The Plymouth Rock Company

2013 Annual Report

The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 8, 2014

To Our Shareholders:

This past year rocked, as some younger folks might say. The previous three years were rife with disappointments, in both our own performance and that of Mother Nature. The results your Company enjoyed in 2013 were, therefore, welcome indeed. The highlights include strong operating results in both of our major jurisdictions, a mutually agreeable buyback of Plymouth Rock shares from our institutional owners, mild weather all year, the sale of our long-held strategic investment in Homesite Group, and a booming stock market. No one should expect that all of these tailwinds will be replicated in the future, and some of them are downright unlikely to recur, but we can be thankful that 2013 has built back some capital cushions and provided some forward momentum. Fully consolidated net income, including the reciprocal insurer we manage but don't own, was a record $121 million, which stands in marked contrast to a loss of $4 million in Sandy-dominated 2012. The shareholder-owned company did well, too. Net income for The Plymouth Rock Company was $66 million, versus $48 million in calendar 2012. The securities and real estate markets provided us an additional $28 million in unrealized gains, of which the portion arising from securities is reflected on the balance sheet while the real estate portion is unreflected but presumably just as real. The underwritten and managed premium volume for our entire group was $1.07 billion, up by $30 million from the volume count a year ago. It feels nice to be growing again.

These results are not quite as surprising as they may appear at first. The net income of the shareholder-owned entity, mostly based on underwriting personal lines in New England, was similar to the past year's income if the $16.8 million contribution from our Homesite investment is put aside. The earnings of the New Jersey reciprocal group were devastated in 2012 by Superstorm Sandy, and would have been comfortably in the black otherwise. Still, it is headline news around Atlantic Avenue that the New Jersey entities resumed their historic profitability fully in 2013, and then some. Return on 2013 year-end equity for the shareholders was 16.3%. Add in the booked increment to unrealized gains and the return looks more like 20%. Plymouth Rock's per-share book value now stands at $2,720 versus $2,215 per common share a year ago, a change that will make intuitive sense only after taking account of a 2013 share repurchase. The cumulative book value rate of return over the thirty years of the Company's history, considering both payouts to shareholders and accumulated equity, is now 18.2%, up a tenth of a point from the last reported cumulative number.

Before turning to a detailed and sequential look at the various entities that make up our family of companies, it is important to examine the change in Plymouth Rock's capital structure. Our first institutional investor (and, in fact, our only outside investor at inception), was Central Securities Corporation, a publically traded investment fund led by Wilmot Kidd. About five years later, Progressive Corporation, J. H. Whitney & Co., and a private vehicle for managers of the Capital Group of mutual funds became owners, followed in the 1990's by Morgan Stanley Capital Partners private equity funds. Since then and until 2013, turnover was scant and J. H. Whitney the only investor to exit fully. By 2013, roughly half of the Company's stock was owned by institutional investors and half by individuals. I was concerned for some time that this division would eventually become a problem. The institutional owners have a legitimate interest in liquidity, while the individual owners fear that the tangible and implied costs of achieving that liquidity might diminish the Company's future prospects. So, this past year, your Company bought back all the Plymouth Rock shares owned by Progressive, the Capital Group Charitable Foundation, and the Morgan Stanley entities. We could prudently afford to buy back only half of the shares owned by Central Securities, but Central has made clear that it would like us to repurchase its remaining shares, over time and at the right price. We have had a blessed relationship with Central and Wil Kidd over the years, and nothing about the completed or contemplated transactions diminishes in any respect our permanent gratitude for Central's initial bravery and subsequent patience.

The inevitable consequence of the repurchases this year is reduced capital accumulation in the Plymouth Rock holding company. We paid $141 million in cash to complete the stock buybacks. Since only the holding company was a purchaser, our insurers' capital positions and operations were unaffected. You will see the impact mainly in the holding company's investment portfolio and the per-share numbers that attach to the financial statements. The stock repurchases and retirements amounted to 30% of total shares outstanding, so each remaining shareholder's percentage stake has increased by nearly half. As we began the buyback process, I was visited by an unaccustomed dissonance. On one hand, I have never allowed Plymouth Rock to borrow money. There have never been Plymouth Rock debentures or bonds outstanding, and bank loans have never been a part of our capital structure. On the other hand, both Jim Bailey and I were bullish about the stock market this time last year, and we didn't really want to liquidate a large portion of the holding company's equity portfolio when debt was readily available at historically low rates of interest. I lost sleep, swallowed hard, and borrowed. You will see on our 2013 balance sheet $45 million in bank debt. For those of you who share my aversion to debt in all forms, this is bound to be a concern, but there are several available sources of comfort. First, Jim and I were, by luck or insight, correct, and 2013 equity returns outstripped interest costs by a wide margin. Second, the debt is fully collateralized by common stocks, with a large cushion to spare, and thus it would take an event much worse than the 2008 crash to imperil the family farm. And, lastly, our first order of business in the new year was to pay down a third of the loan with profits earned in 2013.

New Jersey was front and center in last year's letter. Our challenges there held top of mind attention throughout 2013 as well. Gerry Wilson and his team began the year facing off against an array of simultaneous adversities. The top line for independent and exclusive agency carriers in New Jersey had been shrinking for nearly a decade as the once-absent direct response companies took full advantage of pent up demand for their services. Our companies, in an exercise of most infelicitous timing, had to raise our prices in the midst of those vulnerable years, in part to make up for past reserve misestimates. To make matters worse, the mechanics of increasing our rates and the communications on that topic with our constituencies were handled less than artfully. By the overlay of our weakness on our competitors' strengths, Plymouth Rock managed to lose about 15% of its New Jersey premium volume. Then Superstorm Sandy hit. Bad weather is nobody's fault, and our people shined in their handling of its perils and pains, but Sandy cost our family of companies over $100 million on a gross basis and led to a 15% shrinkage in our New Jersey group's statutory surplus. That, in turn, triggered a loss of the second plus mark in our A.M. Best rating, a doubtful call because our score according to A.M. Best's own numerical grading system never fell below the middle of the double-plus range and quickly recovered to a score high in the range. The stakes for success in New Jersey were high in 2013.

Hal Belodoff and I are now pleased to report that improved play on the part of our team and kinder treatment by Mother Nature gave us most of the outcomes we were hoping for in 2013. Unit volume in New Jersey, which had fallen at a double-digit rate in 2011 and 2012, flattened out in 2013. The total premium volume our companies manage in New Jersey ended the year within 1% of where it had been at the close of the previous year. We can't pretend this is growth, so we are not ready for fireworks, but it isn't hemorrhagic bleeding either. The second half of the year, moreover, was stronger than the first, so Hal and Gerry feel relatively confident that the corner has been turned and that dollar growth for our New Jersey enterprise will return in 2014. Our staffing muscle in New Jersey has without a doubt been strengthened, especially in the product and financial areas. And our financial strength has been more than fully restored. There were more than two dollars of profit in 2013 for every lost dollar of net income the New Jersey management company and the insurers together suffered in 2012. The reciprocal group of insurers added over $62 million to statutory surplus, a record year-to-year gain.

All of this was accomplished while maintaining the New Jersey companies' record of demonstrable excellence in service to agents and customers. No competitor could have scored better in the Insurance Department's listing of complaint ratios. And we never overreacted to the storm experience by withdrawing homeowners coverage from our auto insurance customers in New Jersey. As 2014 begins, we feel good about our New Jersey staffing, enhanced pricing sophistication, rock solidity in our reserving, and our service-driven relationships with customers and agents. We are aiming for a solidly profitable year once again, this time with growth. Sufficiently profitable growth earns a blue ribbon, and healthy profits without growth can still merit a red ribbon, but there is no honorable mention. The year just ended was a red-ribbon year. Continuation of current trends will put us in blue-ribbon territory for the new year.

New England results this year were right on target, or at least on budget. Chris Olie, who runs all of our New England businesses, had pegged as his 2013 objective to grow by an ambitious 11% in premiums and bring in $15 million of net income. His group in fact achieved 12% growth and produced over $14 million in net income. While these results fall short of our long-term aspirational targets, which call for 15% growth and

$10 million more in net income, the results for 2012 and 2013 are considerably stronger than we had seen for a while before that.

Our New England operations may be best understood by thinking in terms of subsets. Massachusetts auto insurance, historically our first line of business, is still responsible for almost three-quarters of the premium in Chris's domain. It remains the New England anchor. Industry-wide rates in our home state appear to have been adequate for automobile insurance in 2013, and we are performing better than most companies. Only a year-end boost in reserves for future claim adjustment expenses and a disappointing last quarter in commercial automobile underwriting prevented Massachusetts auto profits from approaching Chris's projections. Prospects for growth in Massachusetts auto look even better now. AARP (once known as the American Association of Retired Persons) has offered discounted automobile insurance to its members for over 50 years. It is an organization of huge scale with credibility to match. AARP has never, however, offered its customers an automobile insurance program in our state. At the end of 2013, it began to do so – with Plymouth Rock Assurance as the exclusive carrier. Hal, Chris, our marketing vice president Keith Jensen, and the whole AARP team deserve a pat on the back for nurturing the project from concept to contract.

