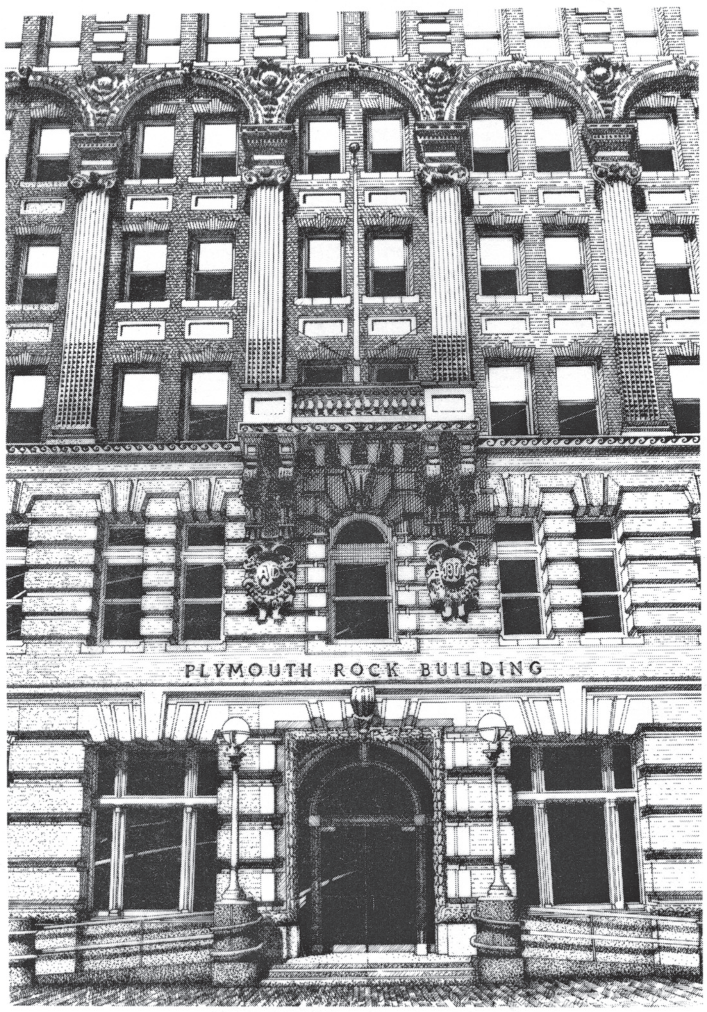
The Plymouth Rock Company



2019 Annual Report

The Plymouth Rock Company
695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 8, 2020

To Our Shareholders:

The choice of a banner headline for 2019 is easy enough: Fully Consolidated Comprehensive Income for the year was $341 million, more than two and a half times last year's number. This is ample cause for a taste of celebration. Hal and I have already lifted a glass or two, and you might do the same. Before you go entirely wild, though, you might pause over a couple of tempering nuances. First, no number of equal scale is likely to reappear any time soon. And, second, this income figure is presented under accounting conventions that differ from those you became accustomed to seeing for most of our past.

The year gone by was an outlier for calm weather, better for our results than what we expect in a more typical year. Capital gains in 2019 were also unusually generous, because the stock market had tanked sharply at Christmas time in 2018 and it recovered (and then some) in 2019. In addition, our reserving for 2018 and prior claims as of year-end 2018 proved to be conservative and produced favorable development that flowed into 2019 profits. None of these boosters can be counted on in future years, and the enjoyment of such pleasant surprises in all three categories has to be a rare year's blessing. But that's not all. There were other contributors to 2019 income that are all the more certain not to be repeated. When results from the last five-year plan engendered hefty stock appreciation rewards, you suffered some ownership dilution but the corporation itself actually registered an after-tax gain. That can't occur again until 2024, after the current stock appreciation plan has matured. Next, our purchase of another insurance carrier resulted in the recording of an accounting profit. As much as we might like it, we can hardly expect an accretive purchase every year. We settled a long-disputed tax matter in New Jersey, resulting in yet another one-time benefit. And, finally, we sold the Bedford Building in Boston soon after we bought our companion building at 711 Atlantic Avenue. The Bedford sale produced a large capital gain, on which we were able to defer federal taxes due to the nearly simultaneous purchase event.

To put these likely or certain one-time items in perspective, you might consider that the net gain on the sale of 99 Bedford Street was close to $30 million. The New Jersey tax settlement resolved some past and future tax treatment questions and gave us $10 million in non-recurring tax recapture during 2019. The accounting gain from paying out the completed five-year plan rewards rounded to another $5 million. Favorable prior year reserve development, which we never count on, added over $25 million. We can hope that good luck of this magnitude visits us again someday, but I am not going to hold my breath.

While the change in accounting conventions should be familiar to you by now, it is easy to underestimate its impact. Since the Company's founding and until 2018, bottom line income was presented before the impact of unrealized capital gains on the stock portfolio. I was always comfortable with that bird-in-the-hand treatment, which tends to deemphasize market fluctuations that have little to do with our operating businesses. But the convention has been changed, and the bottom line on the Statement of Income is now comprehensive income, which is shown after tax-affected unrealized gains on equity securities. Given the unusual magnitude of our gains this last year, the difference in treatment has quite a substantial impact on the presentation of the numbers.

It is no easier this year than usual to point to any single line on the financials as a complete apples-to-apples summary of the year's progress. Instead of looking right away at Comprehensive Income, if you share my view of unrealized equity gains you might focus first on the net income of The Plymouth Rock Company and Subsidiaries before taking account of those unrealized gains. The income before unrealized gains was $113 million, which compares with $64 million as reported a year ago. Including unrealized equity securities gains, the equivalent numbers for the stockholder-owned entities are $204 million and $72 million, respectively. Alternatively, you might look at the results for the entire Plymouth Rock enterprise and not just its stockholder-owned segment. I pay more attention to this set of numbers than the narrower totals. After all, we are responsible for more premium, and to more policyholders, through the reciprocal we manage than through the companies you actually own. Comprehensive Income for the whole enterprise is the fulsome $341 million I cited above, as compared with $125 million in 2018. Excluding unrealized investment gains, those enterprise-wide numbers are $126 million and $97 million, respectively.

Turning back to the stockholder-owned companies, you can see that our recorded book equity rose during 2019 by $167 million, or about 30%. This is less than the true economic gain by the amount of the dividends paid out to you, and it also excludes any increases in the appraised value of our real estate holdings, which are never included under generally accepted accounting principles. These adjustments are not inconsequential. Dividends and after-tax unrealized real estate gains totaled $49 million this past year. The addition of this sum to the recorded shareholders' equity would have enlarged the percentage gain for us as shareholders to 39%. This is a better economic measure of shareholder gains than the unadjusted book value increment, though it still ignores progress in the reciprocals - where the book value does not belong to us but prosperity helps assure a growing stream of management fees. As you know, I see the acceptable return corridor for any year as bounded on the weak side by 10% and on the strong side by 20%. Years in which the corridor is busted are all exceptional years; and this was the good kind. The 35-year compounded internal rate of return on book value, including both retained earnings and dividends but without benefit of unrealized real estate or portfolio gains, has now risen to 18.2%. Your actual gains on a book value basis, of course, compounded at this pace only in the felicitous event that your dividends were all reinvested well enough to beat the Company's own returns by enough to make up for acceleration of taxes on the dividends. The scale of the Plymouth Rock Group, as measured by direct underwritten and managed premiums in force, has passed $1.5 billion. We are finally closer to the $2 billion milestone than the $1 billion mark, near which we sat for quite a while. And growth is the essence of this year's story.

