The Plymouth Rock Company

2016 Annual Report

The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 8, 2017

To Our Shareholders:

Your Company is back in the zone. But don't overreact to my word choice. We're not in that Zen-like zone where impenetrable concentration produces flawless results. The zone to which we returned in 2016 is instead that fairly wide corridor in which we can call our profitability satisfactory. After a couple of years in less impressive territory, we are once again within the familiar boundaries that should make you comfortable with Plymouth Rock's return on equity. There is a second pleasing zone we have re-entered as well, a psychological zone replete with the entrepreneurial atmospheric vapors on which Hal and I thrive. More on the entrepreneurial rekindling will come throughout this missive.

I described in my annual letter last year our three-engine rocket ship: a fee-based business managing a New Jersey reciprocal insurer and providing services for third-party insurance clients, a personal lines underwriting business here in New England, and a substantial investment business. By this tripartite description, we fired up properly on two and a half of the burners this past year. Two of the components – investments and the management companies – met their profit expectations, while the third – New England underwriting – produced results below target. Net income for your stockholder-owned enterprise rose from $29.3 million in 2015 to $42.1 million in the year just concluded, a 43% jump. Net income, though, is far from the whole performance story; it's more like the beginning of a chain. In this case, it overstates the uptick. One measure we might all consider more meaningful is the group's fully consolidated net income, which adds the reciprocal insurer's results to those of the stockholder-owned entity. By this count, the improvement was more like 11%, the tempered percentage rise owing to New Jersey's stronger 2015 base. A more informative index still is the group's gain in book value, which captures unrealized gains and losses in our securities portfolio as well as everything in the consolidated net income. This yardstick showed a 12% gain.

From an owner's point of view, there is always another number that counts. To understand the true economic gain you enjoyed, one needs to consider the change in shareholders' equity plus dividends paid out to you as shareholders during the year (all of which could have been kept as equity) and our real estate gains (which are ignored in generally accepted accounting principles). Dividends to shareholders were $11.6 million this year, and after-tax real estate gains based on independent appraisals were $6.0 million. On a per-share basis, these two adjustments add $143.09 per share to the book value shown in the financial statements. The year-to-year increase in economic book value (as opposed to the reported book value without adjustments) is 17.9%. This is the basis of my comment on our welcome return to the proper numerical zone. Plymouth Rock's normalized and desirable return corridor, as I have defined it, is bounded on the weak side by 10% and on the strong side by 20%. Returns we see above or below these borders are either sorely disappointing or cause for celebration. This past year's 17.9% is nicely within the comfort zone, which makes it a good year but not a great year. Great years occur only when we smash through the upper wall. The thirty-three year compounded internal rate of return on book value for your Company's owners, excluding real estate gains, barely budges as a result of these 2016 results. It is now 18.0%.

The Plymouth Rock group's underwritten and managed premium volume, before reinsurance, now rounds to $1.2 billion, up about 4% from a year ago. Most of the growth in the year gone by came from New England. Massachusetts automobile insurance has long been our mainstay here, representing about 75% of total New England premiums written. And it is in Massachusetts automobile insurance that Chris Olie and his team found both their fastest growth and their toughest challenge. At the end of 2015, Plymouth Rock Assurance had filed a new set of rates. This was a major product redesign meant to increase pricing refinement and to better attract new business. It seems that the new product overshot the mark on the latter goal. You may recall that I expressed concern about running hot on new volume when I wrote last year's letter. The unease grew with the incoming volume. We like new business growth, of course, but not when it indicates that we have become a magnet for some class of customers written at inadequate prices. That is exactly what Chris decided was happening as the year began, and by midyear Plymouth Rock filed a set of adjustments to the new rate plan to tamp down an influx of underpriced customers. The impact of the original miscalculation had been to add upward thrust to volume and put downward pressure on profits. The correction is already having the opposite impact. As of yearend, Chris reported that Massachusetts auto insurance volume was up 5.9% for the twelve-month period, but that profits were below budgeted levels – reflecting a combined ratio of about 100%.

The weather in 2016, fortunately, was kind to us. Unlike the prior two wintry slogs, both Jack Frost record-breakers in their own ways, this last winter was rather mild. There were no hurricanes or other major storms in the summer or fall. Pushing in the other direction, a restored economy and low gasoline prices have encouraged more driving than in recent years. While the long-term trend toward safer cars and shared transport modes may cut the number of accidents as time goes on, there was no decline in the costs of accidents nationally during this most recent year. As we move into 2017, we do not expect to see any dramatic change in the short-term trend for the industry as a whole, but our marketing department has concerns that, just as our 2015 rate filings may have encouraged too much new business, our correction may have overshot its mark as well, this time in the dampening direction. It is marketing's job to worry in this manner, but I accept that such undershoots and overshoots are endemic to the fine-tuning of insurance prices. We are doing the job at least as well as our competitors here, and that's what counts the most. Meanwhile, the marketing folks on Keith Jensen's team should be cheered by the continued success of Plymouth Rock's proprietary AARP program in the Bay State as well as the new marketing initiative they launched jointly with the amazing, triumphant New England Patriots. Several of our agents went to the Super Bowl as a feature of that program.

Plymouth Rock's New Hampshire business grew by 8% in 2016 and returned a modest profit. We are not dissatisfied with the results, and we expect the new year to bring both growth and profits again, but there is still no breakthrough plan on the table to make that state's numbers a major factor in our group's overall performance. Connecticut growth was an impressive 26%, bringing us to just over $40 million in premiums there. But there is always a new-business penalty when so much unseasoned business is added in one year. The consequence was a Connecticut loss for the year a bit larger than we had hoped for and a delay on the predicted glide path to profitability. On the other hand, we are more confident now than in the past about our pricing and our agent relationships in that state, and we intend to keep growing.

Bunker Hill took on a whole new shape in 2016. Nowhere in our entire enterprise is the spirit of entrepreneurship felt more than in homeowners. In the early years of the Company, Plymouth Rock regarded insuring homes as something of an accommodation for our agents who, quite constructively, wanted to boost customer loyalty by linking sales of auto and home coverages. We were worried about the lack of spread for a one-state writer of homes subject to random weather events. Compounding this, the industry-wide economic track record of this understudied business had long been discouraging. We also saw automobile insurance as the best place to grow and to beat the other players through mathematical sophistication. Our attitude had evolved a bit by the 1990's and, as you well know, we founded Homesite Insurance Group in partnership with Morgan Stanley Private Equity to take advantage of opportunities in the home insurance business without risking Plymouth Rock capital. Homesite was a wonderful success and now, as a subsidiary of American Family Mutual, it has annual premiums of just over a billion dollars. But, although it is still run by the redoubtable Fabian Fondriest, it is gone from our orbit. So, Hal and I took a hard look at our traditional posture with respect to writing homes and decided it was time for a change. We are no longer a one-state company; by the close of 2017 we will be writing in five states. Through our Homesite experience, moreover, we have become much more confident in our mastery of sophisticated tools for managing and reinsuring catastrophe risk. The industry economics have improved as well, largely as national premium totals have grown. When the Company was young, the average premium for a home was less than half the average automobile premium. Now, the average home costs more than the average car to insure, and while the environment for automobile insurance points to lower costs and premiums over time, the cost of insuring a home will almost certainly keep rising. In addition, the situation with respect to mathematical sophistication has reversed itself 180 degrees. Auto writers have fully caught on to the use of mathematics, statistics, and data mining, so it is in homeowners that the application of advanced analytical work will hold the greater competitive advantage.

This logic has led us to embark on a new course with respect to homeowners. We have hired a new chief executive for our home insurance business. Bill Martin comes with the necessary skills to build capacity for greatly expanded – but well protected – writings in the Northeast financed by our own capital, and to explore with us the possibility of writing in the other states throughout the country with the help of financial partners. Bill has already taken charge of Bunker Hill's operations in New England and will be adding to his domain responsibility for almost all of the homeowners business in our other jurisdictions, the only exception being the legacy book of New Jersey homeowners business we inherited from Prudential. Change is in the wind, and it is all to the good. Meanwhile our existing independent agency and direct homeowners business had quite a good year. Premiums written rose by 7% to about $82 million. And New England and New Jersey homeowners, both regions having enjoyed the benefits of the gentle winter, together returned over $9 million in after-tax profits to the group.

Pilgrim Insurance Company, our subsidiary servicing other insurers in specialized tasks, continues to grow. Under Bill Hartranft's leadership, Pilgrim added another personal auto residual market client starting in January 2017, bringing Pilgrim's total number of Massachusetts Automobile Insurance Plan clients to thirteen. While the recent trend in this state has been toward a smaller residual market, the Massachusetts assigned risk market unexpectedly grew by nearly 10% during 2016, with a positive impact on Pilgrim's fee revenue. The coming year looks better still. For many years, Pilgrim acted as a designated servicing carrier in the Massachusetts commercial automobile residual market. Then we lost that privilege for a time, when market need was diminishing and the number of servicing carriers was reduced. Now we have it again. Bill expects this will add at least $35 million to Pilgrim's scale in 2017. Participating in the commercial program not only pays a fee but also gives Plymouth Rock Assurance a look at business that might fit its voluntary underwriting appetite. Serviced premiums at Pilgrim were over $30 million in 2016, and gross revenues were about $18 million.

The story in New Jersey for 2016 was one of decent profits and disappointing volume. Overall, the profits of the management company and the reciprocal insurer, taken together, and counting both auto and home insurance in all three distribution channels, were $45 million, just about our budget for the year. The all-lines combined ratio rounded to 95%, which is fully satisfactory. The expense ratio component of this total fell, in line with our stated goal, by a point for the second consecutive year. On the other hand, while the year's change in our in-force premiums was a positive number, this was entirely due to rate increases. The number of automobiles insured dropped by about 2.7% and the number of residences insured declined by 6%. As I have said before, rising crop yields won't sustain a farmer indefinitely if the bank keeps foreclosing on acreage every year. This is the overview, but the story of our New Jersey business cannot be told instructively without breaking out the numbers by line and channel.