The darkest cloud on the Bay State auto insurance horizon continues to be the potential for the direct response carriers to squeeze the agents in Massachusetts as they have in New Jersey. GEICO and Progressive, with television advertising budgets and rates for some drivers that no one else can match, are still cautious here. Their combined market share, zero not very long ago, is now 7%. This contrasts ominously with their combined 22% direct market share in New Jersey. We can assume their reluctance to apply full throttle here reflects a wariness of Massachusetts' still powerful consumer safeguards, which restrict the use of their national rating engines. Good examples of the types of protection these companies don't like are the prohibitions on the use of credit scores and other measures of socio-economic status in determining an individual's premium. Time will tell if Massachusetts can resist the pressure and stay the course on these protections.

The second largest premium subset in New England is the homeowners business written through a separate company, Bunker Hill Insurance. Bunker Hill is responsible for just over 10% of the underwritten and managed premium in New England. Bunker Hill's staff had a tough mandate to fulfill during 2013. We are intentionally shrinking mono-line homeowners volume, where we write the home and not the auto, but we are actively seeking growth in account business, where we write both. Premium grew by 5.9% to $42 million in 2013 despite trimming a third of the remaining monoline book. Eighty-five percent of the policies at Bunker Hill are now account-written within our family of companies. Net income, bolstered by unusually gentle weather all year, was more than a million dollars over plan and the net combined ratio was below 90%. Bunker Hill has outperformed most of its local competitors for several years now by this measure. For the last half-dozen years, Bunker Hill's direct loss ratio has been seven points lower than the average homeowners loss ratio of comparable Massachusetts peers.

The remaining volume under Chris's watch is at Pilgrim Insurance, at Mt. Washington Assurance, and in the Connecticut auto insurance book. Each provides less than 10% of

New England total premium. Pilgrim, which does work for other insurers on a fee basis, continues to be a meaningful contributor to the group. Its strength lies in its combination of best-practices professionalism with disciplined cost efficiency. Its challenge is that its specialty had for many years been helping national carriers with the unique features of Massachusetts assigned risk and pooled automobile insurance volume. The personal auto residual market has dwindled here dramatically in recent years, from 16% of the total market in 2008 to more like 2% of the market today. A small residual market, by and large a sign of market health, inevitably generates fewer customers for Pilgrim than a troubled market environment. Pilgrim has, nonetheless, held its own pretty well by picking up an increasing share of this shrinking business. Revenue has seen only a modest downward trend in recent years. The diminution of the market opportunity doesn't erase the benefit to Pilgrim's eleven insurance company clients, to whom we bring significant savings from economies of scale. And Pilgrim continues to receive exceptionally high marks in compliance audits from the residual market administrator. To make up for the attenuation of the Bay State's personal lines residual market, Pilgrim is exploring other lines of business that employ the same core competencies in claims management and policy processing.

Mt. Washington Assurance, headquartered in New Hampshire, grew modestly in 2013. It remains a small factor in our group results. Connecticut, which has always been an even smaller component of the Plymouth Rock family, managed an unaccustomed 64% volume increase due to a major resuscitation push there in 2013. Volume in that state now exceeds New Hampshire's. Plymouth Rock didn't make a profit in Connecticut, but with such rapid growth that is to be expected. We will have to be indulgent of an unsatisfactory combined ratio for a while longer as the book grows to sustainable scale. It is worth noting, though, that if we had no commercial auto business or small states to carry, New England profits would have approached their full long-term targets.

You can count on the digits of one hand the number of years in my lifetime as rewarding as 2013 for common stock investments. While the economy as a whole, and job growth in particular, continued to disappoint, the two asset markets we care most about did memorably well. Boston real estate and domestic common stocks enjoyed price rises markedly above long-term trends. The Standard & Poor's index returned a sensational 32%. Our own equity portfolio, weighted toward jumbo blue chips, did not keep up, but we are hardly unhappy with its 26% gain, given our conservative risk profile. We still hold fewer than ten stocks in our undiversified portfolio. The best performer among these was the oft-maligned Microsoft, which gained over 40% during the year. The others all did well enough, although the retailer Coach was a comparative laggard – rising only 4%. Our investment in our local Massachusetts competitor, Safety Insurance Company, appreciated nicely. We are among the largest owners of Safety now, and satisfied to be such. You may interpret our holding this position as a statement of confidence not just in that company but in our own quite similar business environment. In fact, you can read both the stock repurchases and the investment in Safety as concentrating our core wager rather than diversifying away from it.

This past year's marketable equity gains narrowed the gap between our impressive absolute gains in the 1990's and our less exciting performance in the millennium, thus buoying our long-term internal rate of return track record. The compound annual gain on Plymouth Rock's common stock investments now stands at 16.4% from inception. The S&P return by contrast returned an annually compounded 13.3% for the same period. Looking over the 21 year history and perhaps exaggerating the import of this particular statistic, I note that we have never lost money on any of our sixteen marketable equity investment choices. That result helps us remain confident of an undiversified strategy that looks quite unlike the portfolio strategies of our insurance industry competitors. Real estate gains in the downtown Boston commercial market outstripped even the S&P. Our two buildings, 99 Bedford Street and 695 Atlantic Avenue, had been appraised at a combined value of just under $55 million in 2012. This past year they were valued at a total of $73 million.

Because we are practically compelled by rating agencies to hold a substantial fraction of our portfolio in fixed income securities, the 13% economic return on the whole portfolio was lower than it would have been had we been freer to tilt toward stocks. Returns from coupons and price changes on our high-grade, low-duration fixed income portfolio summed to a number hardly distinguishable from zero. The modesty of available fixed income yields no doubt explains some of the strong demand for equities powering the 2013 stock gains. We will continue to seek, within parameters that rating agencies and regulators find prudent, opportunities for our insurers to hold more securities with equity characteristics. The equity securities in our portfolio now, other than marketable stocks and real estate holdings, include hedge funds and private equity partnerships. The funds all performed well in 2013, with economic gains of just under 12%. Our investment committee, with me recused due to my membership in the Lindsay Goldberg general partnership, has recommended that we commit holding company capital again to their newest fund, presently in formation. If Bob Lindsay and Alan Goldberg continue to do as well for us as they have done so far, the new commitment will be self-funding on a cash-flow basis from returns on our past investments with them.

The headline story in investment results this year, though, is none of the above. Rather, it is the sale to American Family Mutual, consummated on December 31, of the entirety of Homesite Group. The Plymouth Rock Company and the New Jersey reciprocal were stakeholders in Homesite, as were our top officers as individuals. The total investment by our various entities in Homesite was just under $25 million. The total cash payment for the shares that investment purchased is expected to be close to $80 million. This is a good result, and it provides a sense of satisfaction as well as pecuniary gain. On the other hand, had I been the sole shareholder, I would have been tempted to keep Homesite independent. Homesite is a $600 million company now in premium volume, with a clear field ahead of it to billion-dollar scale. It has recruited the best homeowners executives ever assembled in one company, and it has earned the trust of its corporate partners, mainly top automobile insurance writers with no appetite for the accompanying home. Although I am confident Homesite would have succeeded without the sale, its growth may now be accelerated. I will celebrate our gains, and will always cherish a founder's pride in Homesite, even if more of each might have been available. I wish all of the members of the Homesite crew the excellent fortune they so richly deserve.

The national public policy environment did not improve much in 2013. Dysfunctional relationships in Congress, fueled in part by gerrymandered districts and a high-stakes ideological split within the Republican camp, have apparently trumped cohesion and compromise. Meanwhile, controversy over the Affordable Care Act has weakened a presidency approaching its autumn season in any event. The glitches in ACA website implementation will fade in relatively short order, and the philosophical gains inherent in the principle of universal coverage will, I suspect, endure, but critically serious cost problems will remain. Remaining, too, will be gaps in expectations that arose from the law's ungainly birthing process. On a grander scale, proposals to solve the long-term funding imbalances in our largest entitlement programs remain outside the practical political debate. Every bit as worrisome in my book is the acceleration of concentration in our nation's economic power and wealth, on both institutional and individual levels.

I probably don't need to quote statistics to convince anyone that concentration is occurring, but I can't resist offering a few. When I was a youngster, the financial sector captured a single-digit percentage of each year's overall corporate profits. Recently, finance has taken more like 30% of all corporate profits – and may be in the process of returning to its record take of 40% a few years before the 2008 crash. Keep in mind that all of this money, which could be directed toward future economic expansion, is going to a sector in which the leading component, banking, has produced no job growth at all in the last 25 years. Profits in banking and investment companies instead tend to end up as rewards to owners and managers. Concentration in banking has increased even faster than its share of overall profits. The top-five commercial banks now have about half of all banking assets, versus one-sixth of those assets in 1970. Their open interest in highly leveraged derivative positions, more than twice the world's GNP, greatly exceeds their positions before the crash. It is not coincidental that concentration of wealth has also grown on the individual level. In the past ten years, folks in the top 1% of earners have seen their incomes rise by 35% while the other 99% experienced no increase at all. Put another way, essentially all of the economy's recent gains have trickled up. Real median household income in the United States has, in fact, been stagnant for about 25 years. In my high school days, social studies teachers used to point to the so-called banana republics as shameful illustrations of distributional inequity. It would be more instructive now, I am sad to say, to point those fingers in our direction.

If these drifts are not stopped, one should assume that our great nation will pay a price. The current course will most likely reap an increasingly angry middle class, diminished investment in productive industry, growing influence of money in its politics, and vulnerability to extreme economic crises. Having said this, and perhaps sounding like a Cassandra, I am urging that Plymouth Rock continue in its investment management to bet mainly on the United States. I don't feel this to be in conflict with my concerns. Our competitors for economic dominance have many of the same problems, especially with respect to economic aristocracy, and, in places with corruption superimposed on concentration, the situation is worse. The United States is gifted, more importantly, in other attributes at least as much as it is threatened by those decried above. We remain the world center for thoughtful challenge to established ideas in science and technology. And the priceless asset embodied in our unparalleled entrepreneurial culture, often taken for granted, is healthier here than ever. If we can only restore sense about the proper role of finance and the dangers inherent in all forms of economic concentration, along with perhaps a modicum of expanded concern for the common good in governing, the United States can be unbeatable for the remainder of the century.