When, in 2017, we reshaped our entire reporting structure, it was explicitly with accelerated growth in mind. Each of our three major operating units, the Independent Agency Group, the Direct Group, and the Home Insurance Group, now has ambitious growth projects on its front burners.

We take the measure of our enterprise by group now, so the narratives in this letter are presented on a consolidated basis by operating group, and they make no attempt to separate results by legal entity. The largest of the three groups is the Independent Agency Group, run by Mary Boyd. A year ago, I reported that this group's premiums had, despite competitive headwinds, grown 5% year-over-year. In 2019, the growth picked up to a brisk 10.6%, bringing total Independent Agency automobile writings to $822 million. Mary is aiming longer term, though, for sustained annual growth in the double digits, and Hal and I are fully supportive of the ramp-up. Our sports team affiliations and the advanced systems capabilities we offer our agents, such as our innovative Quick Quote process, are helping with this. The New York State launch has already proven a powerful contributor, and we fully expect Pennsylvania to follow suit. In addition, Mary is seeking to expand our affinity and partnership business. We are proud to report that we have become the exclusive co-branded partner for some large AAA organizations in New York and a lead partner for AAA organizations in New Jersey and Pennsylvania. I'd like to think we earned that privilege by making excellence in customer service a higher priority than most of the competition from the very inception of the company. We love the relationship we are building with the universally respected AAA folks, and there are other big names with whom we hope to build relationships along the same lines.

For reasons of historical scale, the bottom line for the Independent Agency Group is still dominated by results in Massachusetts and New Jersey. Massachusetts contributed nicely, with a combined ratio of about 96%. New Jersey, on the other hand, failed last year to earn an underwriting profit. The biggest problem there is growth in the average severity of bodily injury coverage claims. Fighting fraud in that line, and otherwise repairing New Jersey's automobile loss ratio, will rank high among Mary's goals for this coming year. Connecticut and commercial auto, two small businesses whose disappointing results I have called out in the past, both kept to their improvement goals, and neither remains on the injured list. Connecticut lost in 2019 only a little more than our smallest state, New Hampshire, earned for us, and commercial auto was solidly in the black for the year. The new and unseasoned states were not expected to earn underwriting profits yet, and, sure enough, they didn't. Taking all of Mary's states together, the Independent Agency Group posted a combined ratio of 102%, enough to provide a modest overall profit but nothing like the return we hope to see when the initial expansion spurt matures into a steady growth stream. Pilgrim Insurance Company, our service provider to the industry, is also a part of the Independent Agency Group. Pilgrim is a Steady Eddie, never extravagantly profitable but always doing its part for enterprise net income. The all-inclusive expense ratio for the whole of the Independent Agency Group this past year was 39%, a higher expense total than we target but a foreseeable consequence of the growth initiatives.

The most important event affecting our Direct Group is that, after 20 years with us, Gerry Wilson has decided to retire in 2020. Gerry has run that group well, with tandem responsibilities. He oversees all of the automobile policies written in a long-standing partnership with Prudential Financial as well as a legacy Prudential homeowners book. Gerry also supervises Plymouth Rock's growing direct response business. Gerry has become a friend of Hal's and mine as well as part of our senior-most management team. Filling his shoes will be among our most difficult high-priority jobs in the coming year. This past year's Direct Group story continues a tradition in which the New Jersey legacy homeowners volume remains highly profitable but is waning, while the direct-to-the-consumer book is still unprofitable but expanding. The total of premiums from the Pru book and the direct response book taken together exceeds $500 million, up 3.5% over the prior year. This is not as good a top line result as we had hoped for. One element of disappointment was that our seasoned homeowners business for Pru customers suffered net attrition of almost 6%, and the group's net growth owes not so much to organic growth as to our recent acquisition of the Rider Insurance Company, a motorcycle insurance specialist. On the positive side, Prudential, which had permitted us only New Jersey writings up to now, has agreed to let us write new business in several of our other states, and Gerry has begun adding customers in Pennsylvania, New York, and Connecticut. It will be a savored victory when the total of Prudential volume can be counted on to rise each year instead of slowly fading.

The challenge for the Direct Group is to achieve acceptable cost of growth statistics for its direct-to-the-consumer channel. This segment grew to $170 million of premium in force during 2019, up 20% for the year, but the cost of the organic increment to the direct business was too high. There are several ways to measure cost efficiency in a direct response environment. One test is a comparison of the discounted lifetime stream of expected profits from each insured risk with the marginal cost incurred in taking on the business - including both acquisition expenditures and high early-year loss ratios. A second is comparison of the aggregate lifetime returns with total cost, including fixed costs, opportunity cost, and overhead. This latter test is necessary to assure that the whole effort is worthwhile and not just minimizing harm from an unsustainable business. In both of these tests, among the most salient variables are the costs of adding new business, expected general expense and loss ratios, and anticipated policy persistency. All of these variables can be estimated, of course, but even a modicum of precision requires a crystal ball with a degree of clarity we haven't developed at this stage. From what we see through our murky crystal-in-formation, though, Hal and I are not comfortable that the tests show passing grades, and all agree it will remain hard to raise these grades until we can lengthen policy persistency and cut acquisition costs.

Another, and simpler, way to examine the economics of the business is to look only at near-term results. We think we know enough about how a book of business will mature to draw approximate conclusions from first-year data without a magic crystal. The essence of the near-term test is to compute the ratio of annual gain in premiums to the bottom line cost for the matching period of achieving that gain. While there are differing views about what the precise target should be for that statistic, we can tell easily when it is way off the norm in either direction. Even easier is to see whether the ratio is improving each year, as it must if we are ultimately to reap the rewards of our direct response efforts. Alas, the relevant ratio surprised us by turning south in 2019, so we have moderated our growth targets for next year while we contemplate re-tooling of our marketing techniques. If the current year plays out as we expect, our tightly budgeted spending will result in direct response premium growing to at least $185 million. While this is not shabby progress, it is unlikely we will get over the $200 million mark I once imagined we would pass in that channel by the close of 2020. There is nothing I'd like better than to speed up again.

The difficult conundrums described above do nothing to dim the luster the Direct Group as a whole provided in 2019. The bottom line for the group was as pleasing as the top line was concerning. The combined ratio for 2019 for the Direct Group, all-in, was 93%. Aided by favorable prior-year development, the fully consolidated profit contribution of Gerry's team was a whopping $121 million after consideration of unrealized capital gains and the New Jersey tax settlement. A special thanks is due the diligent attorneys who guided that tax settlement to a fair conclusion. The Pennsylvania auto insurance results showed rapid improvement after a bumpy start, and the relatively mild 2019 weather provided additional contributions to the group's income, both directly and through our internal catastrophe reinsurance program.