Despite herculean efforts on the part of Gerry Wilson, our New Jersey czar, his automobile insurance business has hovered close to breakeven profitability for some time now. While the situation is bearable indefinitely, and homeowners profits have fully made up for loss years in automobile lines, we are not in business to break even on a large segment of our writings. The independent agency portion of our automobile book remains under pressure from the direct response giants who had shunned New Jersey for decades. In a short period of time, they have turned New Jersey from among the states with the lowest direct response market shares to the state with the highest direct penetration. We are the second largest independent agency carrier in the Garden State these days, but we need to do more to revive growth. There are at least two interesting innovations in play that should help. One is a quick and easy renters endorsement customers can add to their Plymouth Rock auto policies, and another is a pending coverage offering for vehicles used by their owners as part of transportation networks, an increasingly needed protection that many other carriers have been reluctant to offer.

The largest of our New Jersey distribution channels is the exclusive agency business written through the Prudential agent network. Many of the Prudential policies are of long duration with us or with Pru, and are faithfully profitable, but the book is shrinking gradually. Prudential agents no longer sell automobile insurance at a rate that prevents natural attrition and exits from eroding the total. Our contract with Pru, moreover, excludes us from access to new homeowners business in the state, a situation we preferred at the start of our relationship but are now open to reconsidering. Based on the current situation, hopes of resuming substantial growth in New Jersey must be pinned primarily on the direct response book. Annual premium volume in that channel, built first under the leadership of Marc Buro and ably managed today by Tom Lyons, is now close to $115 million. It grew by more than 10% during 2016, and Tom expects to see faster growth in 2017. The direct book – where almost all the business is unseasoned by tenure – is not yet profitable, but 2016 was the best year so far in that respect. Hal and I consider the expansion of the direct response business the most advanced and established of the various projects on the entrepreneurial front burner at this time. At the nascent stage of development is another front burner initiative – our entry into Pennsylvania, where we have just been licensed. Gerry expects to be writing automobile business in the second half of 2017, and Bill is on a similar schedule with respect to homeowners policies. This is our first new state in many years, and we will work hard there to grow both a direct book and an independent agency book as rapidly as responsibly possible.

The reason Marc Buro is no longer working on the direct business is that he moved on at our request in 2015 to take charge of Plymouth Rock's relatively young insurance brokerage subsidiary, InsuraMatch. Marc works fast, and InsuraMatch will likely look back on 2016 as a memorable take-off year. Marc and Hal negotiated over the last few months an innovative contract for the renewal rights on a large book of business to be shed by one of the most respected national carriers. This transaction should allow InsuraMatch to more than double its volume of business placed, which now stands at about $35 million in annual premium. At the same time, it will provide the scale enhancement to build out a first-rate technology platform, including the powerful national online quoting (and, ultimately, binding) capability that Marc expects will be a signature feature of InsuraMatch. The challenge now for that team is to maintain the upward momentum. Marc is well aware that a one-off deal for renewal rights, however large, is not the same as a permanent endogenous growth engine. His focus now is on turning the spurt into a flow.

Plymouth Rock's investment results in 2016 were pleasing. Bonds once again under-performed the standard of decent risk-adjusted returns. Fixed income has always been about my least favorite asset class – but rating agency tradition forces us to hold nearly half of our $2 billion group portfolio in bonds. This is the case, even though bonds in an era of artificially depressed interest rates pay only paltry coupons while embodying an inevitable risk of capital losses if interest rates edge up toward historical levels. This past year our total return on bonds, with capital losses devouring much of the meager coupon yield, was less than a point. It would have been worse if we had succumbed to lengthening durations in a stretch for yield enhancement. Financial institutions with long-maturity bonds are deeply vulnerable these days to interest rate correction, while earning insufficient yield to justify that risk. The comfort that bonds can be carried at artificial "amortized value" and held to maturity ignores the true economics of the situation. We are always surprised at how many insurers allow themselves to hang out there. We will continue to keep durations short, and, if we shift our bond-buying behavior at all in 2017, the shift will be to contract durations still further.

The investments we cherish, in contrast, are our common stocks. Over the nearly two and a half decades since Jim Bailey and I started investing in marketable equities, our internal rate of return on common stocks has averaged 15.2%. We have lost money on only one of our seventeen stock picks in those years; and that loss, trivial compared to our gains, is on a stock we still own. The Plymouth Rock track record has considerably outrun the Standard & Poor's Index for the period (which returned just under 12% per annum), handily beats the performance of our other major asset classes, and quietly outperforms all but a few more famous money managers. Our marketable equity picks are few and well-considered, and our holding periods extremely long. We eschew leverage (or, more accurately, I do, and perhaps more than is entirely rational, while Jim Bailey has no comparable disinclination), but you can do the math and think longingly about what we could have earned had we aped the hedge funds and doubled the portfolio size by borrowing. The gain on our ever-undiversified portfolio of marketable common stocks (no more than ten holdings at any one time) was over 15% in 2016, three hundred and fifty basis points better than the S&P. Our alternative equities, the descriptor we use for hedge fund and private equity investments, had a lackluster, but far from disastrous, year. They returned about 4%. Real estate continued strong. Our operating income on the buildings we own in Boston, added to the appraisal increases, produced a return of 12%. The combined appraisal value for our two downtown Boston office buildings is now $101 million. Since the trough of the 2009 recession, the value of our buildings has very nearly tripled. We actually bought them in the prior downturn of the mid-1990's, but the point is the same. Real estate is subject to exaggerated cycles, and downturns quite often call for courageous purchasing. Panicked selling and paralysis in a depressed market are generally foolish reactions, and forced selling underscores, too late, the hazards of reckless leverage.

Last year's letter contained a self-flagellating paragraph about our purchases of Master Limited Partnerships engaged in continental U.S. fuel transmission. Although we were well below water in those investments at yearend 2015, Jim and I decided to stay with them rather than bail. As of the most recent yearend, a partial recovery in price and a rich dividend stream have together improved our MLP position. The inception-to-date pretax MLP loss is now about $2 million, a relatively mild hit on an investment of just over $100 million in a $2 billion portfolio. We continue to hold the MLP's, and Jim and I still expect that time will erase the losses entirely. Any self-flagellation from here on should be less owing to losses than to our having been drawn into a vehicle whose underlying economics we didn't thoroughly understand. I remain embarrassed about that.

Never in my lifetime has the political and macro-economic environment been so chock full of uncertainties. No prior president has assumed the office without years of experience in public service, but few presidents, if any, have promised to rock the boat more quickly and vigorously. Both houses of Congress are also of a potentially radical composition these days, and the population as a whole is deeply divided and on edge. While I am not pessimistic about any immediate impact on Plymouth Rock's business, defined narrowly, there is plenty to worry about with respect to the state of the world, the nation, and the economy. There are hopes we can share as well, but the concerns, at least for the short term, dominate the stage. Plymouth Rock enjoys some insulation because foreign affairs have little direct impact on personal lines underwriting, and national politics are nearly as removed from our state-centric industry. Foreign and domestic policies can touch our people on a personal level, of course, and we must be particularly sensitive to their needs at this time. Ultimately, societal values are more important than markets. At least for now, however, the financial performance impact of national and international events on our Company is likely to be limited primarily to our investments. Since we are not market timers, we accept those risks, and Plymouth Rock will stay fully invested despite all of the uncertainty. I have little or no trust, by the way, that month-to-month or year-to-year variations in stock market prices are accurate predictors of the nation's long-term economic course. One should always feel free to be apprehensive about macro-economic prospects when the market is as pricey as it is now and, conversely, bullish on the economy when markets sag. Here are a few economic matters to follow as the new regime in Washington takes over.

I urged in my 2016 book Five Easy Theses that spending paid for by large deficits be limited to investments for which our offspring will thank us and meet the requirements of short-term stimulus during tough times. A major infrastructure investment program that shores up our schools, roads, bridges, and water facilities could meet the offspring gratitude standard. But if this is coupled with a tax cut mainly enjoyed by the wealthy, it will not only swell the deficit but accelerate inequality, which in turn reduces aggregate demand by shifting income from those with a high propensity to spend toward people and corporations with lower spending propensities. Extreme inequality is not just a slap at pluralistic democracy and justice, but also a depressant for economic growth. And, believe it or not, from 2003 to 2013, more than 110 percent of the new wealth total created in this country went to the upper 10 percent of earners. (Yes, that's more than all the new wealth.) If tax cuts are enacted that increase already worrisome and rising disparities, we should expect more voter anger, sluggish consumer demand, and an attenuated long-term growth path.

A serious new commitment to vocational education, conducted in partnership with businesses that have actual jobs to offer, would be a plus. Eviscerating the public education system in favor of vouchers, though, could be a profound negative for the economy. It will be an economic benefit if policymakers can halt the expansion of health care costs as a percentage of GNP with, for example, more competition in drug pricing, tort reforms that curb defensive medicine, and an introduction of consumer choice and rationality into end-of-life care. It is folly to believe that lasting systemic savings can emerge from a withdrawal of universality. Given my background, I would especially welcome a new round of financial sector reforms rooted in more disclosure and less leverage. We would all be economically safer if large bank capital requirements were raised, if every derivatives position had to be backed with a suitable reserve, and if hedge funds were governed under the same disclosure rules as mutual funds. I wish I had even a modicum of confidence that the upcoming changes in financial regulation would improve its targeting and provide these safeguards. All of these topics are on the table right now, with positive outcomes on all of them far from assured. I cannot recall an equally unpredictable, and perilous, moment in my lifetime.

By now, I hope I have conveyed a sense of the entrepreneurial spirit that enhances our workplace these days. Hal and I had been talking about our company's readiness for renewed entrepreneurship ever since the absorption of the Prudential personal lines business – with relatively little consequence. Prior to that, of course, we had launched numerous new business forays. Plymouth Rock and I were involved in the 1993 formation of CAT Ltd., a successful Bermuda reinsurer now part of the Chubb insurance group. This was around the same time that Hal was just getting us going in New Jersey with the birth of the Palisades reciprocal. It was a few years later that Peter Wood, Plymouth Rock, and I founded Response Insurance, which was sold to Kemper in 2009. Then, in 1997, we organized Homesite Group, purchased at the close of 2013 by American Family Mutual. It was about six years after Homesite's launch, and well before the sales of Response and Homesite, that we inked the contract with Prudential and doubled the size of our core enterprise. It seemed then that we had enough on our plates, so a number of quiet years followed, during which the entrepreneurial companies matured. Now, counting InsuraMatch, the homeowners expansion initiative, the building of the New Jersey direct business, and our entry into Pennsylvania, there are four entrepreneurial projects cooking. The internal teams that run these efforts have especially exciting and challenging jobs these days. It is sharing their zone that gives Hal and me the little extra spring in our steps. We feel blessed to have a cornucopia of new growth prospects more than sufficient to challenge the whole team.

