, the Palisades Reciprocal Group issued a surplus note in the amount of $25 million to the former owner of High Point Preferred Insurance Company. The payment of this note is subordinated to the prior payment in full of all claims arising from policies issued by High Point Property and Casualty Insurance Company, which currently carries the surplus note, as well as to its senior debt. This note will mature and be payable on October 31, 2018. Interest on this note is payable semi-annually at a rate of eight percent through October 31, 2013, 10 percent from November 1, 2013 through October 31, 2014, and 12 percent from November 1, 2014 through October 31, 2018. Payments of principal and interest may be made only from statutory surplus and only with the prior approval of the New Jersey Department of Banking and Insurance.

14. Real Estate

At December 31, 2012, The Plymouth Rock Company and Subsidiaries owned properties located at 695 Atlantic Avenue and 99 Bedford Street in Boston.

Building improvement costs of $1,619,000 and $749,000 were incurred on these properties in 2012 and 2011, respectively. The table below summarizes the real estate costs and carrying values at December 31, 2012 and 2011:

(dollars in thousands)	2012	2011
Land	$ 7,449	$ 7,449
Buildings, improvements, and other	43,589	41,970
Total cost	51,038	49,419
Less: accumulated depreciation	15,711	14,039
Net book value	$35,327	$35,380

Rental income from lessees other than The Plymouth Rock Company and Subsidiaries totaled $3.7 million and $3.4 million in 2012 and 2011, respectively. For each of the years 2013 through 2017, minimum annual rent receivable by The Plymouth Rock Company and Subsidiaries is $1.8 million. Total obligations to The Plymouth Rock Company and Subsidiaries from non-affiliated lessees through 2017 are $11.2 million. Buildings and improvements are depreciated over their useful lives, which range from three to thirty-nine years.

14. Real Estate, continued

The total appraised value of these two real estate interests as of December 3, 2012, as determined by an independent appraiser using the income and sales comparison approaches, was $54.6 million. 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.

15. Stockholders' Equity

A. Common Stock

Common stock of The Plymouth Rock Company at December 31, 2012 and 2011 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 shares authorized, of which 119,021 and 118,784 were issued and outstanding on December 31, 2012 and 2011, respectively.

There are 90,000 Class B shares authorized, of which 64,094 and 64,331 were issued and outstanding on December 31, 2012 and 2011, 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 $184.5 million and $174.8 million at December 31, 2012 and 2011, respectively. The combined results on a statutory accounting basis for these insurance companies were net income of $12.7 million in 2012 and a net loss of $511,000 in 2011.

15. Stockholders' Equity, continued

B. Statutory Surplus and Dividend Availability, continued

Capital and surplus of the insurance companies in the Palisades Reciprocal Group totaled $282.8 million and $304.6 million at December 31, 2012 and 2011, respectively. The combined operating results on a statutory accounting basis for these insurance companies were net losses of $36.5 million and $22.3 million in 2012 and 2011, respectively.

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

C. Earnings Per Share

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

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Independent Auditor's Report

To the Board of Directors and Stockholders of
The Plymouth Rock Company

We have audited the accompanying consolidated financial statements of The Plymouth Rock Company, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Plymouth Rock Company at December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 1, 2013

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Directors and Officers of The Plymouth Rock Company

Directors

James M. Stone, *Chairman*

James N. Bailey

Hal Belodoff

Michael J. Johnston

Wilmot H. Kidd, III

Norman L. Rosenthal

Sandra A. Urie

Peter J. Wood

Officers

James M. Stone
Chief Executive Officer

James N. Bailey
Treasurer and Clerk

Hal Belodoff
President and Chief Operating Officer

Colleen M. Granahan
Vice President

Gerald I. Wilson
Vice President

Directors and Officers of the Principal Plymouth Rock Companies

Non-Management Directors

Donald I. Bryan
Dennis A. DiMarzio
Kerry A. Emanuel
Samuel F. Fortunato
Michael J. Johnston
William M. Kelley
Wilmot H. Kidd, III
Eric L. Kramer
Eugene J. Meyung
Norman L. Rosenthal
Sandra A. Urie
Peter J. Wood

Management Directors and Corporate Officers

Richard F. Adam
James N. Bailey
Hal Belodoff
Mary L. Biernbaum
Marc V. Buro
Michael J. Cesinger
Frederick C. Childs
Edward J. Fernandez
James M. Flynn
Colleen M. Granahan
William D. Hartranft
Keith R. Jensen
Brendan M. Kirby
Paul D. Luongo
Richard J. Mariani
Karen A. Murdock
Christopher B. Olie
Frank P. Palmer
Louis C. Palomeque
Carl A. Peterson
Anne M. Petruff
Joseph Scaturro
Linda D. Schwabenbauer
Mary A. Sprong
Karen L. Stickel
James M. Stone
James A. Tignanelli
Courtland J. Troutman
Basilios E. Tsingos
Gerald I. Wilson

Counsel:
Ropes & Gray LLP

Independent Auditors:
PricewaterhouseCoopers LLP