For some years now, I have written about my desire to put our companies back on the map with respect to sophisticated analytical underwriting. It is fitting to use the word "back" because analytical sophistication was a founding principle of our Company when we started business in 1984. I wrote in several of these letters years ago about the two skyscrapers we hoped to build – a reputation for noticeably better customer service and an advantage in the use of high-level math and statistics in assessing risk. We held the latter advantage over our Massachusetts competitors in our early years, and, although we didn't focus on the national carriers then, we now know that we compared favorably to them as well. In the various expansions of our business over the next twenty years or so, alas, we lost the analytical sharpness for which we were known. We are finally getting it back. In last year's message, I invited data wizards and modelers to apply for Plymouth Rock jobs. The analytical underwriting staff has now been built out nicely. When Hal and his team complete the product alignment project they are so absorbed in right now, and improved underwriting tools become an intrinsic and sustaining element of our business everywhere, we will have all the ingredients for a next expansion stage.

Where would this expansion take us? Hal and I worked on buying a New York personal lines insurer in 2013, but auctions seldom work out for us and we did not prevail. We remain open to extension of our underwriting footprint anywhere in the Northeast. The first expansion you are likely to see, however, is in the insurance agency and brokerage business. We have been a factor in that business for many years, but only in our neighborhood. We have now hired an experienced industry executive, Larry Pentis, to serve as the CEO of an enlarged brokerage endeavor with broader geographic scope. The broker that can succeed in tomorrow's environment will inevitably have to be proficient and innovative with respect to the Internet. Of this I feel certain. The Internet knowledge we could acquire in creating a fully modern brokerage firm would be useful to us, and maybe even transformational, for our basic underwriting business and as tools for our agents. A substantial broker could also create within our family a sales-dominated culture that may usefully spill over into our existing domains. Finally, and not to be overlooked, we think insurance brokerage, both personal lines and commercial, can be a good business. Hal and I look forward to being a part of the early-stage entrepreneurial team. I enjoyed that work at CAT Limited, Response Insurance, and Homesite, as well as in the early days of Plymouth Rock, just as Hal did in his shoestring start-up of Palisades in New Jersey. A fully successful 2014 for Plymouth Rock will not only include continued strong profits and renewed growth in our existing businesses, but an expansion of our agency efforts beyond our current jurisdictions.

James M. Stone

pwc

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, 2013 and 2012, and the related consolidated statements of income, cash flows and changes in equity for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Plymouth Rock Company at December 31, 2013 and 2012, 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

February 28, 2014

PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110
T: (617) 530 5000, F: (617) 530 5001, www. pwc.com/us

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2013 and 2012
(dollars in thousands)

Assets	2013	2012
The Plymouth Rock Company and Subsidiaries		
Cash and cash equivalents	$ 84,940	$ 43,047
Investment securities	496,414	523,132
Accrued investment income	7,454	2,721
Premiums receivable	112,949	97,642
Ceded unearned premium reserves	16,063	15,778
Deferred acquisition costs	27,992	24,560
Amounts receivable from reinsurers and pools	28,579	39,054
Prepaid expenses, agent loans, and deposits	13,491	7,154
Real estate	35,692	35,327
Fixed assets	35,031	29,305
Goodwill and intangible assets	4,505	4,626
Income tax recoverable	-0-	1,122
Other assets	2,201	1,826
Subtotal	865,311	825,294
Palisades Reciprocal Group		
Cash and cash equivalents	48,685	33,516
Investment securities	1,076,024	1,052,635
Accrued investment income	6,885	5,764
Premiums receivable	102,780	101,936
Ceded unearned premium reserves	27,526	27,798
Deferred acquisition costs	21,387	20,937
Amounts receivable from reinsurers and pools	88,310	168,701
Goodwill and intangible assets	15,004	16,396
Income tax recoverable	22,155	17,374
Other assets	1,078	1,491
Subtotal	1,409,834	1,446,548
Total assets	$2,275,145	$2,271,842

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2013 and 2012
(dollars in thousands)

Liabilities	2013	2012
The Plymouth Rock Company and Subsidiaries		
Claim and claim adjustment expense reserves	$ 148,344	$ 146,460
Unearned premium reserves	190,848	168,267
Advance premiums	6,895	6,201
Commissions payable and accrued liabilities	59,963	51,892
Amounts payable to reinsurers	7,961	6,868
Unearned service fees	3,687	3,783
Secured loan	45,000	-0-
Income tax payable	16,849	-0-
Deferred income taxes	19,956	15,223
Other liabilities	3,305	3,455
Subtotal	502,808	402,149
Palisades Reciprocal Group		
Claim and claim adjustment expense reserves	679,175	779,692
Unearned premium reserves	272,260	269,578
Advance premiums	9,050	8,507
Commissions payable and accrued liabilities	61,234	75,437
Amounts payable to reinsurers	8,191	7,331
Deferred revenue	6,962	7,611
Surplus notes	25,000	25,000
Deferred income taxes	3,347	-0-
Other liabilities	1,435	5,213
Subtotal	1,066,654	1,178,369
Total liabilities	1,569,462	1,580,518
Equity		
The Plymouth Rock Company and Subsidiaries		
Common stock and paid-in capital	375	28,277
Retained earnings	307,800	354,098
Net unrealized gain on investments	39,517	23,258
The Plymouth Rock Company stockholders' equity	347,692	405,633
Palisades Reciprocal Group	357,991	285,691
Total liabilities and equity	$2,275,145	$2,271,842

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, 2013 and 2012
(dollars in thousands)

Revenues	2013	2012
The Plymouth Rock Company and Subsidiaries		
Premiums earned in underwriting activities	$ 317,461	$ 284,958
Fees earned from service activities	197,786	195,860
Investment income and capital gains	62,315	29,108
Subtotal	577,562	509,926
Palisades Reciprocal Group		
Premiums earned in underwriting activities	624,859	578,365
Fees earned from service activities	582	535
Investment income and capital gains	42,849	44,779
Subtotal	668,290	623,679
Less: Intra-group transactions	174,256	173,108
Total revenues	1,071,596	960,497
Expenses		
The Plymouth Rock Company and Subsidiaries		
Claims and claim adjustment expenses	225,074	198,493
Policy acquisition, underwriting, and general expenses	96,620	86,196
Service activity expenses	150,754	150,210
Subtotal	472,448	434,899
Palisades Reciprocal Group		
Claims and claim adjustment expenses	440,517	501,199
Policy acquisition, underwriting, and general expenses	186,273	164,270
Service activity expenses	821	1,176
Subtotal	627,611	666,645
Less: Intra-group transactions	174,256	173,108
Total expenses	925,803	928,436
Income before income taxes	145,793	32,061
Income taxes	25,152	35,960
Fully consolidated net income (loss)	120,641	(3,899)
Less: Net income (loss) of Palisades Reciprocal Group	54,603	(51,909)
Net income of The Plymouth Rock Company and Subsidiaries	$ 66,038	$ 48,010

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, 2013 and 2012
(dollars in thousands, except per share data)

	2013	2012
The Plymouth Rock Company and Subsidiaries		
Net income	$ 66,038	$ 48,010
Other comprehensive income, net of tax:		
Total unrealized gain on investment securities during the year	19,889	4,727
Less: Gain on investments included in net income	3,630	963
Change in net unrealized gain on investments during the year	16,259	3,764
Comprehensive income	82,297	51,774
Palisades Reciprocal Group		
Net income (loss)	54,603	(51,909)
Other comprehensive income, net of tax:		
Total unrealized gain on investment securities during the year	22,681	7,734
Less: Gain on investments included in net income	4,984	6,896
Change in net unrealized gain on investments during the year	17,697	838
Comprehensive income (loss)	72,300	(51,071)
Fully consolidated		
Net income (loss)	120,641	(3,899)
Change in net unrealized gain (loss) on investments during the year	33,956	4,602
Comprehensive income	$ 154,597	$ 703

The Plymouth Rock Company and Subsidiaries - Per share data

	2013	2012
Weighted average common shares outstanding	165,784	183,115
Net income per share	$ 398.34	$ 262.19
Common shares outstanding at end of year	127,816	183,115
Common stockholders' equity per share	$2,720.25	$2,215.18

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, 2013 and 2012
(dollars in thousands)

Cash flows from operating activities	2013	2012
The Plymouth Rock Company and Subsidiaries		
Gross premiums collected	$ 360,062	$ 325,427
Reinsurance premiums paid	(33,824)	(34,280)
Finance charges collected	4,185	3,957
Fees and commissions collected	194,770	194,256
Investment income and capital gains received	57,574	27,035
Gross claims and claim expenses paid	(237,445)	(232,559)
Reinsured claims and claim expenses collected	23,973	30,692
Policy acquisition, underwriting, and general expenses paid	(99,209)	(82,240)
Income taxes paid	(25,373)	(25,324)
Service activity expenses paid	(133,460)	(139,990)
Net cash provided by operating activities	111,253	66,974
Palisades Reciprocal Group		
Gross premiums collected	693,132	708,934
Reinsurance premiums paid	(64,760)	(113,846)
Finance charges collected	4,035	4,532
Fees and commissions collected	577	544
Investment income and capital gains received	46,025	46,560
Gross claims and claim expenses paid	(606,024)	(642,618)
Reinsured claims and claim expenses collected	125,241	116,135
Policy acquisition, underwriting, and general expenses paid	(188,991)	(171,540)
Income taxes recovered	2,961	3,285
Service activity expenses paid	(821)	(1,176)
Net cash provided by/(used in) operating activities	11,375	(49,190)
Total net cash provided by operating activities	$ 122,628	$ 17,784