James M. Stone

pwc

Report of Independent Auditors

To the Board of Directors of The Plymouth Rock Company

We have audited the accompanying consolidated financial statements of The Plymouth Rock Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, cash flows and changes in equity for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Plymouth Rock Company and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 2, 2017

PricewaterhouseCoopers LLP, 101 Seaport Blvd, Suite 500, Boston, MA 02210
T: (617) 530 5000, F:(617) 530 5001, www.pwc.com/us

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2016 and 2015
(dollars in thousands)

Assets	2016	2015
The Plymouth Rock Company and Subsidiaries		
Cash and cash equivalents	$ 36,931	$ 88,808
Investment securities	704,843	586,262
Accrued investment income	3,437	2,097
Premiums receivable	138,891	131,323
Ceded unearned premium reserves	25,596	23,383
Deferred acquisition costs	31,899	30,734
Amounts receivable from reinsurers and pools	28,504	30,998
Amounts due from service clients	1,430	1,117
Prepaid expenses, agent loans, and deposits	12,571	8,684
Real estate	34,302	34,799
Fixed assets	33,484	34,867
Goodwill and intangible assets	4,390	4,294
Income tax recoverable	6,225	-0-
Deferred rental revenue	1,168	1,443
Other assets	528	285
Subtotal	1,064,199	979,094
Palisades Reciprocal Group		
Cash and cash equivalents	4,989	91,849
Investment securities	1,221,955	1,078,060
Accrued investment income	6,407	3,505
Premiums receivable	123,268	118,281
Ceded unearned premium reserves	4,251	7,158
Deferred acquisition costs	25,359	25,967
Amounts receivable from reinsurers and pools	29,035	34,933
Goodwill and intangible assets	11,654	12,649
Income tax recoverable	3,425	-0-
Other assets	1,351	1,663
Subtotal	1,431,694	1,374,065
Total assets	$2,495,893	$2,353,159

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2016 and 2015
(dollars in thousands)

Liabilities	2016	2015
The Plymouth Rock Company and Subsidiaries		
Claim and claim adjustment expense reserves	$ 234,424	$ 201,903
Unearned premium reserves	235,116	223,714
Advance premiums	6,915	7,475
Commissions payable and accrued liabilities	64,625	56,166
Amounts payable to reinsurers	10,264	9,303
Deferred revenue	3,730	3,493
Unearned service fees	4,577	4,285
Secured loan	15,000	35,000
Income tax payable	-0-	8,343
Deferred income taxes	32,403	22,241
Other liabilities	2,825	2,951
Subtotal	609,879	574,874
Palisades Reciprocal Group		
Claim and claim adjustment expense reserves	636,514	623,545
Unearned premium reserves	287,847	288,951
Advance premiums	7,906	9,019
Commissions payable and accrued liabilities	31,368	41,296
Amounts payable to reinsurers	682	830
Deferred revenue	968	1,964
Income tax payable	-0-	2,233
Deferred income taxes	30,894	15,701
Other liabilities	655	499
Subtotal	996,834	984,038
Total liabilities	1,606,713	1,558,912
Equity		
The Plymouth Rock Company and Subsidiaries		
Common stock and paid-in capital	12	12
Retained earnings	365,610	335,143
Net unrealized gain on investments	71,336	50,338
The Plymouth Rock Company stockholders' equity	436,958	385,493
Palisades Reciprocal Group	452,222	408,754
Total liabilities and equity	$2,495,893	$2,353,159

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, 2016 and 2015
(dollars in thousands)

Revenues	2016	2015
The Plymouth Rock Company and Subsidiaries		
Premiums earned in underwriting activities	$ 411,896	$ 372,670
Fees earned from service activities	184,370	182,531
Investment income and capital gains	21,139	20,189
Subtotal	617,405	575,390
Palisades Reciprocal Group		
Premiums earned in underwriting activities	702,667	668,357
Fees earned from service activities	921	691
Investment income and capital gains	19,583	37,742
Subtotal	723,171	706,790
Less: Intra-group transactions	175,847	173,602
Total revenues	1,164,729	1,108,578
Expenses		
The Plymouth Rock Company and Subsidiaries		
Claims and claim adjustment expenses	308,997	293,640
Policy acquisition, underwriting, and general expenses	100,044	92,986
Service activity expenses	144,489	142,865
Subtotal	553,530	529,491
Palisades Reciprocal Group		
Claims and claim adjustment expenses	495,271	477,704
Policy acquisition, underwriting, and general expenses	205,268	195,839
Service activity expenses	1,150	930
Subtotal	701,689	674,473
Less: Intra-group transactions	175,847	173,602
Total expenses	1,079,372	1,030,362
Income before income taxes	85,357	78,216
Income taxes	26,586	25,164
Fully consolidated net income	58,771	53,052
Less: Net income of Palisades Reciprocal Group	16,710	23,729
Net income of The Plymouth Rock Company and Subsidiaries	$ 42,061	$ 29,323

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, 2016 and 2015
(dollars in thousands, except per share data)

	2016	2015
The Plymouth Rock Company and Subsidiaries		
Net income	$ 42,061	$ 29,323
Other comprehensive income, net of tax:		
Total unrealized gain on investment securities during the year	18,430	(9,313)
Less: Gain on investments included in net income	(2,568)	2,495
Change in net unrealized gain on investments during the year	20,998	(11,808)
Comprehensive income	63,059	17,515
Palisades Reciprocal Group		
Net income	16,710	23,729
Other comprehensive income, net of tax:		
Total unrealized gain on investment securities during the year	22,892	(13,659)
Less: Gain on investments included in net income	(3,866)	16,775
Change in net unrealized gain on investments during the year	26,758	(30,434)
Comprehensive income	43,468	(6,705)
Fully consolidated		
Net income	58,771	53,052
Change in net unrealized gain on investments during the year	47,756	(42,242)
Comprehensive income	$ 106,527	$ 10,810

The Plymouth Rock Company and Subsidiaries - Per share data

	2016	2015
Weighted average common shares outstanding	122,823	126,768
Net income per share	$ 342.45	$ 231.31
Common shares outstanding at end of year	122,823	122,823
Common stockholders’ equity per share	$3,557.62	$3,138.60

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, 2016 and 2015
(dollars in thousands)

Cash flows from operating activities	2016	2015
The Plymouth Rock Company and Subsidiaries		
Gross premiums collected	$ 464,915	$ 427,578
Reinsurance premiums paid	(51,166)	(47,324)
Finance charges collected	8,460	6,091
Fees and commissions collected	182,606	187,777
Investment income and capital gains received	13,327	16,933
Gross claims and claim expenses paid	(301,575)	(311,626)
Reinsured claims and claim expenses collected	29,831	42,835
Policy acquisition, underwriting, and general expenses paid	(90,739)	(81,047)
Income taxes paid	(37,989)	(15,989)
Service activity expenses paid	(130,893)	(131,684)
Net cash provided by operating activities	86,777	93,544
Palisades Reciprocal Group		
Gross premiums collected	719,667	706,072
Reinsurance premiums paid	(21,444)	(28,420)
Finance charges collected	-0-	1,886
Fees and commissions collected	895	696
Investment income and capital gains received	24,410	44,385
Gross claims and claim expenses paid	(490,751)	(503,193)
Reinsured claims and claim expenses collected	12,749	21,429
Policy acquisition, underwriting, and general expenses paid	(218,865)	(207,598)
Income taxes paid and recovered	(9,647)	4,523
Service activity expenses paid	(1,150)	(930)
Net cash provided by operating activities	15,864	38,850
Total net cash provided by operating activities	$ 102,641	$ 132,394

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, 2016 and 2015
(dollars in thousands)

Cash flows from financing activities	2016	2015
The Plymouth Rock Company and Subsidiaries		
Repurchase of common stock	$ -0-	$ (24,000)
Repayment or proceeds of or from secured loan	(20,000)	20,000
Dividends to stockholders	(11,594)	(5,764)
Net cash used in financing activities	(31,594)	(9,764)
Net cash provided by		
The Plymouth Rock Company and Subsidiaries	$ 55,183	$ 83,780
Palisades Reciprocal Group	$ 15,864	$ 38,850
Total	$ 71,047	$ 122,630

Investment of net cash provided		
The Plymouth Rock Company and Subsidiaries		
Change in cash and cash equivalents	$ (51,877)	$ 19,050
Net investment activity	86,071	48,408
Purchase of intangible assets	203	-0-
Net real estate activity	1,458	663
Purchases of fixed assets	19,328	15,659
Net cash provided by investing activities	$ 55,183	$ 83,780
Palisades Reciprocal Group		
Change in cash and cash equivalents	$ (86,860)	$ 78,603
Net investment activity	102,724	(39,753)
Net cash provided by investing activities	$ 15,864	$ 38,850
Total net cash invested	$ 71,047	$ 122,630

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, 2016 and 2015
(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, 2014	$ 30	$335,752	$62,146	$397,928	$415,459	$813,387
Comprehensive income	-0-	29,323	(11,808)	17,515	(6,705)	10,810
Repurchase of common stock	-0-	(24,000)	-0-	(24,000)	-0-	(24,000)
Stock-based compensation	(18)	(168)	-0-	(186)	-0-	(186)
Dividends to stockholders	-0-	(5,764)	-0-	(5,764)	-0-	(5,764)
December 31, 2015	$ 12	$335,143	$50,338	$385,493	$408,754	$794,247
Comprehensive income	-0-	42,061	20,998	63,059	43,468	106,527
Dividends to stockholders	-0-	(11,594)	-0-	(11,594)	-0-	(11,594)
December 31, 2016	$ 12	$365,610	$71,336	$436,958	$452,222	$889,180

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 elsewhere in the United States. The Plymouth Rock Company and its wholly owned subsidiaries are generally referred to in these financial statements as "The Plymouth Rock Company and Subsidiaries".