Marc Buro is the leader of InsuraMatch, an effort that lies outside our three major operating groups but shares a challenge similar to that facing the direct response team. Marc is building for us a state-of-the-art national brokerage firm. A problem he hasn't shaken yet is that business easily drawn from Internet shoppers tends to be of less persistency than traditional agency business. While this would be tolerable if the business were cheap enough to acquire, the secret sauce that lengthens tenure or reduces acquisition cost has so far eluded InsuraMatch. It still depends on subsidies from its parent company and from Encharter, its traditional bricks-and-mortar agency division. No one is discouraged yet, and Hal and I still feel that becoming expert in Internet marketing is a vital skill for our future. Losses for InsuraMatch are only around $1 million a year, which we can readily afford, so the striving to make our mark in brokerage continues unabated.

Our Home Insurance Group had a year to remember. Bill Martin's team increased in-force premium volume by 57% to $176 million – and made a profit at the same time. Favorable loss ratios emerged for both catastrophe claims and more routine claims. The catastrophe results may be owed in part to good luck, but it would be hard to argue that the non-cat results are other than a reflection of underwriting skill and discipline. The combined ratio for Bill's group stayed in the low 90's. Bill's near-instantaneous quoting engine has been a hit everywhere with customers and agents, and my initial skepticism about the quality of business it would generate has evaporated. The Home Group's expenses beat plan as well. Bill has set for his group the goal of making those savings a permanent element of competitive advantage.

In candor, it must be said that the decision to rapidly expand our homeowners writings came with a degree of apprehension. Fearful of catastrophe exposure in a relatively young company, we had for many years written real property coverages mainly as an accommodation to our agents. The expansion to our now portlier corporate proportions, the prospect of ever-safer cars eventually shrinking the auto insurance industry, and the experience we gained as a founding investor in Homesite helped open our minds. But still, with climate uncertainty on everyone's lips, the thought of multiplying our exposure to catastrophe risk, and especially in coastally exposed areas of New York and New Jersey, has not been altogether easy to absorb. Only recently have we gotten comfortable with our implementation of the two-part strategy required to contain the exposure. The first element is careful underwriting selection and pricing, including multi-variate, house-by-house risk analysis well beyond typical industry standards and a portfolio approach to concentration of risks independent of their individual characteristics. The other element is a more sophisticated reinsurance program than we have ever had (or needed) in the past, with an increased retention at the bottom now shared by our own automobile writers and much higher limits at the top purchased in the open market. So, yes, we will take on more coastal exposure than we have had before, but we will also feel safer in doing so than we could have before. It may convey a bit of comfort for you to know that we periodically test our vulnerabilities with a worst-case simulation. In this year's testing, we assumed that a storm equivalent to Super-Storm Sandy, a stock market crash in the magnitude of the one in 2008, and a nightmarish winter storm season like the one in 2015 all occurred within the same year. While the stress tests don't show us miraculously immune from bruises after an imaginary triple hit like that, they satisfy us that the Company's liquidity, solvency and capital cushion would not be impaired.

This past year was nothing short of sensational for the investment side of our business. Just as the previous year had been the poorest for common stock performance since the financial crisis, 2019 was about the richest. There is a message here about attempts to time the markets. Nothing fundamental had really changed. Our investment portfolio of nearly $3 billion is, as always, divided between fixed income and equity securities, with a slight tilt toward the latter. The hefty gains were on the equity side. The S&P 500 scored a total return in excess of 30%. Our portfolio did just about the same, and without the benefit of holding high-multiple tech megaliths with extreme valuations that scare us off – though not nearly as thoroughly as the valuations of the "unicorn" stocks. Our long-term investment record in common stocks remains a source of satisfaction, with 27-year annual returns from capital gains and dividends of 15.2%. This compares with a 9.8% per annum return over that period for an S&P indexed investment. While Jim Bailey and I cannot claim to be immune from occasional missteps, we feel good that we haven't (yet) made any egregiously costly errors. Our poorest performing equity investment continues to be in India's dominant reinsurance company, which is selling well below our buy price. That position, an experiment in international exposure, was kept intentionally smaller than the holdings in our other equity picks, so the impact is little, and we still view it as a long-horizon opportunity as India's insurance sector matures.

The report on our bond holdings is less exciting. We keep such a large portfolio of bonds only because we feel effectively required to do so. We consider investment grade bond markets to be relatively efficient, and we think the interest rate predictions of economic pundits are generally worthless. For that reason, we take very little duration risk and settle for low fixed-income returns. We did make one adjustment, however, in our risk profile at year-end. When we were a smaller company with less excess capital we felt constrained to allow only 20% of our bond holdings to be in BBB-rated instruments. Now that we are bigger and better cushioned against a downturn, we are allowing the triple-B allocation to rise to 35%. The incremental returns seem well worth the risk, but you should have no worry that we have thrown our concern for credit quality out the window. Bonds in the BB range, or otherwise below investment grade, still have no appeal for us. The tax-adjusted 2019 return on the fixed-income portfolio was 4.0%, beating the prior year's 1.6% handily but still a pale shadow of either the 2019 or the long-term equity returns.

Real estate values in Boston continued in 2019 on their long-running bullish path. This may be grounds for caution, but I prefer to believe that, in an increasingly knowledge-based economy, Boston and Cambridge business locations are ever more attractive. We now own, based on the most recent year-end appraisal, over $180 million worth of property on Atlantic Avenue, which is - not coincidentally - the leading transportation hub of the Boston metro area. The Mass Turnpike ends on Atlantic Avenue; Amtrak as well as most of the commuter rail trains end their Boston journeys just a few hundred feet from our offices; and the MBTA Red Line at South Station provides a short and direct connection to both MIT and Harvard. Operating income and appraisal increases on our office buildings in Boston produced an unusually high return in this past year. The 2019 gain in the appraised value of our headquarters, the Plymouth Rock Building, was over $18 million. We have owned the neighboring building, now called the Assurance Building, for only about six months but its appraised value is already $4.5 million above our purchase price. We are continuing to reduce our hedge fund positions, which produced only minimal gains for us in 2019. We placed a small amount recently with a young fund manager Jim, Rick Childs, and I have gotten to know and trust. Our private equity investments in Lindsay Goldberg funds (where I was a founding partner) had a quiet year, but we are hoping that their still-maturing Fund IV will soon return Lindsay Goldberg to its former status in the top tier of the private equity world.

I have repeatedly noted the lack of faith Jim Bailey and I have in timing the market as a whole. While we often look for exaggerated dips and peaks in individual stocks to spur portfolio adjustments, we have never altered our predilection for permanent maintenance of a fully invested posture. Our agnosticism on the future path of stock valuations writ large, though, is not sacred doctrine. We remind ourselves on occasion of Benjamin Graham's 1949 secular sermon on Mr. Market, the bipolar spirit of Wall Street, who can be at times unreasonably and exuberantly euphoric and at other times irrationally glum. With year-end 2019 market indices at all-time highs, trade relations with China and other nations precarious, and political comity in Washington at an all-time low, this might be a moment to ponder the relevance of Graham's metaphor. The bearish side of the argument can cite that two key metrics we watch, the Shiller PE Ratio and the ratio of total market capitalization to GDP, both signal caution. The latter ratio has seldom exceeded 1.1. It greatly exceeded that value in 2000, and the market soon busted. It exceeded this again in 2007, with a worse slide to follow. An unsettling characteristic of the current bull market is that the same ratio has now reached an all-time high of nearly 1.6. Periodic recessions and cyclically retreating markets are natural characteristics of a free economy, and presumably we will see one or both of these events before too long.