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, 2013 and 2012
(dollars in thousands)

Cash flows from financing activities	2013	2012
The Plymouth Rock Company and Subsidiaries		
Dividends to stockholders	$ -0-	$ (21,195)
Repurchase of common stock	(141,277)	-0-
Proceeds from secured loan	45,000	-0-
Net cash used in financing activities	(96,277)	(21,195)
Palisades Reciprocal Group		
Net cash used in financing activities	-0-	-0-
Total net cash used in financing activities	(96,277)	(21,195)
Net cash provided by/(used in)		
The Plymouth Rock Company and Subsidiaries	$ 14,976	$ 45,779
Palisades Reciprocal Group	$ 11,375	$ (49,190)
Total	$ 26,351	$ (3,411)
Investment of net cash provided		
The Plymouth Rock Company and Subsidiaries		
Change in cash and cash equivalents	$ 41,893	$ 9,055
Net investment activity	(50,171)	19,080
Purchase of goodwill and intangible assets	-0-	224
Net real estate activity	2,016	1,619
Purchases of fixed assets	21,238	15,801
Net cash related to investing activities	$ 14,976	$ 45,779
Palisades Reciprocal Group		
Change in cash and cash equivalents	$ 15,169	$ (4,796)
Net investment activity	(3,794)	(44,394)
Net cash related to investing activities	$ 11,375	$ (49,190)
Total net cash invested	$ 26,351	$ (3,411)

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, 2013 and 2012
(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, 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
Comprehensive income	-0-	66,038	16,259	82,297	72,300	154,597
Issuance of common stock	1,039	-0-	-0-	1,039	-0-	1,039
Repurchase of common stock	(28,941)	(112,336)	-0-	(141,277)	-0-	(141,277)
December 31, 2013	$ 375	$307,800	$39,517	$347,692	$357,991	$705,683

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".

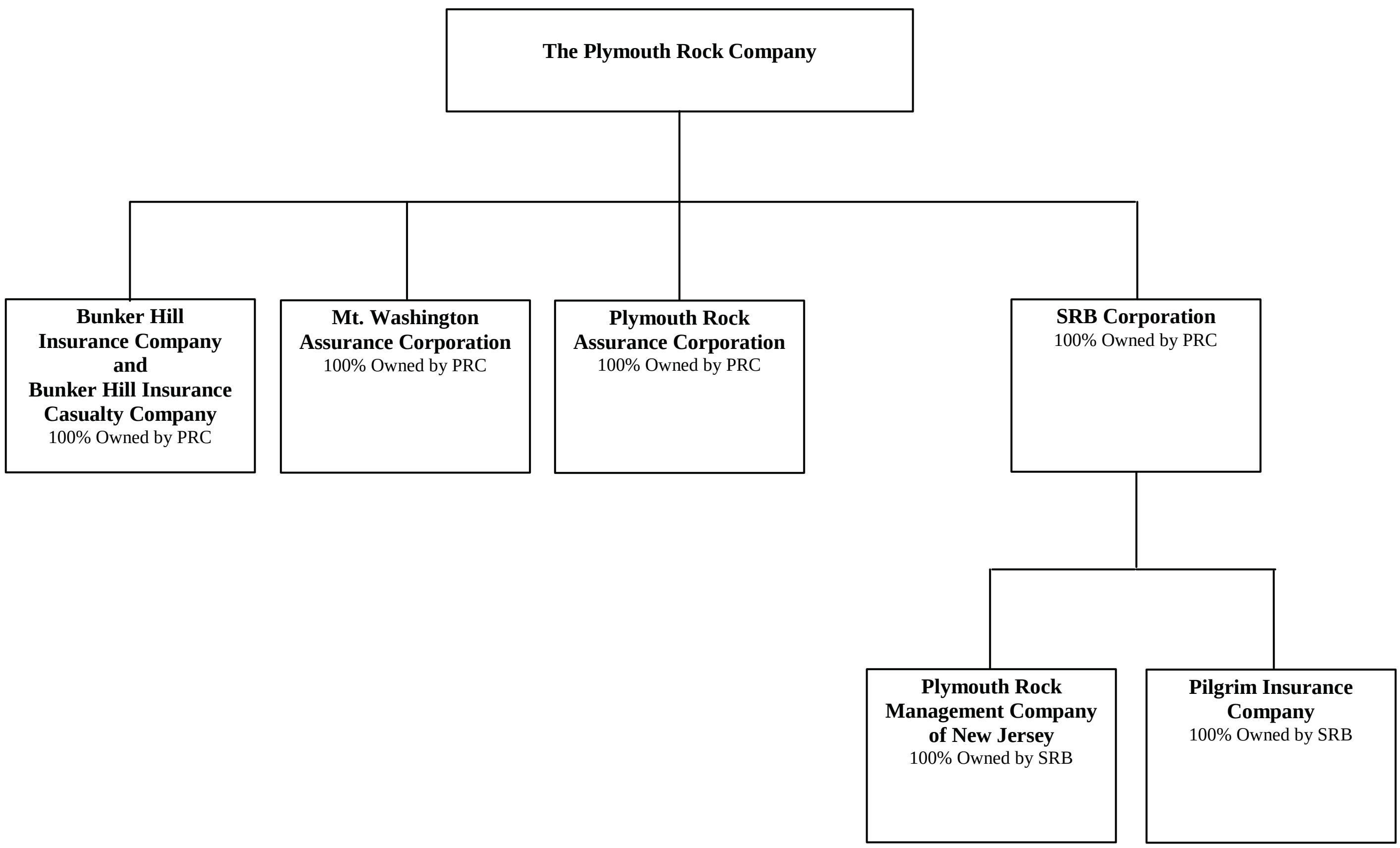
Among The Plymouth Rock Company's largest businesses is the management of a reciprocal insurance group in New Jersey, which is conducted through a subsidiary. The members of that reciprocal group of companies, which are referred to in these financial statements as the "Palisades Reciprocal Group", are 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 5.2 percent and 6.5 percent, of the equity of the Palisades Reciprocal Group at December 31, 2013 and 2012, 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

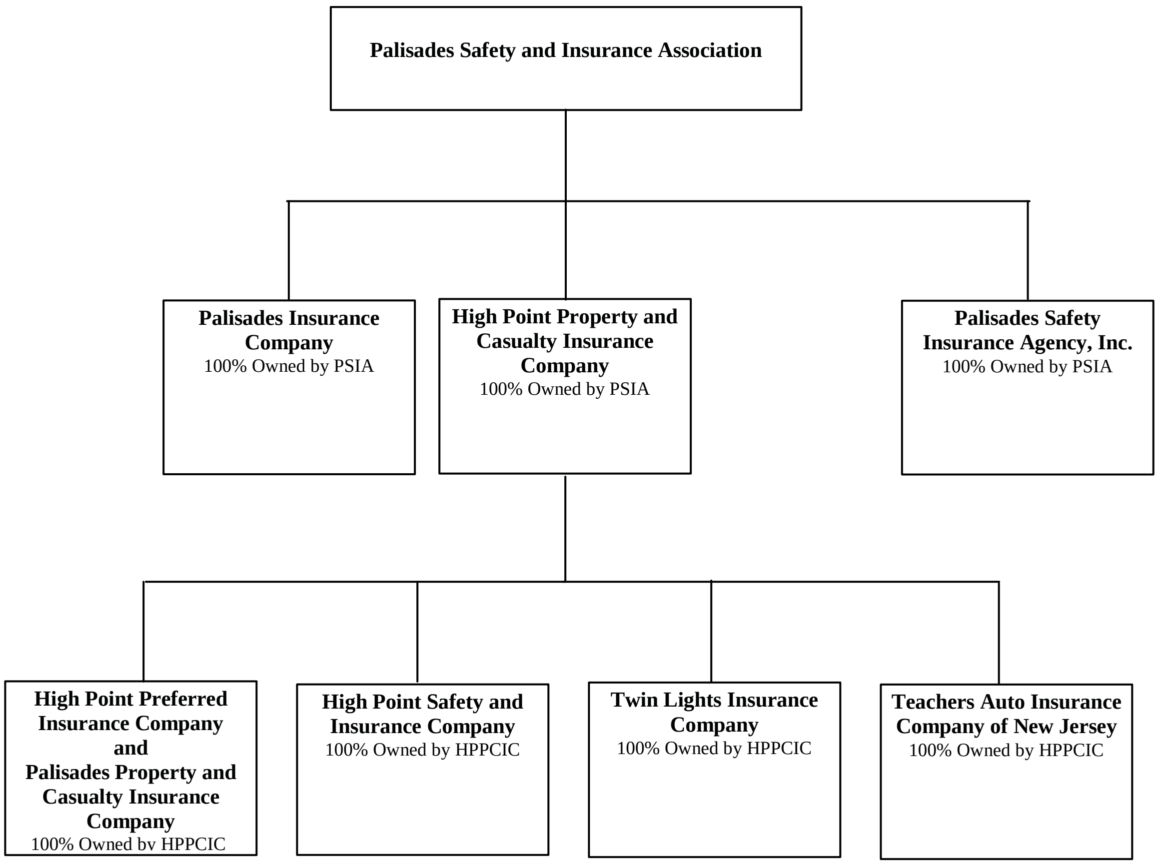
The corporate and ownership structure of The Plymouth Rock Company and principal subsidiaries is shown in the following chart:



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 Company, Inc. and National Atlantic Insurance Agency, Inc., which are wholly owned subsidiaries of Plymouth Rock Management Company of New Jersey.