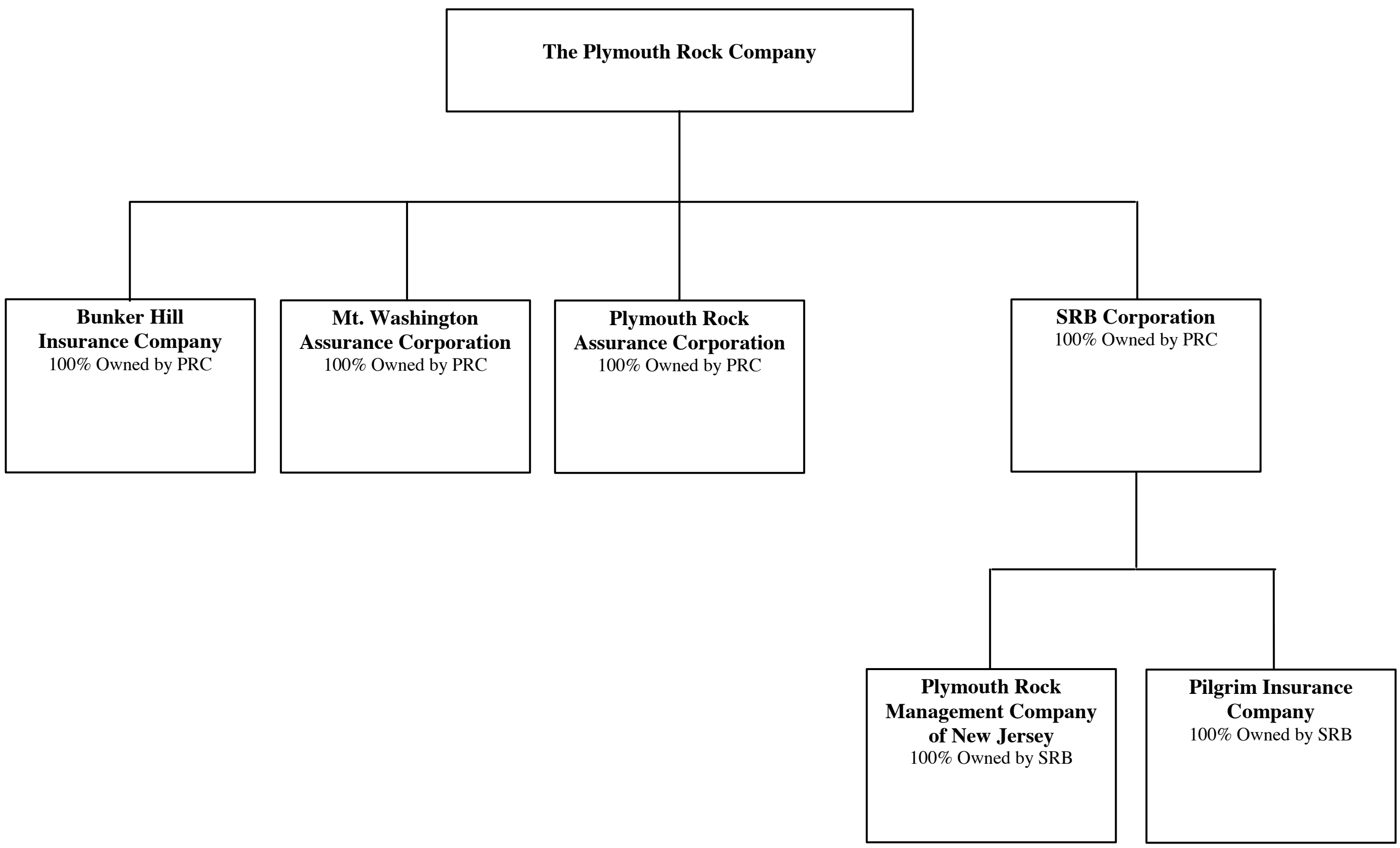
Among The Plymouth Rock Company's largest businesses is the management of a reciprocal insurance group in New Jersey, which is conducted through a subsidiary. The members of that reciprocal group of companies, which are referred to in these financial statements as the "Palisades Reciprocal Group", are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

The Plymouth Rock Company's financial statements consolidate the results of the members of the Palisades Reciprocal Group. Accounting Standards Update No. 2015-02 modified the framework for assessing whether a "variable interest entity" in a service relationship should be consolidated for financial reporting purposes by eliminating certain criteria in assessing whether a service arrangement is considered a variable interest and ultimately whether consolidation is required under Accounting Standards Codification Topic 810. The Plymouth Rock Company and Subsidiaries have provided capital to the Palisades Reciprocal Group in the form of surplus notes and preferred stock that account for $18.6 million, or 4.1 and 4.6 percent, of the equity of the Palisades Reciprocal Group at December 31, 2016 and 2015, respectively. As these surplus notes and preferred stock features are not typical of an ordinary service arrangement, it continues to be appropriate for The Plymouth Rock Company and Subsidiaries to consolidate the results of the members of the Palisades Reciprocal Group under the updated standard. The Plymouth Rock Company and Subsidiaries do not bear direct risk or earn direct rewards on the basis of the performance of the Palisades Reciprocal Group. The results are presented in a consolidated manner despite fundamental legal and regulatory distinctions between The Plymouth Rock Company and Subsidiaries on one hand and the Palisades Reciprocal Group on the other.

2. Organization of The Plymouth Rock Company and Subsidiaries

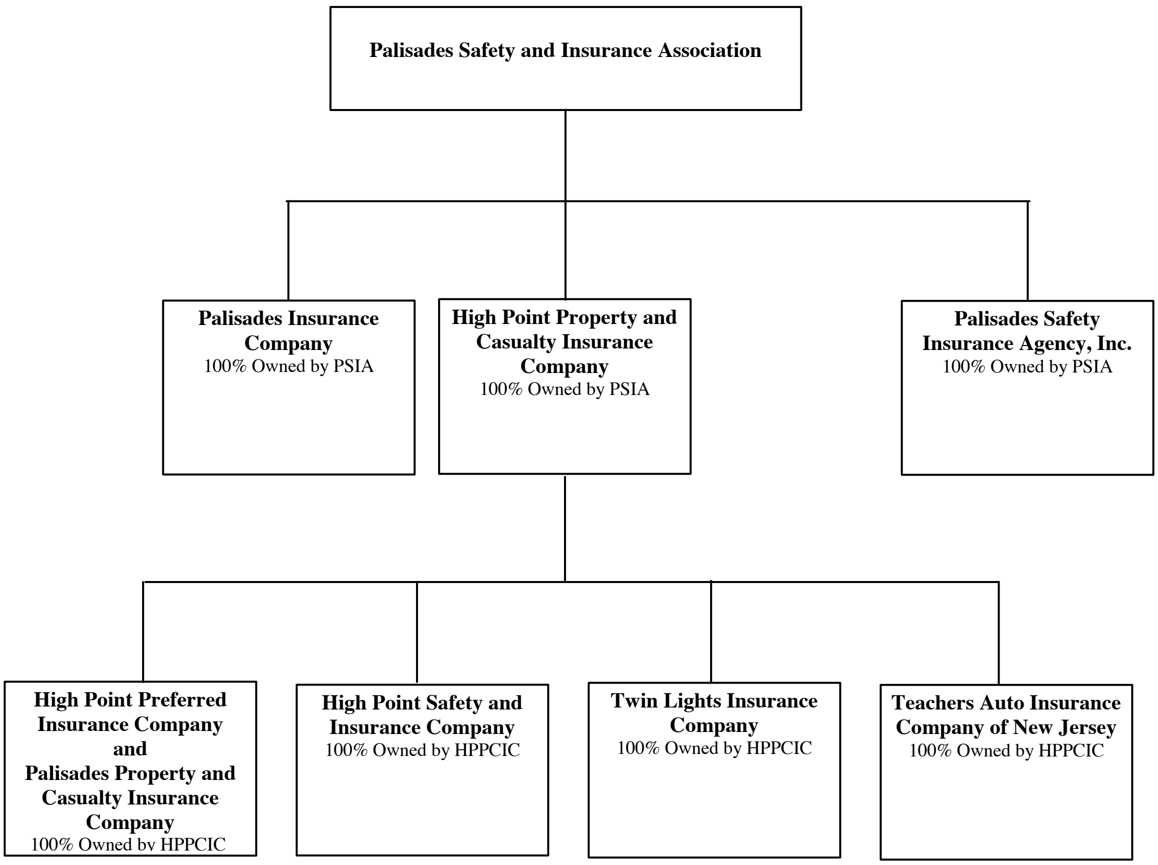
The corporate and ownership structure of The Plymouth Rock Company and principal subsidiaries is shown in the following chart:



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

3. Organization of the Palisades Reciprocal Group

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



4. Summary of Significant Accounting Policies

A. Principles of Consolidation

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

B. Stock-Based Compensation

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

C. Use of Estimates

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

4. Summary of Significant Accounting Policies, continued

D. Cash and Investments

Cash and cash equivalents include money market funds and short-term money market instruments with maturity dates no longer than 90 days from the date of acquisition. Liabilities for outstanding checks for The Plymouth Rock Company and Subsidiaries of $4.7 million and $2.5 million are included in accrued liabilities at December 31, 2016 and 2015, respectively. Liabilities for outstanding checks for the Palisades Reciprocal Group of $13.2 million and $17.7 million are included in accrued liabilities at December 31, 2016 and 2015, 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. Any portion of the decline in value of a marketable fixed income security attributable to credit quality is reported as a component of net realized capital gains, while any portion attributable to other factors, such as fluctuations in interest rates, is reported as a component of other comprehensive income. Since unrealized losses are a component of stockholders' equity, the recognition of other-than-temporary impairment losses has no effect on comprehensive income or stockholders' equity.