One source of particular concern arises from the present interest rate environment. The low rates we see around the world today are not so much products of market forces as results of purposeful government strategies. The temptations are obvious enough. Low interest rates are stimulative; they appeal to politically influential investment and business sectors; and they allow governments to afford more deficit spending. But artificially low interest rates have unintended consequences as well. Low borrowing costs in this country have sapped the incentive for responsible deficit management at the federal level, disguising the potential cost of the debt and encouraging what I consider an irresponsible shifting of burdens to future generations. Consumer and corporate indebtedness in proportion to GDP, too, has risen sky-high, increasing everyone's vulnerability to a credit crunch. Paltry fixed-income yields have simultaneously diminished household savings. Artificially depressed interest rates along with the tax deductibility of interest, moreover, tend to accelerate corporate takeover activity, in turn exacerbating anti-competitive industry concentration. And, more relevant to our investment posture, a near-zero interest regime depletes the anti-recessionary weaponry in the arsenals of central banks. When the Fed next needs to turn its guns on an incipient turndown, its remaining bullets will be dangerously few in number.

The nature of reasonably efficient markets, of course, is that both bulls and bears will have credible arguments at every turn. The best case for the bulls today, and a powerful one, is that the nation's economy is fundamentally strong. There is no proximate threat to the prolonged and continuing expansion that has followed the last crash. Inflation is tame, and the unemployment rate in December was at an historically enviable 3.5%. Even the labor force participation rate, a stickier measure than unemployment, appears to be rising. And our country's characteristically entrepreneurial culture seems to provide us a stronger competitive edge around the world at every turn. But, then again, even continued prosperity could play tricks on today's equity markets. If full employment and prodigious consumer spending should engender a renewed bout with inflation, and the Fed responds by raising rates, stock prices could react precipitously. We weigh all the various risks against the fact that protection of investments from turndowns, whether by the purchase of hedging instruments or holding cash, is not cheap and all too often results in missing out on the next market spurt. Though cognizant of the warning signs, we are not inclined to cut back now on equity exposure. Plymouth Rock is less sensitive to volatility in its results than public companies, investment managers, and endowed institutions. We expect to take some cyclical lumps whenever markets fall, but this is part and parcel of staying on our chosen path toward the long-term maximization of total after-tax returns. The benefit of the doubt for the Plymouth Rock portfolio always goes to long equity positions, long horizons, and long holding periods.

There is a lot going on at our Company these days. A glance at a recent to-do list from the IT Department may tell the story as well as I could. Paul Luongo and his IT team have done a remarkable job behind the scenes of keeping the growth engines tuned up for action. Here are just some of the recent items on their technology project list: Conversion to our rates and systems of an acquired three-state book of business; migration of books of business from two other acquisitions; improved New York State pricing and product offerings for both auto and home; an upgrade of our data metrics architecture; enhancement of pre-fill capabilities for rapid auto premium quoting; a new cloud-based e-sales platform; support of stand-alone umbrella policy issuance; a rebuild of the financial reporting system and our reinsurance accounting software; establishment of direct electronic connectivity with the Massachusetts Registry of Motor Vehicles; installation of a sophisticated Voice Over Internet Protocol for telephony; a (further) strengthening of cyber security and records protection; comprehensive Disaster Recovery and Business Continuity testing; development of text notification to subscribing customers of key policy renewal and billing dates; introduction of a do-it-yourself home inspection app; unveiling of an automated and near-instantaneous home and auto claims resolution approach; two new digital communication platforms for user-friendly customer interaction; and refinement of our capacity for direct and instantaneous electronic deposit of claim payments to customers' bank accounts. And this is only part of what is going on behind the scenes, as we continue to bat down even the slightest propensities to complacency and to thrust Plymouth Rock, cheerfully I might add, toward a bigger and bolder corporate future.

James M. Stone

Report of Independent Auditors

To the Board of Directors of The Plymouth Rock Company

We have audited the accompanying consolidated financial statements of The Plymouth Rock Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Plymouth Rock Company and its subsidiaries as of December 31, 2019 and 2018, 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

Boston, Massachusetts
March 10, 2020

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THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2019 and 2018
(dollars in thousands)

Assets	2019	2018
The Plymouth Rock Company and Subsidiaries		
Cash and cash equivalents	$ 17,172	$ 80,979
Investment securities	1,182,318	841,840
Accrued investment income	4,154	3,369
Premiums receivable	175,841	155,713
Ceded unearned premium reserves	33,494	34,686
Deferred acquisition costs	46,265	38,898
Amounts receivable from reinsurers and pools	92,489	74,527
Amounts due from service clients	669	569
Prepaid expenses, agent loans, and deposits	14,885	10,073
Real estate	96,566	33,950
Fixed assets	50,308	44,722
Income tax recoverable	5,795	-0-
Goodwill and intangible assets	7,620	6,571
Deferred rental revenue	1,878	1,101
Other assets	1,371	3,896
Subtotal	1,730,825	1,330,894
Palisades Reciprocal Group		
Cash and cash equivalents	4,961	13,592
Investment securities	1,541,516	1,368,652
Accrued investment income	5,685	6,196
Premiums receivable	158,864	145,666
Ceded unearned premium reserves	4,454	4,072
Deferred acquisition costs	33,747	28,589
Amounts receivable from reinsurers and pools	28,597	31,742
Fixed assets	1,492	-0-
Income tax recoverable	4,808	-0-
Goodwill and intangible assets	13,059	12,854
Other assets	2,277	2,979
Subtotal	1,799,460	1,614,342
Total assets	$3,530,285	$2,945,236

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2019 and 2018
(dollars in thousands)

Liabilities	2019	2018
The Plymouth Rock Company and Subsidiaries		
Claim and claim adjustment expense reserves	$ 401,805	$ 309,147
Unearned premium reserves	330,715	282,886
Advance premiums	9,838	8,255
Commissions payable and accrued liabilities	105,627	88,929
Amounts payable to reinsurers	18,678	21,680
Unearned service fees	4,097	4,328
Intangible liabilities	5,717	801
Secured loan	5,000	5,000
Income tax payable	-0-	9,104
Deferred income taxes	63,978	30,905
Other liabilities	4,527	3,226
Subtotal	949,982	764,261
Palisades Reciprocal Group		
Claim and claim adjustment expense reserves	677,728	647,665
Unearned premium reserves	353,333	313,964
Advance premiums	9,208	9,077
Commissions payable and accrued liabilities	44,080	42,877
Amounts payable to reinsurers	1,258	758
Income tax payable	-0-	2,195
Deferred income taxes	65,352	34,370
Other liabilities	2,237	2,038
Subtotal	1,153,196	1,052,944
Total liabilities	2,103,178	1,817,205
Equity		
The Plymouth Rock Company and Subsidiaries		
Common stock and paid-in capital	790	3,112
Retained earnings	709,541	544,994
Net unrealized gain/(loss) on investments	2,352	(1,931)
The Plymouth Rock Company stockholders' equity	712,683	546,175
Palisades Reciprocal Group		
Retained earnings	709,698	585,882
Net unrealized gain/(loss) on investments	4,726	(4,026)
Palisades Reciprocal Group equity	714,424	581,856
Total liabilities and equity	$3,530,285	$2,945,236