3. Organization of the Palisades Reciprocal Group

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



4. Summary of Significant Accounting Policies

A. Principles of Consolidation

The consolidated financial statements include the accounts of The Plymouth Rock Company and Subsidiaries as well as those of the Palisades Reciprocal Group. Significant accounts and transactions among companies within each of the two groups, as well as those between the groups, have been eliminated upon consolidation. The assets of The Plymouth Rock Company and Subsidiaries have been reduced by amounts due for services provided to the Palisades Reciprocal Group and by the value of certain surplus 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.

B. Stock-Based Compensation

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

C. Use of Estimates

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

4. Summary of Significant Accounting Policies, continued

D. Cash and Investments

Cash and cash equivalents include money market funds and short-term money market instruments with maturity dates no longer than 90 days from the date of acquisition. Liabilities for outstanding checks for The Plymouth Rock Company and Subsidiaries of $2.3 million and $2.9 million are included in accrued liabilities at December 31, 2013 and 2012, respectively. Liabilities for outstanding checks for the Palisades Reciprocal Group of $7.5 million and $5.4 million are included in accrued liabilities at December 31, 2013 and 2012, respectively.

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

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

Investments in Homesite Group Incorporated, which derives underwriting revenue from personal lines property and casualty insurance, primarily homeowners, throughout most of the United States, were valued at December 31, 2012 using the equity method, with all changes in unrealized gains on investments included in other comprehensive income. These investments were liquidated in December 2013.

E. Real Estate and Fixed Assets

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

4. Summary of Significant Accounting Policies, continued

F. Deferred Acquisition Costs

Commissions and premium taxes are deferred and amortized pro rata over the contract periods in which the related premiums are earned. All amounts deferred as of December 31 are charged to operations in the following year as the related premiums are earned. Deferred acquisition costs are presented net of an equivalent amount of deferred commission income on ceded reinsurance, with any deferred ceding commission income in excess of the deferred acquisition costs recorded as a liability. The amortization of deferred acquisition costs and deferred ceding commission income, including any excess portion, are presented on a net basis as policy acquisition expense on the statement of comprehensive income. Net amortization associated with these deferred costs for 2013 and 2012 for The Plymouth Rock Company and Subsidiaries was $49.8 million and $44.7 million, respectively, while the 2013 and 2012 net amortization for the Palisades Reciprocal Group was $45.5 million and $21.6 million, respectively.

G. Recognition of Premium Revenues

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

Premiums receivable are net of reserves for doubtful collections. At December 31, 2013 and 2012, the reserves for doubtful collections for The Plymouth Rock Company and Subsidiaries were $941,000 and $1.1 million, respectively. The reserves for doubtful accounts of the Palisades Reciprocal Group at December 31, 2013 and 2012 were $3.4 million and $3.1 million, respectively.

H. Recognition of Fees Earned from Service Activities

The Plymouth Rock Company and Subsidiaries earn management fees from the Palisades Reciprocal Group and other unaffiliated companies for providing sales, underwriting, policy issuance, claim adjusting, accounting, and other insurance-related services. Fees from service activities are earned over the applicable policy terms. The balance sheet item “other assets” consists of balances with insurers for which Pilgrim Insurance Company provides services. In 2013 and 2012, fees of $174.3 million and $173.1 million, respectively, earned from the Palisades Reciprocal Group are eliminated upon consolidation.

4. Summary of Significant Accounting Policies, continued

I. Amortization of Goodwill and Intangible Assets

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

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

No impairment of the goodwill or indefinite-lived intangibles of either The Plymouth Rock Company and Subsidiaries or the Palisades Reciprocal Group was recorded in 2013 and 2012.

5. Income Taxes

Income taxes in the statements of income for 2013 and 2012 consist of:

(dollars in thousands)	2013	2012
The Plymouth Rock Company and Subsidiaries	$ 39,077	$ 27,017
Palisades Reciprocal Group	(13,925)	8,943
Total	$ 25,152	$ 35,960

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

5. Income Taxes, continued

Deferred income taxes arise when there are differences between reported income and taxable income. The realization of deferred tax assets requires sufficient taxable income in either the allowable carryback or carryforward periods. 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. The presence of taxable losses arising from reserve strengthening in 2010 and extraordinary weather catastrophes in 2011 and 2012 created sufficient uncertainty that future taxable income would exist to enable the Palisades Reciprocal Group to recover its $26.5 million net deferred tax asset as of December 31, 2012. As a result, a full valuation allowance in this amount was recorded against the net deferred tax asset as of this date and reflected in the 2012 statement of income. The significant amount of operating income reported for 2013 along with the expectation of future income has provided sufficient evidence to conclude that the net deferred tax asset will be recovered. As a result, the $26.5 million valuation allowance recorded in 2012 was reversed and recorded as a benefit through the statement of income in 2013.

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 dividend income and interest from state and municipal bonds, all of which receive favorable federal tax treatment.

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

5. Income Taxes, continued

The Plymouth Rock Company and Subsidiaries

Income taxes in the statements of income for 2013 and 2012 consist of:

(dollars in thousands)	2013	2012
Current year federal income taxes	$35,866	$23,905
Current year state income taxes	7,478	4,401
Change in deferred federal taxes	(3,552)	(1,278)
Change in deferred state taxes	(715)	(11)
Total	$39,077	$27,017

Deferred income taxes in the balance sheets as of December 31, 2013 and 2012 consist of the net effects of these temporary differences:

(dollars in thousands)	2013	2012
Net unrealized gain on investments	$(21,666)	$(12,666)
Unearned premiums	12,720	11,110
Depreciation	(11,776)	(7,471)
Compensation expense	11,526	7,655
Deferred acquisition expense	(9,441)	(8,270)
Investment and partnership timing differences	(5,697)	(9,346)
Discounting of claim reserves	2,492	2,250
Stock options expense	1,373	886
Other	513	629
Total	$(19,956)	$(15,223)

Palisades Reciprocal Group

Income taxes in the statement of income for 2013 and 2012 consist of:

(dollars in thousands)	2013	2012
Current year federal income taxes	$ (7,745)	$ (7,393)
Current year state income taxes	3	13
Change in deferred federal taxes	(6,183)	16,323
Total	$(13,925)	$ 8,943

5. Income Taxes, continued

Deferred income taxes in the balance sheet as of December 31, 2013 and 2012 consist of the net effects of these temporary differences:

(dollars in thousands)	2013	2012
Net unrealized gain on investments	$(26,692)	$(17,163)
Unearned premiums	17,765	17,520
Deferred acquisition expense	(17,222)	(16,717)
Discounting of claim reserves	10,043	12,391
Net operating loss carryforward	4,687	21,692
Guaranty fund accrual	4,331	4,324
AMT credit carryforward	2,006	890
Intangibles	853	862
Investment and partnership timing differences	442	2,414
Depreciation	21	413
Other	419	(144)
Subtotal	$ (3,347)	$ 26,482
Less: Valuation allowance	-0-	26,482
Total	$ (3,347)	$ -0-

Federal net operating loss carryforwards of $13.4 million will expire in 2032. The Palisades Reciprocal Group also has alternative minimum tax credit carryforwards of $2.0 million that do not expire.

6. Claim and Claim Adjustment Expense Reserves

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

6. 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)	2013	2012
Balance at beginning of year	$146,460	$161,737
Claims and claim adjustment expenses incurred:		
Current year	219,913	200,702
Prior years	5,161	(2,209)
	225,074	198,493
Claims and claim adjustment expenses paid:		
Current year	147,420	137,099
Prior years	66,434	63,359
	213,854	200,458
Change in reinsurance recoverable on unpaid claims	(9,336)	(13,312)
Balance at end of year	$148,344	$146,460

During the year ended December 31, 2013, reserves for claims and claim adjustment expenses for prior years developed unfavorably by $5.2 million. The unfavorable development from prior years during 2013 was primarily related to the automobile coverage in both Massachusetts and Connecticut. 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.

The amounts shown above include $22.0 million and $29.3 million of estimated claim and claim adjustment expense reserves under Pilgrim's contacts with service clients as of December 31, 2013 and December 31, 2012, respectively. Offsetting amounts are included in "amounts receivable from reinsurers and pools" as assets on the balance sheet. While these policies are issued by Pilgrim, all of the underwriting results are ceded either to its clients or to a reinsurer via 100 percent quota share reinsurance arrangements so that Pilgrim does not retain any underwriting risk on them.

6. Claim and Claim Adjustment Expense Reserves, continued

Palisades Reciprocal Group

(dollars in thousands)	2013	2012
Balance at beginning of year	$779,692	$749,982
Claims and claim adjustment expenses incurred:		
Current year	450,079	504,667
Prior years	(9,562)	(3,468)
	440,517	501,199
Claims and claim adjustment expenses paid:		
Current year	209,994	266,730
Prior years	249,385	257,850
	459,379	524,580
Change in reinsurance recoverable on unpaid claims	(81,655)	53,091
Balance at end of year	$679,175	$779,692

During the year ended December 31, 2013, reserves for claims and claim adjustment expenses for prior years developed favorably by $9.6 million. This change resulted primarily from favorable development of $8.8 million and $3.4 million in personal auto business and commercial auto business, respectively. This was offset by unfavorable development of $1.8 million in homeowners business. 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.