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

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 2016 and 2015 for The Plymouth Rock Company and Subsidiaries was $53.7 million and $52.5 million, respectively, while the net amortization for the Palisades Reciprocal Group for 2016 and 2015 was $66.8 million and $59.4 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, 2016 and 2015, the reserves for doubtful collections for The Plymouth Rock Company and Subsidiaries were $1.1 million and $983,000, respectively. The reserves for doubtful collections of the Palisades Reciprocal Group at December 31, 2016 and 2015 were $4.5 million and $2.8 million, respectively.

H. Recognition of Fees Earned from Service Activities

The Plymouth Rock Company and Subsidiaries earn management fees from the Palisades Reciprocal Group and other unaffiliated companies for providing sales, underwriting, policy issuance, claim adjusting, accounting, and other insurance-related services. Fees from service activities are earned over the applicable policy terms. In 2016 and 2015, fees of $175.8 million and $173.6 million, respectively, earned from the Palisades Reciprocal Group were eliminated upon consolidation. The balance sheet item "other liabilities" includes balances owed to insurers for which Pilgrim Insurance Company provides services.

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. Intangible assets with indefinite lives are not amortized and are subject to annual impairment testing like goodwill. Intangible assets with finite lives are amortized using the straight-line method over the estimated useful lives of the assets.

No impairment of the goodwill or intangible assets with indefinite lives of either The Plymouth Rock Company and Subsidiaries or the Palisades Reciprocal Group was recorded in either 2016 or 2015.

5. Income Taxes

Income taxes on the statements of comprehensive income for 2016 and 2015 consist of:

(dollars in thousands)	2016	2015
The Plymouth Rock Company and Subsidiaries	$ 21,812	$ 16,576
Palisades Reciprocal Group	4,774	8,588
Total	$ 26,586	$ 25,164

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. Based upon recent profitable results and projected future profitability, the Company has determined that there will more likely than not be sufficient future taxable income at both The Plymouth Rock Company and Subsidiaries and Palisades Reciprocal Group to realize all deferred tax assets. The net unrealized gain on investments is presented in equity, net of an estimate of applicable deferred income taxes. The reported provisions for income taxes for The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group are less than those computed by applying the federal and state income tax rates for these years to income before income taxes. These differences arise principally because of the favorable federal income tax treatment of dividend income and interest from state and municipal bonds, as well as federal income tax deductions for state taxes paid by The Plymouth Rock Company and Subsidiaries. In 2016, The Plymouth Rock Company and Subsidiaries recorded a $1.4 million tax benefit related to prior-period deferred tax liability adjustments.

There are no tax positions of questionable merit that require a reserve for potential disallowance. As of December 31, 2016, neither The Plymouth Rock Company and Subsidiaries nor the Palisades Reciprocal Group is subject to federal examinations for tax years prior to 2013. Examinations by two state taxing authorities are presently in progress for The Plymouth Rock Company and Subsidiaries that could potentially cover tax years 2012 through 2015. An examination by federal taxing authorities is presently in progress for the Palisades Reciprocal Group covering 2013. At this time, we are not aware of any findings that would result in a material change to either group's financial position.

The Plymouth Rock Company and Subsidiaries

Income taxes on the statements of comprehensive income for 2016 and 2015 consist of:

(dollars in thousands)	2016	2015
Current year federal income taxes	$18,767	$19,097
Current year state income taxes	4,654	5,106
Change in deferred federal taxes	(1,575)	(7,187)
Change in deferred state taxes	(34)	(440)
Total	$21,812	$16,576

5. Income Taxes, continued

Deferred income taxes on the balance sheets as of December 31, 2016 and 2015 consist of the net effects of these temporary differences:

(dollars in thousands)	2016	2015
Net unrealized gain on investments	$(39,901)	$(28,130)
Unearned premiums	15,150	14,546
Deferred acquisition expense	(9,859)	(9,534)
Compensation expense	8,774	8,106
Depreciation	(7,053)	(9,427)
Discounting of claim reserves	2,009	1,915
Investment and partnership timing differences	(1,240)	(264)
Other	(283)	547
Total	$(32,403)	$(22,241)

Palisades Reciprocal Group

Income taxes on the statements of comprehensive income for 2016 and 2015 consist of:

(dollars in thousands)	2016	2015
Current year federal income taxes	$ 3,988	$ 5,853
Current year state income taxes	1	2
Change in deferred federal taxes	785	2,733
Total	$ 4,774	$ 8,588

Deferred income taxes on the balance sheets as of December 31, 2016 and 2015 consist of the net effects of these temporary differences:

(dollars in thousands)	2016	2015
Net unrealized gain on investments	$(45,012)	$(30,604)
Deferred acquisition expense	(21,529)	(21,284)
Unearned premiums	20,405	20,357
Discounting of claim reserves	6,353	7,025
Investment and partnership timing differences	4,084	4,369
Guaranty fund accrual	3,028	3,520
Reserves for doubtful collections	1,583	993
Intangibles	647	725
Other	(453)	(802)
Total	$(30,894)	$(15,701)

5. Income Taxes, continued

There are no federal net operating loss carryforwards available as of December 31, 2016. The Palisades Reciprocal Group had alternative minimum tax credit carryforwards of $1.9 million as of December 31, 2014 that were fully utilized during 2015.

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.

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)	2016	2015
Balance at beginning of year	$201,903	$175,565
Claims and claim adjustment expenses incurred:		
Current year	320,372	297,396
Prior years	(11,375)	(3,756)
	308,997	293,640
Claims and claim adjustment expenses paid:		
Current year	199,609	195,567
Prior years	76,226	73,583
	275,835	269,150
Change in reinsurance recoverable on unpaid claims	(641)	1,848
Balance at end of year	$234,424	$201,903

6. Claim and Claim Adjustment Expense Reserves, continued

During the year ended December 31, 2016, reserves for claims and claim adjustment expenses for prior years developed favorably by $11.4 million. This change resulted primarily from favorable development of $10.0 million and $1.1 million in the auto and umbrella lines of business, respectively. During the year ended December 31, 2015, reserves for claims and claim adjustment expenses for prior years developed favorably by $3.8 million. This change resulted primarily from favorable development of $2.6 million and $1.3 million in the auto and homeowners lines of business, respectively.

The amounts shown in the table above include $12.2 million and $11.3 million of estimated claim and claim adjustment expense reserves under Pilgrim's contracts with service clients as of December 31, 2016 and December 31, 2015, respectively. Offsetting amounts are included in "amounts receivable from reinsurers and pools" as assets on the balance sheet. While these policies are issued by Pilgrim, most of the underwriting results have been ceded either to its clients or to a reinsurer via quota share reinsurance arrangements such that Pilgrim retains only a relatively small amount of the underwriting risk.

Palisades Reciprocal Group

(dollars in thousands)	2016	2015
Balance at beginning of year	$623,545	$636,891
Claims and claim adjustment expenses incurred:		
Current year	527,711	502,442
Prior years	(32,440)	(24,738)
	495,271	477,704
Claims and claim adjustment expenses paid:		
Current year	256,464	247,255
Prior years	220,696	228,701
	477,160	475,956
Change in reinsurance recoverable on unpaid claims	(5,142)	(15,094)
Balance at end of year	$636,514	$623,545

6. Claim and Claim Adjustment Expense Reserves, continued

During the year ended December 31, 2016, reserves for claims and claim adjustment expenses for prior years developed favorably by $32.4 million. This change resulted from favorable development of $27.9 million and $5.8 million in the personal auto and homeowners lines of business, respectively, partially offset by unfavorable development of $1.3 million in other lines of business. During the year ended December 31, 2015, reserves for claims and claim adjustment expenses for prior years developed favorably by $24.7 million. This change resulted from favorable development of $28.4 million and $1.2 million in the personal auto and homeowners lines of business, respectively, partially offset by unfavorable development of $4.9 million in other lines of business.

7. Reinsurance

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

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

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

	2016		2015	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$473,196	$334,097	$439,427	$337,964
Ceded	(52,111)	(25,100)	(49,438)	(44,324)
Net	$421,085	$308,997	$389,989	$293,640

Ceded premiums earned for 2016 and 2015 were $49.9 million and $46.5 million, respectively.

7. Reinsurance, continued

The Plymouth Rock Company and Subsidiaries have in place treaties for quota share reinsurance for homeowners business. Homeowners premiums totaling $24.2 million and $22.3 million were ceded in 2016 and 2015, respectively, at a cession rate of 50 percent. The ceding commissions received under the homeowners treaties vary on the basis of loss ratio. The statements of comprehensive income for The Plymouth Rock Company and Subsidiaries are reported net of ceded premiums earned of $32.5 million and $29.9 million, respectively, in 2016 and 2015, and net of claims, claim expenses, and ceding commission expenses of $30.8 million and $30.7 million, respectively.

There are also treaties in place for catastrophe reinsurance for auto and homeowners lines of business, and per-risk excess-of-loss reinsurance for homeowners, commercial auto, and umbrella lines of business. During the year ended December 31, 2016, the cost incurred for these treaties was $6.4 million. As a result of significant losses related to severe 2015 winter weather, The Plymouth Rock Company and Subsidiaries ceded $14.5 million of losses incurred to catastrophe reinsurers in 2015. This utilization of the catastrophe reinsurance program required the payment of a reinstatement premium in the amount of $715,000 to maintain the same catastrophe coverage for the remainder of the contract term. During the year ended December 31, 2015, the benefit from these treaties net of premiums paid was $10.4 million. During 2016, the estimate of losses recoverable under the catastrophe reinsurance decreased. This resulted in a pre-tax charge to earnings of $650,000.

The Plymouth Rock Company and Subsidiaries also has in place 100% quota share reinsurance with the National Flood Insurance Program for flood coverage that it writes on a direct basis. Premiums ceded under this program were $818,000 and $808,000 in 2016 and 2015, respectively, while ceded claims, claim expenses and ceding commission totaled $212,000 and $191,000, respectively.