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, 2019 and 2018
(dollars in thousands)

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

The 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, 2019 and 2018
(dollars in thousands, except per share data)

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

The Plymouth Rock Company and Subsidiaries - Per share data

	2019	2018
Weighted average common shares outstanding	123,541	122,823
Net income before unrealized gains on equity securities per share	$ 914.56	$ 518.09
Net income per share	$ 1,651.87	$ 587.12
Common shares outstanding at end of year	124,009	122,823
Common stockholders' equity per share	$ 5,747.03	$4,446.83

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, 2019 and 2018
(dollars in thousands)

Cash flows from operating activities	2019	2018
The Plymouth Rock Company and Subsidiaries		
Gross premiums collected	$ 632,874	$ 564,049
Reinsurance premiums paid	(73,853)	(74,464)
Finance charges collected	8,637	8,709
Fees and commissions collected	212,884	205,611
Investment income and capital gains received	63,499	31,444
Gross claims and claim expenses paid	(400,966)	(363,454)
Reinsured claims and claim expenses collected	37,748	47,141
Policy acquisition, underwriting, and general expenses paid	(151,411)	(126,670)
Income taxes paid	(10,431)	(15,238)
Service activity expenses paid	(157,132)	(139,858)
Net cash provided by operating activities	161,849	137,270
Palisades Reciprocal Group		
Gross premiums collected	839,006	787,275
Reinsurance premiums paid	(26,850)	(24,765)
Fees and commissions collected	1,503	1,347
Investment income and capital gains received	33,499	37,922
Gross claims and claim expenses paid	(549,577)	(517,390)
Reinsured claims and claim expenses collected	7,814	5,821
Policy acquisition, underwriting, and general expenses paid	(269,671)	(242,505)
Income taxes paid and recovered	(4,775)	(2,697)
Service activity expenses paid	(1,306)	(1,442)
Net cash provided by operating activities	29,643	43,566
Total net cash provided by operating activities	$ 191,492	$ 180,836

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, 2019 and 2018
(dollars in thousands)

Cash flows from financing activities	2019	2018
The Plymouth Rock Company and Subsidiaries		
Contingent payments for acquisitions	$ (1,002)	$ -0-
Intergroup secured loans	44,832	-0-
Tax impacts of stock-based compensation	(10,409)	-0-
Dividends to stockholders	(32,180)	(41,978)
Net cash used in financing activities	1,241	(41,978)
Palisades Reciprocal Group		
Contingent payments for acquisitions	-0-	(1,500)
Intergroup secured loans	(44,832)	-0-
Net cash used in financing activities	(44,832)	(1,500)
Net cash provided by:		
The Plymouth Rock Company and Subsidiaries	$ 163,090	$ 95,292
Palisades Reciprocal Group	$ (15,189)	$ 42,066
Total	$ 147,901	$ 137,358
Investment of net cash provided		
The Plymouth Rock Company and Subsidiaries		
Change in cash and cash equivalents	$ (63,807)	$ 28,191
Net investment activity	112,053	34,243
Purchase of intangible assets	36	636
Investment in acquisitions, net of acquired cash and cash equivalents	24,490	1,415
Net real estate activity	61,047	2,127
Purchase of fixed assets	29,271	28,680
Net cash provided by investing activities	$ 163,090	$ 95,292
Palisades Reciprocal Group		
Change in cash and cash equivalents	$ (8,631)	$ (21,285)
Net investment activity	(12,300)	56,301
Purchase of intangible assets	332	2,865
Purchase of fixed assets	5	-0-
Investment in acquisitions, net of acquired cash and cash equivalents	5,405	4,185
Net cash provided by investing activities	$ (15,189)	$ 42,066
Total net cash invested	$ 147,901	$ 137,358

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, 2019 and 2018
(dollars in thousands)

The Plymouth Rock Company and Subsidiaries	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain/(Loss) on Investments	Total Stockholders' Equity
December 31, 2017	$ 3,556	$ 426,338	$ 87,259	$ 517,153
New accounting standards	-0-	88,522	(88,522)	-0-
Comprehensive income	-0-	72,112	(668)	71,444
Stock-based compensation	(444)	-0-	-0-	(444)
Dividends to stockholders	-0-	(41,978)	-0-	(41,978)
December 31, 2018	$ 3,112	$ 544,994	$ (1,931)	$ 546,175
Comprehensive income	-0-	204,074	4,283	208,357
Stock-based compensation	(2,322)	(7,347)	-0-	(9,669)
Dividends to stockholders	-0-	(32,180)	-0-	(32,180)
December 31, 2019	$ 790	$ 709,541	$ 2,352	$ 712,683

Palisades Reciprocal Group	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain/(Loss) on Investments	Total Equity
December 31, 2017	$ -0-	$ 421,597	$ 106,970	$ 528,567
New accounting standards	-0-	110,836	(110,836)	-0-
Comprehensive income	-0-	53,449	(160)	53,289
December 31, 2018	$ -0-	$ 585,882	$ (4,026)	$ 581,856
Comprehensive income	-0-	123,816	8,752	132,568
December 31, 2019	$ -0-	$ 709,698	$ 4,726	$ 714,424

Total Equity	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain/(Loss) on Investments	Total Equity
December 31, 2017	$ 3,556	$ 847,935	$ 194,229	$1,045,720
December 31, 2018	3,112	1,130,876	(5,957)	1,128,031
December 31, 2019	790	1,419,239	7,078	1,427,107