7. 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.

7. 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:

	2013		2012	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$374,676	$239,330	$337,013	$217,286
Ceded	(34,919)	(14,256)	(35,294)	(18,793)
Net	$339,757	$225,074	$301,719	$198,493

Ceded premiums earned for 2013 and 2012 were $34.6 million and $36.7 million, respectively.

The Plymouth Rock Company and Subsidiaries have treaties for quota share reinsurance for homeowners business. Approximately $10 million of homeowners premiums were ceded in 2013 at cession rates of 30 percent from January through June and 25 percent from July through December. The ceding commission received under the homeowners treaty varies on the basis of loss ratio. For 2013, revenues and expenses are reflected net of quota share reinsurance totaling $10.6 million and $6.7 million, respectively. For 2012, revenues and expenses are reflected net of quota share reinsurance totaling $11.2 million and $7.5 million, respectively.

There are also in place treaties for catastrophe reinsurance and excess reinsurance per risk for homeowners and umbrella coverages. During both the years ended December 31, 2013 and 2012, the cost incurred for these treaties was $5.1 million.

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.

7. Reinsurance, continued

Pilgrim provides auto insurance services to unrelated insurance companies. The income statement and reinsurance activity for The Plymouth Rock Company and Subsidiaries exclude $17.7 million and $19.2 million of premiums earned and $11.9 million and $15.2 million of claims and claim adjustment expenses incurred in 2013 and 2012, respectively, related to Pilgrim's third-party business. Consistent with Pilgrim's historical practice of not retaining underwriting risk, these amounts were ceded in both 2012 and 2013 either to its clients or to a reinsurer via 100 percent quota share reinsurance 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. The Statutory Capital Support Agreement is scheduled to expire on June 30, 2014, by which date The Plymouth Rock Company and Bunker Hill expect to renew this agreement. No capital contribution was made under this agreement during 2013 or 2012.

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:

	2013		2012	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$693,432	$505,507	$701,234	$672,328
Ceded	(65,619)	(64,990)	(113,823)	(171,129)
Net	$627,813	$440,517	$587,411	$501,199

Ceded premiums earned for 2013 and 2012 were $65.9 million and $137.7 million, respectively.

7. Reinsurance, continued

The Palisades Reciprocal Group has multiple homeowners and personal auto quota share reinsurance treaties in place. High Point Preferred Insurance Company ceded $43.5 million and $43.6 million of homeowners premiums in 2013 and 2012, respectively, at a 45 percent cession rate. 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 were $47.8 million. 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 35.0 to 41.9 percent of premiums ceded.

For 2013, revenues and expenses are reflected net of quota share reinsurance totaling $47.7 million and $44.7 million, respectively. For 2012, revenues and expenses are reflected net of quota share reinsurance totaling $119.5 million and $139.5 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 $6.7 million and $19.9 million to catastrophe reinsurers in 2013 and 2012, respectively. This utilization of the catastrophe reinsurance program required the payment of a reinstatement premium in the amount of $1.8 million to maintain the same catastrophe coverage for the remainder of the contract term. During the years ended December 31, 2013 and 2012, the Palisades Reciprocal Group incurred costs of $10.1 million and $10.7 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 2013 and 2012, with significant losses arising from Superstorm Sandy in 2012. The net reinsurance benefit related to the National Flood Insurance Program totaled $24.4 and $46.0 million in 2013 and 2012, respectively.

8. Subsequent Events

Subsequent events have been evaluated from December 31, 2013 through February 28, 2014. Within that period, the Plymouth Rock Company pre-paid $15 million of a $45 million secured loan that is payable in 2016. In addition, the Palisades Reciprocal Group paid $25 million from statutory surplus to retire a surplus note originally issued on October 31, 2003 and payable on October 31, 2018. No other material subsequent events have been identified.

9. Commitments and Contingencies

The Plymouth Rock Company and Subsidiaries incurred real estate rental expenses for 2013 and 2012 totaling $8.6 million and $8.9 million, respectively. For the years 2014 through 2018, the minimum lease obligations to unrelated third parties range from $6.5 million to $8.9 million annually. Total obligations of The Plymouth Rock Company and Subsidiaries under real estate and automobile leases are $46.0 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, 2013 Pilgrim has a remaining obligation of approximately $1.0 million under the original lease. Under the sublease, Pilgrim is scheduled to receive approximately $547,000 from January 1, 2014 through September 30, 2015.

Plymouth Rock Assurance has entered into several agreements since December 2011 with companies that write Massachusetts private passenger auto insurance to sell surplus residual market credit premium that can be used to reduce residual market assignments. Plymouth Rock Assurance recognized revenue from these sales of $587,500 in 2012 and $1.1 million in 2013. During 2013, Plymouth Rock Assurance entered into agreements with five companies to sell additional credit premium that are expected to generate revenue of $1.2 million during 2014.

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 that company's Massachusetts premium tax liability by $6.7 million over a five-year period from 2013 through 2017, with the $2.1 million benefit to be recognized during 2016 and 2017. Amortization associated with these credits was $1.3 million during 2013.

10. Goodwill and Intangible Assets

The Plymouth Rock Company and Subsidiaries

One subsidiary, BCS Holding Company, LLC, has made purchases of insurance agencies that resulted in goodwill of $3.3 million at both December 31, 2013 and 2012. These purchases have also given rise to intangible assets in the form of expirations, noncompetition agreements, and brand names. Intangible assets, which are amortized over periods ranging from three to fifteen years, were valued at $1.1 million and $1.2 million at December 31, 2013 and 2012, 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 2013 and 2012 was $121,000 and $136,000, respectively. The annual amortization is expected to be $105,000 annually from 2014 to 2018, resulting in a balance of $3.9 million at December 31, 2018.

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, 2013 and 2012. 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, 2013 and 2012, 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 2013 or 2012. The remaining intangible assets are being amortized over twenty years and were valued at $9.2 million and $10.6 million at December 31, 2013 and 2012, respectively. Amortization associated with these intangible assets was $1.4 million and $1.6 million in 2013 and 2012, respectively. Amortization is expected to range from $796,000 to $1.2 million annually in years 2014 through 2018, resulting in a balance of $4.1 million at December 31, 2018.

11. 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)	2013	2012
Net income	$ 66,038	$48,010
Depreciation and amortization	16,762	17,664
Deferred income taxes	(4,267)	(1,289)
Change in operating assets and liabilities:		
Accrued investment income	(4,733)	498
Premiums receivable	(15,307)	(11,208)
Ceded unearned premium reserves	(285)	1,422
Deferred acquisition costs	(3,432)	(2,693)
Amounts receivable from reinsurers and pools	10,475	13,717
Claim and claim adjustment expense reserves	1,884	(15,277)
Unearned premium reserves	22,581	15,339
Advance premiums	694	(379)
Commissions payable and accrued liabilities	9,879	(2,857)
Amounts payable to reinsurers	1,093	1,014
Unearned service fees	251	(1,741)
Amounts due from service clients	(3,266)	221
Prepaid expenses, agent loans, and deposits	(6,337)	826
Income tax payable	17,971	2,982
Other assets and other liabilities	1,252	725
Net cash provided by operating activities	$111,253	$66,974

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

Palisades Reciprocal Group

(dollars in thousands)	2013	2012
Net income (loss)	$54,603	$(51,909)
Depreciation and amortization	1,420	1,754
Deferred income taxes	(6,183)	16,323
Change in operating assets and liabilities:		
Accrued investment income	(1,121)	(224)
Premiums receivable	(844)	7,562
Ceded unearned premium reserves	272	23,887
Deferred acquisition costs	(797)	(3,970)
Amounts receivable from reinsurers and pools	80,391	(46,553)
Claim and claim adjustment expense reserves	(100,517)	29,710
Unearned premium reserves	2,682	(14,841)
Advance premiums	543	1,333
Commissions payable and accrued liabilities	(14,203)	(13,662)
Amounts payable to reinsurers	860	(22)
Deferred revenue	(649)	(1,206)
Income tax payable	(4,781)	(4,131)
Other assets and other liabilities	(301)	6,759
Net cash provided by/(used in) operating activities	$11,375	$(49,190)

12. Consolidated Revenues

Revenues, net of reinsurance, by company for 2013 and 2012 were:

(dollars in thousands)	2013	2012
Underwriting company revenues:		
Plymouth Rock Assurance Corporation	$311,313	$279,505
Mt. Washington Assurance Corporation	76	77
Bunker Hill Insurance Company	24,988	23,372
Palisades Reciprocal Group	668,290	623,679
	1,004,667	926,633
Management company revenues:		
The Plymouth Rock Company	84,982	47,515
SRB Corporation	75,585	68,680
BCS Holding Company, LLC	4,570	4,250
Pilgrim Insurance Company	15,312	16,595
Plymouth Rock Management Company of New Jersey	171,151	172,226
	351,600	309,266
Eliminations with subsidiaries of The Plymouth Rock Company:		
Technology costs	(37,998)	(35,485)
Dividends	(61,188)	(52,745)
Other	(11,229)	(14,064)
	(110,415)	(102,294)
Elimination of intra-group transactions	(174,256)	(173,108)
Total revenues	$1,071,596	$960,497

13. Fixed Assets

The table below summarizes fixed assets at December 31, 2013 and 2012.