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

7. Reinsurance, continued

Pilgrim provides auto insurance services to unrelated insurance companies. The statements of comprehensive income for The Plymouth Rock Company and Subsidiaries are reported net of $20.6 million and $17.8 million of ceded premiums earned and $16.2 million and $11.7 million of claims and claim adjustment expenses incurred and ceded in 2016 and 2015, respectively, related to Pilgrim's third-party business. Pilgrim began to retain a small amount of underwriting risk relating to these third-party service arrangements during 2015, but continued to cede most of the underwriting risk either to its clients or to a reinsurer via quota share reinsurance arrangements during both 2016 and 2015. The statements of comprehensive income of The Plymouth Rock Company and Subsidiaries include $4.5 million and $1.9 million of net premiums earned in underwriting activities and $4.2 million and $1.7 million of net claims and claim expenses incurred in 2016 and 2015, respectively, for Pilgrim's third-party business. These retained amounts reflect 17.9% and 9.6% of direct premiums earned and 20.8% and 12.8% of direct claims and claim expenses incurred of the total activity of the business during 2016 and 2015, respectively.

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. This Statutory Capital Support Agreement will expire on June 30, 2017 but will automatically renew for another year if not terminated by either company. No capital contribution was made under this agreement during either 2016 or 2015.

Also in an effort to achieve the proper balance between reinsurance cost and risk retention, Plymouth Rock Assurance began participating as a reinsurer on the catastrophe reinsurance programs of Bunker Hill and the Palisades Reciprocal Group effective July 1, 2015, at a participation rate of approximately 20 percent. Related to this participation, The Plymouth Rock Company and Plymouth Rock Assurance entered into a Statutory Capital Support Agreement. This agreement provides that The Plymouth Rock Company will make a capital contribution to Plymouth Rock Assurance if the combined surplus of Plymouth Rock Assurance, Pilgrim, and Mt. Washington Assurance Corporation falls below a certain threshold. This Statutory Capital Support Agreement will expire on June 30, 2017 but will automatically renew for another year if not terminated by either company. No capital contribution was made under this agreement during 2016. A capital contribution of $3.8 million was made under this agreement in November 2015.

7. Reinsurance, continued

Palisades Reciprocal Group

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

	2016		2015	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$725,767	$503,684	$717,983	$490,180
Ceded	(21,297)	(8,413)	(27,121)	(12,476)
Net	$704,470	$495,271	$690,862	$477,704

Ceded premiums earned for 2016 and 2015 were $24.2 million and $38.6 million, respectively.

The Palisades Reciprocal Group had treaties in place for quota share reinsurance for homeowners business with a cession rate of 5 percent through June 30, 2016. Effective July 1, 2016, these treaties were commuted and not renewed. Homeowners premiums totaling $4.4 million were ceded in 2015 at cession rates of 25 percent from January through June and 5 percent from July through December. The ceding commissions received under the homeowners treaties varied on the basis of loss ratio.

For 2016, revenues and expenses are reflected net of quota share reinsurance totaling $6.6 million and $5.9 million, respectively. For 2015, revenues and expenses are reflected net of quota share reinsurance totaling $19.6 million and $17.8 million, respectively.

The Palisades Reciprocal Group has in place catastrophe reinsurance for the auto and homeowners lines of business, and per-risk excess-of-loss reinsurance treaties on the homeowners, commercial auto, and umbrella lines of business. During the years ended December 31, 2016 and 2015, the Palisades Reciprocal Group incurred costs of $10.9 million and $12.7 million, respectively, under these treaties.

7. Reinsurance, continued

The Palisades Reciprocal Group also has in place 100% quota share reinsurance with the National Flood Insurance Program for flood coverage that it writes on a direct basis. For 2016, revenues and expenses ceded under this program were $4.3 million and $4.1 million, respectively. For 2015, revenues and expenses ceded under this program were $4.7 million and $2.4 million, respectively.

8. Subsequent Events

Subsequent events have been evaluated from December 31, 2016 through March 2, 2017. No material subsequent events have been identified.

9. Commitments and Contingencies

The Plymouth Rock Company and Subsidiaries incurred real estate rental expenses for 2016 and 2015 totaling $7.1 million and $6.9 million, respectively. For the years 2017 through 2021, the minimum lease obligations to unrelated third parties range from $1.7 million to $7.8 million annually. Total obligations of The Plymouth Rock Company and Subsidiaries under real estate and automobile leases are $28.4 million through 2024.

During 2014, Plymouth Rock Management Company of New Jersey vacated certain office spaces with the anticipation of subleasing these spaces for the remaining periods of the applicable leases. As the sublease rental income was expected to be less than the management company's rental expense obligation for the remainder of the lease terms, a charge of approximately $2.3 million was recorded at December 31, 2014 to reflect the expected unrecoverable amount for these lease obligations. As of December 31, 2016, a lease for part of this space expired and was not renewed, the remaining space had not been subleased, and the management company had a remaining obligation of approximately $773,000 under the original lease. The management company recorded additional expense of $418,000 and $208,000 in 2016 and 2015, respectively, related to the original leases.

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 premiums that can be used to reduce residual market assignments. Plymouth Rock Assurance recognized revenue from these sales in the amounts of $1.2 million in 2016 and $879,000 in 2015. During 2016, Plymouth Rock Assurance entered into agreements with four companies to sell surplus credit premiums that are expected to generate revenue of $703,000 during 2017.

9. Commitments and Contingencies, continued

Plymouth Rock Assurance entered into an agreement in 2011 to purchase $6.7 million of Massachusetts low-income housing tax credits at a cost of $4.6 million. The $4.6 million purchase price was paid in February 2013. These credits are being used to reduce that company's Massachusetts premium tax liability by $6.7 million over the five-year period from 2013 through 2017. Amortization associated with these credits was $536,000 and $1.3 million in 2016 and 2015, respectively. A benefit of $804,000 was recognized in 2016, and a benefit of $1.3 million will be recognized in 2017.

Plymouth Rock Assurance entered into an agreement in April 2015 to purchase $3.8 million of Massachusetts historic rehabilitation tax credits at a cost of $3.6 million. The $3.6 million purchase price was paid in December 2016. These credits will be used to reduce that company's final 2016 Massachusetts premium tax liability by $3.8 million.

Plymouth Rock Management Company of New Jersey and Palisades Safety and Insurance Association entered into an agreement in November 2016 to purchase $2.7 million of New Jersey urban tax credits at a cost of $2.5 million. It is expected that this purchase price will be paid in the first quarter of 2017 and that these credits will be used to reduce the Palisades Reciprocal Group's premium tax liability by $2.7 million over 2017 and 2018.

10. Goodwill and Intangible Assets

The Plymouth Rock Company and Subsidiaries

One subsidiary, InsuraMatch, LLC, has made purchases of insurance agencies that resulted in goodwill of $3.3 million at both December 31, 2016 and 2015. These purchases have also given rise to intangible assets in the form of expirations, noncompetition agreements, and brand names. During 2016, InsuraMatch, LLC entered into two insurance policy renewal rights agreements which gave rise to intangible assets of $203,000. Intangible assets, which are amortized over periods ranging from three to 15 years, were recorded at $979,000 and $883,000 at December 31, 2016 and 2015, respectively. Amortization associated with these intangible assets for 2016 and 2015 was $107,000 and $105,000, respectively. Amortization of these intangibles is expected to be $119,000 per year from 2017 through 2021.

10. Goodwill and Intangible Assets, continued

Palisades Reciprocal Group

The Palisades Reciprocal Group's purchase of Teachers Auto Insurance Company of New Jersey in 2007 resulted in goodwill of $3.3 million at both December 31, 2016 and 2015. The purchases in 2007 of Teachers Auto Insurance Company of New Jersey 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, 2016 and 2015, the carrying value of the trademark was $2.4 million and the carrying value of the state license was $150,000. These intangible assets are reviewed annually for impairment; no impairment was recorded in 2016 or 2015. The remaining intangible assets are being amortized over 20 years and were recorded at $5.8 million and $6.8 million at December 31, 2016 and 2015, respectively. Amortization associated with these intangible assets was $1.0 million and $1.1 million in 2016 and 2015, respectively. Amortization is expected to range from $572,000 to $889,000 annually from 2017 through 2021.

11. Secured Loan

On July 24, 2013, The Plymouth Rock Company took out a secured loan for $45.0 million from a bank. This loan was payable in full by July 24, 2016, and was structured with monthly payments of interest only, payable at a variable interest rate based on LIBOR. The Plymouth Rock Company prepaid $30.0 million of the balance of this loan without penalty during 2014. During 2015, The Plymouth Rock Company increased its borrowing by $20.0 million, and the date on which the loan is payable in full was extended to August 31, 2018. During 2016, The Plymouth Rock Company prepaid $20.0 million of the balance of this loan without penalty. The $15.0 million carrying value of the loan at December 31, 2016, reflects its fair value. The Plymouth Rock Company has pledged to the bank, as collateral, securities which had a market value of approximately $25.0 million as of December 31, 2016. The Plymouth Rock Company incurred $423,000 and $304,000 of interest expense on this loan during 2016 and 2015, respectively.

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

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

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	2016	2015
Net income	$42,061	$29,323
Depreciation and amortization	22,772	21,939
Deferred income taxes	(1,609)	(7,627)
Change in operating assets and liabilities:		
Accrued investment income	(1,340)	3,849
Premiums receivable	(7,568)	(12,169)
Ceded unearned premium reserves	(2,213)	(2,895)
Deferred acquisition costs	(1,165)	(1,689)
Amounts receivable from reinsurers and pools	2,494	(4,259)
Claim and claim adjustment expense reserves	32,521	26,338
Unearned premium reserves	11,402	20,214
Advance premiums	(560)	320
Commissions payable and accrued liabilities	8,459	1,642
Amounts payable to reinsurers	961	2,907
Deferred revenue	237	255
Unearned service fees	152	2,648
Prepaid expenses, agent loans, and deposits	(3,887)	2,158
Income tax recoverable and payable	(14,568)	8,214
Amounts due from service clients	(1,897)	2,598
Deferred rental revenue	275	324
Other assets and other liabilities	250	(546)
Net cash provided by operating activities	$86,777	$93,544

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

Palisades Reciprocal Group

(dollars in thousands)	2016	2015
Net income	$16,710	$23,729
Depreciation and amortization	995	1,112
Deferred income taxes	785	2,733
Change in operating assets and liabilities:		
Accrued investment income	(2,902)	2,147
Premiums receivable	(4,987)	(11,741)
Ceded unearned premium reserves	2,907	11,444
Deferred acquisition costs	747	(3,718)
Amounts receivable from reinsurers and pools	5,898	16,993
Claim and claim adjustment expense reserves	12,969	(13,346)
Unearned premium reserves	(1,104)	11,061
Advance premiums	(1,113)	(168)
Commissions payable and accrued liabilities	(9,928)	(6,268)
Amounts payable to reinsurers	(148)	(1,299)
Deferred revenue	(996)	(3,588)
Income tax recoverable and payable	(5,658)	10,378
Other assets and other liabilities	1,689	(619)
Net cash provided by operating activities	$15,864	$38,850

13. Fixed Assets

The table below summarizes fixed assets at December 31, 2016 and 2015.