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

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

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

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

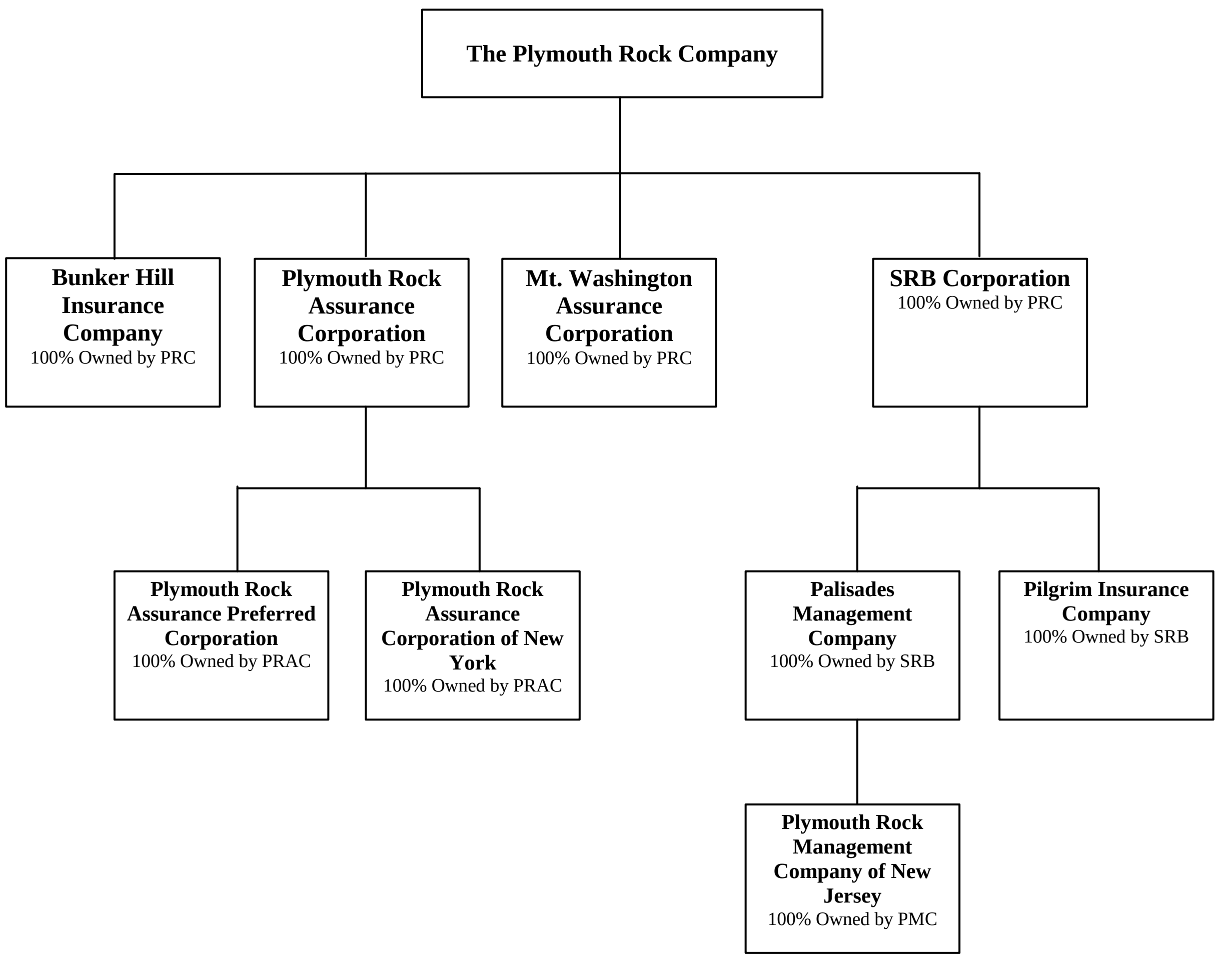
1. Nature of Operations, continued

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 2.6 and 3.2 percent, of the equity of the Palisades Reciprocal Group at December 31, 2019 and 2018, respectively. As these surplus notes and preferred stock features are not typical of an ordinary service arrangement, it continues to be appropriate for The Plymouth Rock Company and Subsidiaries to consolidate the results of the members of the Palisades Reciprocal Group under the updated standard. The Plymouth Rock Company and Subsidiaries do not bear direct risk or earn direct rewards on the basis of the performance of the Palisades Reciprocal Group. The results are presented in a consolidated manner despite fundamental legal and regulatory distinctions between The Plymouth Rock Company and Subsidiaries on the one hand and the Palisades Reciprocal Group on the other. For ease of reference, The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group are referred to in the Chairman's letter together as the "Plymouth Rock Group."

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

2. Organization of The Plymouth Rock Company and Subsidiaries

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



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

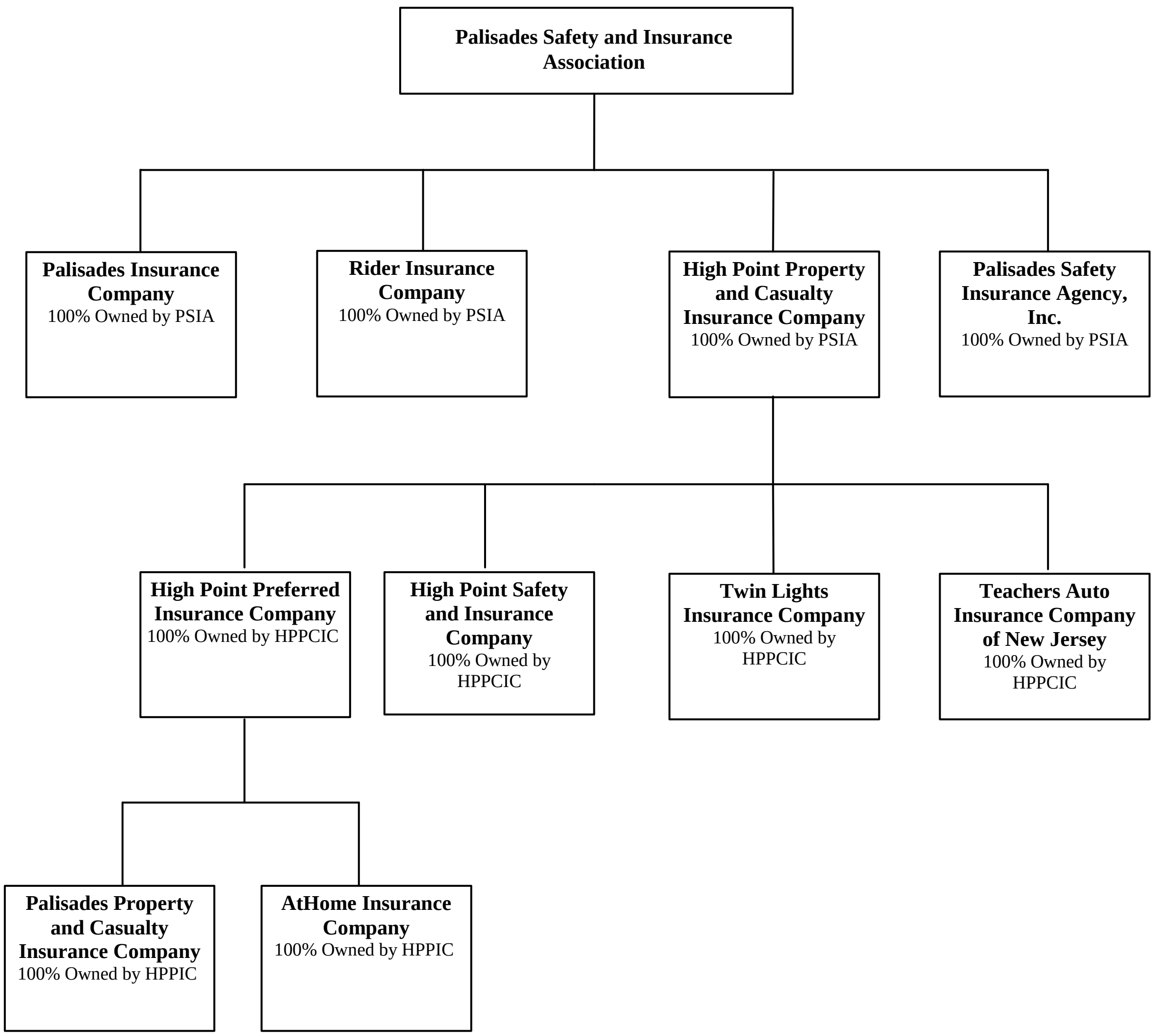
On April 1, 2018, Plymouth Rock Assurance Corporation purchased from 21st Century Security Insurance Company all of the issued and outstanding shares of stock of 21st Century National Insurance Company, which was subsequently renamed Plymouth Rock Assurance Preferred Corporation. Plymouth Rock Assurance Corporation made an initial payment of $3.7 million at closing, and a subsequent payment of $132,000 later in 2018. A final payment based on the amount of direct and assumed business Plymouth Rock Assurance Preferred Corporation wrote in the first six months after closing was made in March 2019, and a liability of $1.0 million was recorded for it at December 31, 2018. This transaction, the objective of which was to make an entry into the New York market, was accounted for as an asset purchase.