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	Useful Lives	2013	2012
Computers and software development	3 years	$100,511	$ 90,410
Leasehold improvements	10 years	17,430	16,894
Furniture and fixtures	5 years	11,907	11,738
Vehicles	3 years	623	1,422
Total cost		130,471	120,464
Less: accumulated depreciation and amortization		95,440	91,159
Net book value		$ 35,031	$ 29,305

Depreciation and amortization expenses incurred were $15.0 million and $15.9 million during 2013 and 2012, respectively.

Palisades Reciprocal Group

(dollars in thousands)	Useful Lives	2013	2012
Computers and software development	3 years	$1,561	$1,561
Less: accumulated depreciation and amortization		1,561	1,532
Net book value		$ -0-	$ 29

Depreciation and amortization expenses incurred were $29,000 and $195,000 during 2013 and 2012, respectively.

14. Compensation Plans

The Plymouth Rock Company and Subsidiaries maintain two plans under Section 401(k) of the Internal Revenue Code. These plans are defined contribution plans that together cover all employees. Expenses of $6.6 million and $6.8 million were incurred related to these plans during 2013 and 2012, respectively. Deferred compensation plans have been established at The Plymouth Rock Company and several of its subsidiaries for officers, directors, and managers other than the founding shareholders. In general, these plans provide for a rate of return on deferred compensation equal each year to the rate of return earned by The Plymouth Rock Company and Subsidiaries that year. Incurred expenses related to these plans were $3.1 million and $1.8 million during 2013 and 2012, respectively.

14. Compensation Plans, continued

On May 1, 2005, a stock incentive award of 1,110 shares was granted to a key officer. This officer received additional awards of 222 shares on May 1 of each 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 2008 and 2007 did not vest during 2013 and 2012, respectively, as certain financial performance requirements were not met. The cost of these awards is based on an annual appraisal of the shares of common stock of The Plymouth Rock Company. Expenses of $86,000 and $114,000 related to the 2009 through 2010 awards were recorded in 2013 and 2012, respectively, with the expectation that financial performance and service requirements will be met. Credits to expenses of $121,000 and $83,000 were recorded in 2013 and 2012, respectively, to recognize the final cost of the 2008 and 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. 55 of these shares vested in 2012 with the payment and expense of $36,000 postponed until 2013. A credit to expenses of $157,000 was recorded in 2012 to reverse previously recognized expense associated with the awards that did not vest.

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 $962,000 and $331,000 related to these awards were recorded in 2013 and 2012, respectively, on the basis of financial performance for those years.

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. Expenses of $406,000 and $282,000 related to this award were recorded in 2013 and 2012, respectively, on the basis of financial performance for those years.

15. Investment Securities and Investment Income

A. Marketable Securities

The Plymouth Rock Company and Subsidiaries

At December 31, 2013 and 2012, 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, 2013: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 5,042	$ 17	$ 16	$ 5,043
State and municipal securities	153,651	1,351	229	154,773
Corporate debt securities	28,414	430	92	28,752
Asset-backed securities	18,226	239	48	18,417
Common stocks	131,916	60,273	18	192,171
Preferred stocks	4,946	-0-	724	4,222
Total	$342,195	$62,310	$1,127	$403,378

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

15. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2013, maturities of marketable securities were as follows:

(dollars in thousands)	Amortized Cost	Market Value
Due in 90 days or less	$ 556	$ 556
Due after 90 days and in one year or less	15,362	15,532
Due after one year and in five years or less	167,845	169,020
Due after five years and in ten years or less	3,284	3,394
Due after ten years	60	66
Asset-backed securities	18,226	18,417
Common stocks	131,916	192,171
Preferred stocks	4,946	4,222
Total	$342,195	$403,378

These marketable securities are classified as available for sale. At December 31, 2013 and 2012, securities were held that had been in an unrealized loss position for longer than twelve months with a total market value of $2.4 million and $100,000, respectively. Unrealized losses related to these securities were $6,000 and $200 at December 31, 2013 and 2012, respectively. These losses are viewed as resulting from market conditions and are believed to be temporary. No losses were recorded for other-than-temporary impairment in 2013. During 2012, a loss of $826,000 was recorded for other-than-temporary impairment on one common stock holding.

Palisades Reciprocal Group

At December 31, 2013 and 2012, 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, 2013: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 98,370	$ 550	$ 437	$ 98,483
State and municipal securities	72,407	344	341	72,410
Corporate debt securities	296,690	5,835	1,241	301,284
Asset-backed securities	258,093	3,352	948	260,497
Common stocks	176,770	69,190	42	245,918
Total	$902,330	$79,271	$3,009	$978,592

15. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

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

At December 31, 2013, maturities of marketable securities were as follows:

(dollars in thousands)	Amortized Cost	Market Value
Due in 90 days or less	$ 6,320	$ 6,342
Due after 90 days and in one year or less	2,472	2,502
Due after one year and in five years or less	452,254	456,909
Due after five years and in ten years or less	6,397	6,398
Due after ten years	24	26
Asset-backed securities	258,093	260,497
Common stocks	176,770	245,918
Total	$902,330	$978,592

These marketable securities are classified as available for sale. At December 31, 2013 and 2012, securities classified as available for sale that had been in an unrealized loss position for longer than twelve months had total market values of $3.6 million and $385,000, respectively. Unrealized losses related to these securities were $65,000 and $15,000 at December 31, 2013 and 2012, respectively. These losses are viewed as resulting from market conditions and are believed to be temporary. No losses were recorded for other-than-temporary impairment in 2013. During 2012, a loss of $220,000 was recorded for other-than-temporary impairment on one asset-backed security.

15. 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 $1.3 million and $26.4 million at December 31, 2013 and 2012, respectively. Such investments of the Palisades Reciprocal Group amounted to $0 and $15.7 million at December 31, 2013 and 2012, respectively. The 2012 amounts primarily consist of investments in Homesite Group Incorporated, which were valued using the equity method.

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

A portion of the sales proceeds of each The Plymouth Rock Company and the Palisades Reciprocal Group of the net purchase price, amounting to approximately $790,000 and $370,000, respectively, is being held back until the Homesite Group's final equity at December 31, 2013 has been determined. These amounts have been recognized as income in 2013 and are expected to be settled on or before June 30, 2014.

An additional portion of the sales proceeds of each of these two entities, amounting to $4.0 million and $1.9 million, respectively, has been placed in escrow as collateral for potential claims by the American Family Insurance Group or other indemnified parties arising on the basis of representations and warranties made by Homesite Group in conjunction with this transaction. While there is no information suggesting that such indemnification payments are probable, contingent liabilities have been recorded in the amounts of $2.6 million for The Plymouth Rock Company and $1.3 million for the Palisades Reciprocal Group as of December 31, 2013 to reflect management's best estimate of the fair value of potential indemnification payments between that date and May 1, 2015.

This transaction resulted in income before taxes in 2013 of $19.3 million for The Plymouth Rock Company and Subsidiaries and $5.3 million for the Palisades Reciprocal Group.

15. Investment Securities and Investment Income, continued

B. Non-Marketable Securities, continued

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 both December 31, 2013 and 2012.

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, 2013 and 2012, The Plymouth Rock Company and Subsidiaries recorded values for these marketable alternative equity investments, which include realized and unrealized gains, of $51.7 million and $54.5 million, respectively. At December 31, 2013 and 2012, the Palisades Reciprocal Group recorded values for these marketable alternative equity investments of $84.5 million and $80.8 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 $40.0 million and $43.6 million at December 31, 2013 and 2012, respectively. The Palisades Reciprocal Group recorded values for non-marketable alternative equity investments of $12.9 million and $13.1 million at December 31, 2013 and 2012, respectively.

15. Investment Securities and Investment Income, continued

C. Alternative Equity Investments, continued

As of December 31, 2013, The Plymouth Rock Company and Subsidiaries had commitments outstanding to invest $9.3 million in nine 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, 2013, The Plymouth Rock Company and Subsidiaries had $11.4 million, $19.2 million, and $13.4 million invested in Fund I, Fund II, and Fund III, respectively, with outstanding commitments to those three funds at that date of $0, $700,000, and $5.5 million, respectively.

As of December 31, 2013, the Palisades Reciprocal Group had investment commitments outstanding to invest $13.3 million in five private equity funds.

D. Fair Value Measurements

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

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

Cash, cash equivalents, and investment securities totaled $581.4 million and $566.2 million at December 31, 2013 and 2012, respectively. Assets in this category valued using either the equity method or the cost method totaled $92.0 million and $123.5 million, respectively, at December 31, 2013 and 2012. The other assets in this category were reported at fair values totaling $489.3 million and $442.6 million, respectively, at December 31, 2013 and 2012.