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	Useful Lives	2016	2015
Computers and software development	3-5 years	$103,821	$ 94,731
Leasehold improvements	10 years	18,907	18,480
Furniture and fixtures	5 years	4,524	4,291
Vehicles	3 years	87	77
Total cost		127,339	117,579
Less: accumulated depreciation		93,855	82,712
Net book value		$ 33,484	$ 34,867

Depreciation expenses incurred were $20.7 million and $19.9 million during 2016 and 2015, respectively.

14. Consolidated Revenues

Revenues, net of reinsurance, by company or group for 2016 and 2015 were:

(dollars in thousands)	2016	2015
Underwriting company revenues:		
Plymouth Rock Assurance Corporation	$ 394,957	$ 359,667
Mt. Washington Assurance Corporation	88	84
Bunker Hill Insurance Group	23,979	21,537
Palisades Reciprocal Group	723,171	706,790
	1,142,195	1,088,078
Management company revenues:		
The Plymouth Rock Company	40,440	43,190
SRB Corporation	70,166	72,248
InsuraMatch, LLC	5,013	5,135
Pilgrim Insurance Company	22,371	18,185
Plymouth Rock Management Company of New Jersey	179,744	175,049
	317,734	313,807
Eliminations with subsidiaries of The Plymouth Rock Company:		
Technology costs	(35,729)	(35,266)
Dividends	(52,103)	(55,643)
Other	(31,521)	(28,796)
	(119,353)	(119,705)
Elimination of intra-group transactions	(175,847)	(173,602)
Total revenues	$1,164,729	$1,108,578

15. Compensation Plans

The Plymouth Rock Company and Subsidiaries maintain two plans under Section 401(k) of the Internal Revenue Code. These plans are defined contribution plans that together cover all employees. Expenses of $7.1 million and $6.6 million were incurred related to these plans during 2016 and 2015, respectively. Deferred compensation plans have been established at The Plymouth Rock Company and several of its subsidiaries for officers, directors, and managers, other than the founding shareholders. In general, these plans provide for a rate of return on deferred compensation equal each year to the rate of return earned by The Plymouth Rock Company and Subsidiaries that year. Incurred expenses related to these plans were $1.8 million and $1.4 million during 2016 and 2015, respectively.

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 year from 2006 through 2010. All of the awards granted to this officer were scheduled to vest at different times during a period that started in 2006 and ended in 2015, provided that certain financial performance and service requirements were met. Awards granted in 2010 did not vest during 2015 as the applicable financial performance requirements were not met. A credit to expenses of $236,000 was recorded in 2015 to reverse expenses recorded in prior years related to the 2010 award. The cost of all of these awards was based on annual appraisals of the shares of common stock of The Plymouth Rock Company.

Effective February 16, 2011, a stock incentive award of 701 shares was granted to another key officer. This award vested in January 2016, with a portion of the shares vesting based on financial performance. This award was exercised for cash. Expense of $200,000 was recorded in 2015 related to this award.

Effective January 15, 2015, stock incentive awards of 6,577 shares were granted to four key officers. These awards will vest in 2019 provided that certain financial performance and service requirements are met. On the basis of financial performance, no expense was recorded related to these awards during either 2016 or 2015.

16. Investment Securities and Investment Income

A. Marketable Securities

The Plymouth Rock Company and Subsidiaries

At December 31, 2016 and 2015, 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, 2016: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 3,610	$ 3	$ 11	$ 3,602
State and municipal securities	207,574	57	2,540	205,091
Corporate debt securities	24,293	94	159	24,228
Asset-backed securities	26,422	33	225	26,230
Common stocks	213,827	115,734	1,673	327,888
Preferred stocks	4,946	-0-	76	4,870
Total	$480,672	$115,921	$ 4,684	$591,909

At December 31, 2015: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 12,470	$ 17	$ 28	$ 12,459
State and municipal securities	125,720	287	169	125,838
Corporate debt securities	20,069	44	110	20,003
Asset-backed securities	13,250	57	36	13,271
Common stocks	205,452	88,534	10,174	283,812
Preferred stocks	4,946	46	-0-	4,992
Total	$381,907	$ 88,985	$10,517	$460,375

16. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

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

(dollars in thousands)	Amortized Cost	Market Value
Due in 90 days or less	$ 6,175	$ 6,174
Due after 90 days and in one year or less	20,509	20,476
Due after one year and in five years or less	205,672	203,253
Due after five years and in ten years or less	3,120	3,017
Due after ten years	1	1
Asset-backed securities	26,422	26,230
Common stocks	213,827	327,888
Preferred stocks	4,946	4,870
Total	$480,672	$591,909

These marketable securities are classified as available for sale. At December 31, 2016 and 2015, securities were held that had been in an unrealized loss position for longer than twelve months with a total market value of $3.9 million and $3.5 million, respectively. Unrealized losses related to these securities were $601,000 and $143,000 at December 31, 2016 and 2015, respectively. A loss of $4.1 million was recorded during the year ended December 31, 2016 for other-than-temporary impairment of two common stock holdings. A loss of $3.7 million was recorded during the year ended December 31, 2015 for other-than-temporary impairment of 14 common stock holdings. All other unrealized losses are viewed as resulting from market conditions and are believed to be temporary.

<u>Palisades Reciprocal Group</u>

At December 31, 2016 and 2015, 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, 2016: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 7,201	$ 1	$ 92	$ 7,110
State and municipal securities	285,572	7	4,582	280,997
Corporate debt securities	236,100	1,080	1,329	235,851
Asset-backed securities	176,147	358	1,144	175,361
Common stocks	258,428	135,316	1,011	392,733
Total	$963,448	$136,762	$ 8,158	$1,092,052

16. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2015: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$134,915	$ 56	$ 679	$134,292
State and municipal securities	58,973	118	55	59,036
Corporate debt securities	226,059	1,471	1,052	226,478
Asset-backed securities	176,956	521	582	176,895
Common stocks	249,499	98,040	10,400	337,139
Total	$846,402	$100,206	$12,768	$933,840

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

(dollars in thousands)	Amortized Cost	Market Value
Due in 90 days or less	$ 2,442	$ 2,442
Due after 90 days and in one year or less	20,727	20,687
Due after one year and in five years or less	504,495	499,657
Due after five years and in ten years or less	1,198	1,160
Due after ten years	11	12
Asset-backed securities	176,147	175,361
Common stocks	258,428	392,733
Total	$963,448	$1,092,052

These marketable securities are classified as available for sale. At December 31, 2016 and 2015, securities classified as available for sale that had been in an unrealized loss position for longer than twelve months had total market values of $6.7 million and $13.3 million, respectively. Unrealized losses related to these securities were $243,000 and $195,000 at December 31, 2016 and 2015, respectively. A loss of $5.0 million was recorded during the year ended December 31, 2016 for other-than-temporary impairment of two common stock holdings. A loss of $6.2 million was recorded during the year ended December 31, 2015 for other-than-temporary impairment of two common stock holdings. All other unrealized losses are viewed as resulting from market conditions and are believed to be temporary.

16. Investment Securities and Investment Income, continued

B. Non-Marketable Securities

The Plymouth Rock Company and Subsidiaries have investments in privately held stocks. Such investments amounted to $1.0 million and $2.1 million at December 31, 2016 and 2015, respectively. During 2016, a loss of $946,000 was recorded on an investment in the non-marketable shares of preferred stock of Consumer United, Inc. as this investment was determined to be other-than-temporarily impaired. No loss on investments in privately held stocks was recorded in 2015.

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 the net purchase price for each of The Plymouth Rock Company and the Palisades Reciprocal Group, amounting to $4.0 million and $1.9 million, respectively, was placed in escrow as collateral for potential claims by the American Family Insurance Group or other indemnified parties arising from possible breaches of representations and warranties made by Homesite Group in conjunction with this transaction. While such indemnification payments were not considered to be probable, contingent liabilities were established at the time of the transaction in the amounts of $2.6 million for The Plymouth Rock Company and $1.3 million for the Palisades Reciprocal Group. During 2015, The Plymouth Rock Company and the Palisades Reciprocal Group each received payment of the full escrow amounts; therefore, the contingent liabilities of $2.6 million and $1.3 million, respectively, were reversed and recorded as income in 2015.

16. Investment Securities and Investment Income, continued

C. Alternative Equity Investments

Investments in marketable alternative equities include positions in entities that focus predominantly on arbitrage relating to publicly announced mergers and acquisitions. Substantially all of the investments made by these entities are in publicly traded securities, and there exist contractual rights for investors to withdraw funds from these entities each year. At December 31, 2016 and 2015, The Plymouth Rock Company and Subsidiaries recorded values for these marketable alternative equity investments, which include realized and unrealized gains, of $84.3 million and $95.1 million, respectively. At December 31, 2016 and 2015, the Palisades Reciprocal Group recorded values for these marketable alternative equity investments of $115.2 million and $129.9 million, respectively.

Non-marketable alternative equity investments include interests in partnerships that invest in companies that are not publicly traded. These investments are valued by applying the equity method to values in their most recently available financial statements. The Plymouth Rock Company and Subsidiaries recorded values for non-marketable alternative equity investments of $27.6 million and $28.6 million at December 31, 2016 and 2015, respectively. The Palisades Reciprocal Group recorded values for non-marketable alternative equity investments of $14.7 million and $14.3 million at December 31, 2016 and 2015, respectively.