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

Other subsidiaries include 99 Bedford Corporation, 711 Atlantic Avenue, LLC and 695 Atlantic Avenue Company, LLC, which directly or indirectly own real estate; Bunker Hill Insurance Casualty Company, Bunker Hill Property Insurance Company, Bunker Hill Preferred Insurance Company, and Bunker Hill Security Insurance Company, which are wholly owned subsidiaries of Bunker Hill Insurance Company; Shared Technology Services Group Inc. and InsuraMatch, LLC, which are wholly owned subsidiaries of SRB Corporation; and High Point Brokerage Company, Inc. and National Atlantic Insurance Agency, Inc., which are wholly owned subsidiaries of Plymouth Rock Management Company of New Jersey.

3. Organization of the Palisades Reciprocal Group

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



3. Organization of the Palisades Reciprocal Group, continued

On August 1, 2018, High Point Preferred Insurance Company purchased from Mid-Century Insurance Company all of the issued and outstanding shares of stock of 21st Century Security Insurance Company, which was subsequently renamed AtHome Insurance Company. High Point Preferred Insurance Company paid $10.2 million in cash to acquire 21st Century Security Insurance Company. This transaction, the objective of which was to make an entry into the New York market, was accounted for as an asset purchase.

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

4. Summary of Significant Accounting Policies

A. Principles of Consolidation

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

4. Summary of Significant Accounting Policies, continued

B. Stock-Based Compensation

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

C. Use of Estimates

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

D. Cash and Investments

Cash and cash equivalents include money market funds and short-term money market instruments with maturity dates no longer than 90 days from the date of acquisition. The Plymouth Rock Company and Subsidiaries had a balance of outstanding checks within accrued liabilities of $4.2 million as of December 31, 2019 and had no such balance as of December 31, 2018. Liabilities for outstanding checks for the Palisades Reciprocal Group were $15.5 million and $20.5 million in 2019 and 2018, respectively.

Marketable fixed income and equity securities are carried at their market values. The calculation of gain or loss on the sale of marketable securities is based on specific identification at the time of sale. The Company adopted Accounting Standards Update 2016-01 effective January 1, 2018. From that date forward, changes in the fair value of marketable equity securities available for sale, after deduction of applicable deferred income taxes, are credited or charged directly to net income and affect equity through retained earnings. Prior to January 1, 2018, changes in the fair value of marketable equity securities available for sale, after deduction of applicable deferred income taxes, were credited or charged directly to equity. Changes in the fair value of marketable fixed income securities continue to be credited or charged directly to equity. Upon adoption, the cumulative net unrealized gain on marketable equity securities, after deduction of applicable deferred income taxes, was reclassified within equity from net unrealized gain on investments to retained earnings on January 1, 2018. These balances on that date were $88.5 million for The Plymouth Rock Company and Subsidiaries and $110.8 million for the Palisades Reciprocal Group.

4. Summary of Significant Accounting Policies, continued

D. Cash and Investments, continued

Foreign equity securities are subject to fluctuations in foreign exchange rates. Changes in foreign exchange rates are recorded directly to stockholders' equity through net unrealized capital gain or loss. The Plymouth Rock Company and Subsidiaries recorded a cumulative loss before applicable taxes of $1.2 million and $981,000 as of December 31, 2019 and 2018, respectively, from foreign exchange rate changes. Where a decline in the value of a marketable security is deemed other-than-temporary, the value of the security is written down to its fair value. Any portion of the decline in value of a marketable fixed income security attributable to credit quality is reported as a component of net realized capital gains, while any portion attributable to other factors, such as fluctuations in interest rates, is reported as a component of other comprehensive income. Since unrealized losses are a component of stockholders' equity, the recognition of other-than-temporary impairment losses has no effect on total comprehensive income or stockholders' equity.

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

E. Deferred Acquisition Costs

Commissions and premium taxes are deferred and amortized pro rata over the contract periods in which the related premiums are earned. All amounts deferred as of December 31 are charged to operations in the following year as the related premiums are earned. Deferred acquisition costs are presented net of an equivalent amount of deferred commission income on ceded reinsurance, with any deferred ceding commission income in excess of the deferred acquisition costs recorded as a liability. The amortization of deferred acquisition costs and deferred ceding commission income, including any excess portion, are presented on a net basis as policy acquisition expense on the statement of comprehensive income. Net amortization associated with these deferred costs for 2019 and 2018 for The Plymouth Rock Company and Subsidiaries was $69.3 million and $65.9 million, respectively, while the net amortization for the Palisades Reciprocal Group for 2019 and 2018 was $83.0 million and $76.0 million, respectively.

4. Summary of Significant Accounting Policies, continued

F. Recognition of Premium Revenues

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

Premiums receivable are net of reserves for doubtful collections. At December 31, 2019 and 2018, the reserves for doubtful collections for The Plymouth Rock Company and Subsidiaries were $1.4 million and $1.8 million, respectively. The reserves for doubtful collections of the Palisades Reciprocal Group at December 31, 2019 and 2018 were $8.0 million and $7.2 million, respectively.

G. Recognition of Fees Earned from Service Activities

The Plymouth Rock Company and Subsidiaries earn management fees from the Palisades Reciprocal Group and other unaffiliated companies for providing sales, underwriting, policy issuance, claim adjusting, accounting, and other insurance-related services. Fees from service activities are earned over the applicable policy terms. In addition, the Plymouth Rock Company and Subsidiaries earn investment management fees from the Palisades Reciprocal Group. In 2019 and 2018, fees of $199.5 million and $190.0 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.

H. Amortization of Goodwill and Intangible Assets

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

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

No impairment of the goodwill or intangible assets with indefinite lives of either The Plymouth Rock Company and Subsidiaries or the Palisades Reciprocal Group was recorded in either 2019 or 2018.

4. Summary of Significant Accounting Policies, continued

I. Real Estate and Fixed Assets

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

5. Income Taxes

Income taxes on the statements of comprehensive income for 2019 and 2018 consist of:

(dollars in thousands)	2019	2018
The Plymouth Rock Company and Subsidiaries	$ 31,639	$ 23,117
Palisades Reciprocal Group	26,342	10,896
Total	$ 57,981	$ 34,013

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

Deferred income taxes arise when there are differences between reported income and taxable income. The realization of deferred tax assets requires sufficient taxable income in either the allowable carryback or carryforward periods. On the basis of recent profitable results and projected future profitability, the Company has determined that there will more likely than not be sufficient future taxable income at both The Plymouth Rock Company and Subsidiaries and Palisades Reciprocal Group to realize all deferred tax assets, with the exception of the net operating loss carryforwards acquired with Rider Insurance Company. The future utilization of these carryforwards is limited under Internal Revenue Code Section 382, and the Company has established a valuation allowance of $4.8 million as of December 31, 2019 in light of this limitation. Rider Insurance Company is expected to be able to apply net operating loss carryforwards to $58,000 of income before taxes on an annual basis. These net operating losses will begin to expire at the end of 2031. There were no other federal net operating loss carryforwards available as of December 31, 2019. As of December 31, 2019, The Plymouth Rock Company and Subsidiaries have state net operating loss carryforwards of $13.2 million before taxes that are expected to be utilized before they expire at the end of 2039.