15. 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, 2013: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 84,940	$ -0-	$ -0-	$ 84,940
U.S. government securities	4,973	70	-0-	5,043
State and municipal securities	-0-	154,773	-0-	154,773
Corporate debt securities	-0-	28,752	-0-	28,752
Asset-backed securities	-0-	18,417	-0-	18,417
Marketable common stocks	192,171	-0-	-0-	192,171
Marketable preferred stocks	4,222	-0-	-0-	4,222
Non-marketable preferred stocks	-0-	-0-	1,000	1,000
Total fair value	$286,306	$202,012	$1,000	489,318
Assets valued using either the equity method or the cost method				92,036
Total value of cash, cash equivalents, and investment securities				$581,354

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

15. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

An investment with a fair value derived using internal and external judgments as of December 31, 2013 was $1.0 million of non-marketable shares of preferred stock of Consumer United, Inc. The fair value of this investment as of December 31, 2013 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 $1,124.7 million and $1,086.2 million at December 31, 2013 and 2012, respectively. Assets in this category that are valued using either the equity method or the cost method totaled $97.4 million and $109.7 million at December 31, 2013 and 2012, respectively. The fair values of the other assets in this category totaled $1,027.3 million and $976.5 million at December 31, 2013 and 2012, respectively.

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

At December 31, 2013: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 48,685	$ -0-	$ -0-	$ 48,685
U.S. government securities	98,458	25	-0-	98,483
State and municipal securities	-0-	72,410	-0-	72,410
Corporate debt securities	-0-	301,284	-0-	301,284
Asset-backed securities	-0-	260,497	-0-	260,497
Marketable common stocks	245,918	-0-	-0-	245,918
Total fair value	$393,061	$634,216	$ -0-	1,027,277
Assets valued using either the equity method or the cost method				97,432
Total value of cash, cash equivalents, and investment securities				$1,124,709

15. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

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

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 2013 and 2012 were as follows:

(dollars in thousands)	2013	2012
Interest income and dividends from securities	$10,025	$ 8,398
Earnings from non-marketable securities and alternative equity investments	19,950	11,727
Rental income	3,571	3,684
Finance charges on premiums receivable	4,185	3,957
Gross investment income	37,731	27,766
Rental expenses	(3,065)	(3,048)
Investment expenses	(1,543)	(1,385)
Investment income	33,123	23,333
Net realized capital gains	29,192	5,775
Investment income and capital gains	$62,315	$29,108

15. Investment Securities and Investment Income, continued

E. Analysis of Investment Income and Capital Gains, continued

Palisades Reciprocal Group

The components of investment income and capital gains before federal income taxes during 2013 and 2012 were as follows:

(dollars in thousands)	2013	2012
Interest income and dividends from securities	$21,698	$25,548
Earnings from non-marketable securities and alternative equity investments	14,079	7,901
Finance charges on premiums receivable	4,036	4,532
Gross investment income	39,813	37,981
Investment expenses	(7,096)	(6,537)
Investment income	32,717	31,444
Net realized capital gains	10,132	13,335
Investment income and capital gains	$42,849	$44,779

F. Investment Activity

The Plymouth Rock Company and Subsidiaries

Activity in investment securities during 2013 and 2012 was as follows:

(dollars in thousands)	2013	2012
Balance at beginning of year	$523,132	$496,481
Change in marketable securities:		
Proceeds from maturities	(7,872)	(3,100)
Proceeds from sales	(91,282)	(174,605)
Purchases	79,078	188,501
Net change in marketable securities	(20,076)	10,796
Net change in non-marketable securities	(24,035)	(1,048)
Net change in alternative equity investments	(6,060)	9,332
Net investment activity	(50,171)	19,080
Net change in purchases in process	(1,806)	1,806
Net change in unrealized gain on marketable and non-marketable securities	25,259	5,765
Balance at end of year	$496,414	$523,132

15. Investment Securities and Investment Income, continued

F. Investment Activity, continued

Palisades Reciprocal Group

Activity in investment securities during 2013 and 2012 was as follows:

(dollars in thousands)	2013	2012
Balance at beginning of year	$1,052,635	$1,093,846
Change in marketable securities:		
Proceeds from maturities	(10,436)	(25,790)
Proceeds from sales	(254,109)	(516,390)
Purchases	272,319	493,038
Net change in marketable securities	7,774	(49,142)
Net change in non-marketable securities	(15,027)	(962)
Net change in alternative equity investments	3,459	5,710
Net investment activity	(3,794)	(44,394)
Net change in purchases in process	-0-	1,893
Net change in unrealized gain on marketable and non-marketable securities	27,183	1,290
Balance at end of year	$1,076,024	1,052,635

16. Secured Loan

On July 24, 2013, The Plymouth Rock Company took out a secured loan for $45.0 million from a bank. This loan is payable in full by July 24, 2016 and is structured with monthly payments of interest only, payable at a variable rate based on LIBOR. The Plymouth Rock Company prepaid $15.0 million of the principal balance of this loan without penalty on January 3, 2014. The Plymouth Rock Company has pledged to the bank, as collateral, securities which had a market value of approximately $67.6 million as of December 31, 2013. The amount of pledged securities was reduced proportionally to the outstanding principal balance of the loan after the partial repayment in January 2014. The Plymouth Rock Company incurred $252,000 of interest expense on this loan during 2013.

17. 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 was subordinated to the prior payment in full of all claims arising from policies issued by High Point Property and Casualty Insurance Company, which carried the surplus note at December 31, 2013, as well as to its senior debt. This note had a maturity date of October 31, 2018, at which point it would have been payable in full. In December 2013, the New Jersey Department of Banking and Insurance granted approval for the Palisades Reciprocal Group to prepay the full principal balance of $25 million. The payment was made from statutory surplus on January 2, 2014 to the former owner of High Point Preferred Insurance Company, which retired the surplus note in full without any prepayment penalty.

18. Real Estate

At December 31, 2013, The Plymouth Rock Company and Subsidiaries owned properties located at 695 Atlantic Avenue and 99 Bedford Street in Boston.

Building improvement costs of $2,016,000 and $1,619,000 were incurred on these properties in 2013 and 2012, respectively. The table below summarizes the real estate costs and carrying values at December 31, 2013 and 2012:

(dollars in thousands)	2013	2012
Land	$ 7,449	$ 7,449
Buildings, improvements, and other	45,605	43,589
Total cost	53,054	51,038
Less: accumulated depreciation	17,362	15,711
Net book value	$35,692	$35,327

Rental income from lessees other than The Plymouth Rock Company and Subsidiaries totaled $3.6 million and $3.7 million in 2013 and 2012, respectively. For each of the years 2014 through 2018, minimum annual rent receivable by The Plymouth Rock Company and Subsidiaries is $2.8 million. Total obligations to The Plymouth Rock Company and Subsidiaries from non-affiliated lessees through 2018 are $18.2 million. Buildings and improvements are depreciated over their useful lives, which range from three to thirty-nine years.

18. Real Estate, continued

The total appraised value of these two real estate interests as of December 13, 2013, as determined by an independent appraiser using the income and sales comparison approaches, was $73.0 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.

19. Stockholders' Equity

A. Common Stock

Common stock of The Plymouth Rock Company at December 31, 2013 and 2012 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 63,722 and 119,021 were issued and outstanding on December 31, 2013 and 2012, respectively.

There are 90,000 Class B shares authorized, of which 64,094 were issued and outstanding on both December 31, 2013 and 2012. The Class A common shares are fully transferable and have the right to elect 20 percent of the Board of Directors. The Class B common shares are not transferable, but may be converted to Class A common shares on a one-for-one basis at any time at the option of the holder, and are converted automatically upon the occurrence of certain events. The Class B common shares have the right to elect 80 percent of the Board of Directors, a right which has never been exercised in full. Presently, two directors are elected by the Class B shareholders and all other directors are elected by the Class A shareholders.

Following a plan approved by the Board of Directors, The Plymouth Rock Company purchased and subsequently retired 55,299 outstanding shares of its Class A common stock held by four shareholders at a cost of $141.3 million during 2013.

19. Stockholders' Equity, continued

B. Statutory Surplus and Dividend Availability

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

On a statutory accounting basis, capital and surplus of the insurance company subsidiaries of The Plymouth Rock Company totaled $196.6 million and $184.5 million at December 31, 2013 and 2012, respectively. The combined results on a statutory accounting basis for these insurance companies were net income of $11.9 million in 2013 and a net income of $12.7 million in 2012.

Capital and surplus of the insurance companies in the Palisades Reciprocal Group totaled $344.6 million and $282.8 million at December 31, 2013 and 2012, respectively. The combined operating results on a statutory accounting basis for these insurance companies were net income of $42.8 million in 2013 and net losses of $36.5 million 2012.

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

C. Earnings Per Share

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

Directors and Officers of The Plymouth Rock Company

Directors

James M. Stone, *Chairman*

James N. Bailey

Hal Belodoff

Michael J. Johnston

Wilmot H. Kidd, III

Norman L. Rosenthal

Sandra A. Urie

Peter J. Wood

Officers

James M. Stone
Chief Executive Officer

James N. Bailey
Treasurer and Clerk

Hal Belodoff
President and Chief Operating Officer

Colleen M. Granahan
Vice President

Gerald I. Wilson
Vice President

Directors and Officers of the Principal Plymouth Rock Companies

Non-Management Directors

Donald I. Bryan
Dennis A. DiMarzio
Kerry A. Emanuel
Michael J. Johnston
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
Thomas E. Coyne
Edward J. Fernandez
James M. Flynn
Colleen M. Granahan
William D. Hartranft
Keith R. Jensen
Brendan M. Kirby
Paul D. Luongo
Thomas J. Lyons
Richard J. Mariani
Francis W. McDonnell
Karen A. Murdock
Christopher B. Olie
Frank P. Palmer
Louis C. Palomeque
Lawrence R. Pentis
Carl A. Peterson
Anne M. Petruff
Joseph Scaturro
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 Auditor:
PricewaterhouseCoopers LLP