As of December 31, 2016, The Plymouth Rock Company and Subsidiaries had commitments outstanding to invest $43.9 million in ten private equity funds. Four of these funds are Lindsay Goldberg & Bessemer L.P. I (Fund I), Lindsay Goldberg & Bessemer L.P. II (Fund II), Lindsay Goldberg & Bessemer L.P. III (Fund III), and Lindsay Goldberg & Bessemer L.P. IV (Fund IV). The Chairman of The Plymouth Rock Company is a member of the general partner of each of these four funds. At December 31, 2016, The Plymouth Rock Company and Subsidiaries had $173,000, $4.0 million, $11.4 million and $3.9 million invested in Fund I, Fund II, Fund III, and Fund IV, respectively, with outstanding commitments to those four funds at that date of $152,000, $1.4 million, $1.2 million and $28.4 million, respectively.

As of December 31, 2016, the Palisades Reciprocal Group had commitments outstanding to invest $16.8 million in five private equity funds.

16. Investment Securities and Investment Income, continued

D. Fair Value Measurements

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

The Plymouth Rock Company and Subsidiaries

Cash, cash equivalents, and investment securities totaled $741.8 million and $675.1 million at December 31, 2016 and 2015, respectively. Assets in this category valued using either the equity method or the cost method totaled $112.9 million and $124.9 million, respectively, at December 31, 2016 and 2015. The other assets in this category were reported at fair values totaling $628.9 million and $550.2 million, respectively, at December 31, 2016 and 2015.

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

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

16. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

At December 31, 2015: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 88,808	$ -0-	$ -0-	$ 88,808
U.S. government securities	12,410	49	-0-	12,459
State and municipal securities	-0-	125,838	-0-	125,838
Corporate debt securities	-0-	20,003	-0-	20,003
Asset-backed securities	-0-	13,271	-0-	13,271
Marketable common stocks	283,812	-0-	-0-	283,812
Marketable preferred stocks	4,992	-0-	-0-	4,992
Non-marketable preferred stocks	-0-	-0-	1,000	1,000
Total fair value	$390,022	$159,161	$1,000	550,183
Assets valued using either the equity method or the cost method				124,887
Total value of cash, cash equivalents, and investment securities				$675,070

An investment in the non-marketable shares of preferred stock of Consumer United, Inc. was determined to have a fair value of $1.0 million as of December 31, 2015 using internal and external judgments based on the most recent sale price of the shares of preferred stock held by The Plymouth Rock Company. During 2016, this investment was determined to be other-than-temporarily impaired and its value is being carried at its cost of $54,000 as of December 31, 2016 as the estimate of fair value.

Palisades Reciprocal Group

Cash, cash equivalents, and investment securities totaled $1,226.9 million and $1,169.9 million at December 31, 2016 and 2015, respectively. Assets in this category that are valued using either the equity method or the cost method totaled $129.9 million and $144.2 million at December 31, 2016 and 2015, respectively. The fair values of the other assets in this category totaled $1,097.0 million and $1,025.7 million at December 31, 2016 and 2015, respectively.

16. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

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

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

At December 31, 2015: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 91,849	$ -0-	$ -0-	$ 91,849
U.S. government securities	134,272	20	-0-	134,292
State and municipal securities	-0-	59,036	-0-	59,036
Corporate debt securities	-0-	226,478	-0-	226,478
Asset-backed securities	-0-	176,895	-0-	176,895
Marketable common stocks	337,139	-0-	-0-	337,139
Total fair value	$563,260	$462,429	$ -0-	1,025,689
Assets valued using either the equity method or the cost method				144,220
Total value of cash, cash equivalents, and investment securities				$1,169,909

16. Investment Securities and Investment Income, continued

E. Analysis of Investment Income and Capital Gains

The Plymouth Rock Company and Subsidiaries

The components of investment income and capital gains before federal income taxes during 2016 and 2015 were as follows:

(dollars in thousands)	2016	2015
Interest income and dividends from securities	$12,945	$11,881
Earnings from non-marketable securities and alternative equity investments	4,471	(3,253)
Rental income	4,358	4,245
Finance charges on premiums receivable	8,460	6,091
Gross investment income	30,234	18,964
Rental expenses	(3,661)	(3,570)
Investment expenses	(2,019)	(1,622)
Investment income	24,554	13,772
Net realized capital gains (losses)	(3,415)	6,417
Investment income and capital gains	$21,139	$20,189

Palisades Reciprocal Group

The components of investment income and capital gains before federal income taxes during 2016 and 2015 were as follows:

(dollars in thousands)	2016	2015
Interest income and dividends from securities	$23,628	$24,308
Earnings from non-marketable securities and alternative equity investments	5,161	(2,772)
Finance charges on premiums receivable	-0-	1,886
Gross investment income	28,789	23,422
Investment expenses	(7,729)	(7,619)
Investment income	21,060	15,803
Net realized capital gains (losses)	(1,477)	21,939
Investment income and capital gains	$19,583	$37,742

16. Investment Securities and Investment Income, continued

F. Investment Activity

The Plymouth Rock Company and Subsidiaries

Activity in investment securities during 2016 and 2015 was as follows:

(dollars in thousands)	2016	2015
Balance at beginning of year	$ 586,262	$ 555,851
Change in marketable securities:		
Proceeds from maturities	(43,360)	(4,600)
Proceeds from sales	(82,359)	(112,119)
Purchases	224,719	124,864
Net change in marketable securities	99,000	8,145
Net change in non-marketable securities	(1,104)	(211)
Net change in alternative equity investments	(11,849)	40,474
Net investment activity	86,047	48,408
Net change in sales and purchases in process	(235)	(2)
Net change in unrealized gain on marketable and non-marketable securities	32,769	(17,995)
Balance at end of year	$ 704,843	$ 586,262

Palisades Reciprocal Group

Activity in investment securities during 2016 and 2015 was as follows:

(dollars in thousands)	2016	2015
Balance at beginning of year	$1,078,060	$1,164,632
Change in marketable securities:		
Proceeds from maturities	(90,605)	(3,670)
Proceeds from sales	(482,333)	(363,531)
Purchases	690,002	281,209
Net change in marketable securities	117,064	(85,992)
Net change in alternative equity investments	(14,317)	46,239
Net investment activity	102,747	(39,753)
Net change in sales and purchases in process	(18)	-0-
Net change in unrealized gain on marketable and non-marketable securities	41,166	(46,819)
Balance at end of year	$1,221,955	$1,078,060

17. Real Estate

At December 31, 2016, The Plymouth Rock Company owned properties located at 695 Atlantic Avenue and 99 Bedford Street in Boston.

Building improvement costs of $1.5 million and $663,000 were incurred on these properties in 2016 and 2015, respectively. The table below summarizes the real estate costs and carrying values at December 31, 2016 and 2015:

(dollars in thousands)	2016	2015
Land	$ 7,449	$ 7,449
Buildings, improvements, and other	49,985	48,527
Total cost	57,434	55,976
Less: accumulated depreciation	23,132	21,177
Net book value	$34,302	$34,799

Rental income from lessees other than The Plymouth Rock Company and Subsidiaries totaled $4.4 million and $4.2 million in 2016 and 2015, respectively. For each of the years 2017 through 2021, minimum annual rent receivable by The Plymouth Rock Company and Subsidiaries is $1.4 million. Total obligations to The Plymouth Rock Company and Subsidiaries from non-affiliated lessees through 2021 are $12.3 million. Buildings and improvements are depreciated over their useful lives, which range from three to 39 years.

The total appraised value of these two real estate interests as of December 1, 2016 and 2015, as determined by an independent appraiser using the income and sales comparison approaches, was $101.0 million and $91.8 million, respectively. Because of uncertainties inherent in the appraisal process, as well as changing market conditions, the amounts that could be realized if the properties were actually offered for sale may differ from their appraised values.

18. Stockholders' Equity

A. Common Stock

Common stock of The Plymouth Rock Company at December 31, 2016 and 2015 is composed of Class A common shares and Class B common shares, with shares of both classes having a par value of $0.10 each. There are 300,000 Class A common shares authorized, of which 58,729 were issued and outstanding on both December 31, 2016 and 2015.

There are 90,000 Class B common shares authorized, of which 64,094 were issued and outstanding on both December 31, 2016 and 2015. 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 6,000 outstanding shares of its Class A common stock held by one shareholder at a cost of $24.0 million during 2015. No shares were purchased during 2016.

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 $237.8 million and $204.9 million at December 31, 2016 and 2015, respectively. The combined net income of these subsidiaries on a statutory accounting basis was $9.2 million and $701,000 in 2016 and 2015, respectively.

18. Stockholders' Equity, continued

B. Statutory Surplus and Dividend Availability, continued

Capital and surplus of the insurance companies in the Palisades Reciprocal Group totaled \$413.2 million and \$367.1 million at December 31, 2016 and 2015, respectively. The combined net income on a statutory accounting basis for these insurance companies was \$23.0 million and \$24.6 million in 2016 and 2015, respectively.

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

C. Earnings Per Share

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

Directors and Officers of The Plymouth Rock Company

Directors

James M. Stone, *Chairman*

James N. Bailey

Hal Belodoff

Colleen M. Granahan

Michael J. Johnston

Wilmot H. Kidd, III

Norman L. Rosenthal

Sandra A. Urie

Sir Peter J. Wood

Officers

James M. Stone
Chief Executive Officer

James N. Bailey
Treasurer and Clerk

Hal Belodoff
President and Chief Operating Officer

Colleen M. Granahan
Vice President

Mary A. Sprong
Vice President

Gerald I. Wilson
Vice President

Directors and Officers of the Principal Plymouth Rock Companies

Non-Management Directors

Donald I. Bryan
Dennis A. DiMarzio
Kerry A. Emanuel
Michael J. Johnston
Wilmot H. Kidd, III
Eric L. Kramer
Dennis R. Replogle
Norman L. Rosenthal
Sandra A. Urie
Sir Peter J. Wood

Management Directors and Corporate Officers

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

Counsel:
Ropes & Gray LLP

Independent Auditor:
PricewaterhouseCoopers LLP