5. Income Taxes, continued

Effective January 1, 2018, changes in the fair value of marketable equity securities, after deduction of applicable deferred income taxes, are credited or charged directly to net income and affect total equity through retained earnings. The net unrealized gain on all other investments is presented in equity, net of an estimate of applicable deferred income taxes.

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

The Tax Cuts and Jobs Act of 2017 (the "Tax Act"), enacted on December 22, 2017, modified the provisions applicable in determining the tax basis of net unpaid loss reserves. These changes result in a transition adjustment to be included in taxable income over a period of eight years beginning in 2018. The balance of this transition adjustment included in deferred tax liabilities for The Plymouth Rock Company and Subsidiaries was $1.1 million as of both December 31, 2019 and 2018. The balance of this transition adjustment included in deferred tax liabilities for the Palisades Reciprocal Group was $2.1 million and $2.8 million as of December 31, 2019 and 2018, respectively.

There are no tax positions of questionable merit that require a reserve for potential disallowance. As of December 31, 2019, neither The Plymouth Rock Company and Subsidiaries nor the Palisades Reciprocal Group is subject to federal examinations for tax years prior to 2016. Neither The Plymouth Rock Company and Subsidiaries nor the Palisades Reciprocal Group have examinations by state taxing authorities presently in progress.

5. Income Taxes continued

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

Income taxes on the statements of comprehensive income for 2019 and 2018 consist of:

(dollars in thousands)	2019	2018
Current year federal income taxes	$ 11,770	$ 15,340
Current year state income taxes	(16,012)	5,708
Change in deferred federal taxes	10,397	(630)
Change in deferred state taxes	623	253
Sub-total	6,778	20,671
Change in deferred federal taxes on equity securities	24,349	2,294
Change in deferred state taxes on equity securities	512	152
Total	$ 31,639	$ 23,117

The reported provisions for income taxes are less than those computed by applying the federal and state income tax rates for these years to income before income taxes. The reconciliation of income tax provision for 2019 and 2018 is as follows:

(dollars in thousands)	2019	2018
Federal income taxes at statutory rate	$ 49,500	$ 20,000
State income taxes, net of federal tax benefit	(11,753)	4,830
Dividend received deduction	(1,064)	(898)
Interest from state and municipal bonds	(131)	(292)
Share-based compensation	(4,270)	-0-
Impact of tax rate differential	(888)	(772)
Other	245	249
Total provision for income taxes	$ 31,639	$ 23,117

5. Income Taxes continued

Deferred income taxes on the balance sheets as of December 31, 2019 and 2018 consist of the net effects of these temporary differences:

(dollars in thousands)	2019	2018
Net unrealized gain on investments	$(60,728)	$(33,708)
Depreciation	(16,680)	(8,599)
Unearned premiums	12,914	10,749
Compensation expense	8,164	9,164
Deferred acquisition expense	(9,688)	(8,145)
Investment and partnership timing differences	(1,914)	(3,277)
Discounting of claim reserves	2,058	1,490
Net operating losses	1,201	-0-
Other	695	1,421
Total	$(63,978)	$(30,905)

Palisades Reciprocal Group

Income taxes on the statements of comprehensive income for 2019 and 2018 consist of:

(dollars in thousands)	2019	2018
Current year federal income taxes	$ (2,139)	$ 6,612
Current year state income taxes	36	5
Change in deferred federal taxes	(1,106)	(1,147)
Sub-total	(3,209)	5,470
Change in deferred federal taxes on equity securities	29,551	5,426
Total	$26,342	$10,896

The reported provisions for income taxes are less than those computed by applying the federal and state income tax rates for these years to income before income taxes. The reconciliation of income tax provision for 2019 and 2018 is as follows:

(dollars in thousands)	2019	2018
Federal income taxes at statutory rate	$ 31,533	$ 13,512
State income taxes, net of federal tax benefit	28	4
Dividend received deduction	(1,222)	(1,054)
Interest from state and municipal bonds	(115)	(293)
Impact of tax rate differential	(2,429)	(1,150)
Tax on gain recognized on business combination	(779)	-0-
Other	(674)	(123)
Total provision for income taxes	$ 26,342	$ 10,896

5. Income Taxes continued

Deferred income taxes on the balance sheets as of December 31, 2019 and 2018 consist of the net effects of these temporary differences:

(dollars in thousands)	2019	2018
Net unrealized gain on investments	$(73,360)	$(40,018)
Deferred acquisition expense	(16,183)	(14,239)
Unearned premiums	15,035	13,397
Net operating losses	5,031	-0-
Discounting of claim reserves	4,425	3,646
Guaranty fund accrual	1,810	1,808
Reserves for doubtful collections	1,639	1,523
Investment and partnership timing differences	1,383	(273)
Intangibles	241	191
Valuation allowance	(4,829)	-0-
Other	(544)	(405)
Total	$(65,352)	$(34,370)

6. Claim and Claim Adjustment Expense Reserves

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

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

The following tables provide data regarding incurred and paid claims and claim adjustment expense development as of December 31, 2019, net of reinsurance, as well as the total of incurred-but-not-reported reserves and cumulative number of reported claims for recent accident years for the primary business segments. The incurred-but-not-reported reserves data shown below also include expected development on reported claims. The cumulative number of reported claims is identified at the coverage level and includes claims closed with payment, claims closed without payment and all open claims. Data as of December 31, 2015 and 2016 are unaudited. Five years of data are presented, as any claim and claim adjustment expense development beyond that point would be insignificant for the relatively short-tail automobile and home insurance coverages which The Plymouth Rock Company and Subsidiaries primarily write.

6. Claim and Claim Adjustment Expense Reserves, continued

Automobile Insurance

(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Incurred, Net of Reinsurance, as of December 31, 2015	2016	2017	2018	2019
2015	$238,650	$234,861	$232,801	$230,061	$ 235,232
2016		267,093	260,431	256,876	263,622
2017			268,238	257,726	265,618
2018				278,839	279,424
2019					306,579
Total					$1,350,475

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31, 2015	2016	2017	2018	2019
2015	$148,065	$190,534	$206,317	$216,323	$ 224,623
2016		159,810	211,845	228,073	241,212
2017			155,950	205,356	225,004
2018				164,483	213,857
2019					176,745
Total					$1,081,441

Net unpaid for accident years 2015 through 2019	$ 269,034
Net unpaid for accident years prior to 2015	8,646
Net unpaid claims and allocated claim adjustment expenses	$ 277,680

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims	Average Annual Payout	
2015	$ 3,457	134,229	Year 1	59.2%
2016	7,528	137,391	Year 2	18.7%
2017	16,242	136,227	Year 3	6.8%
2018	31,607	139,399	Year 4	4.7%
2019	42,338	129,749	Year 5	3.5%
			After	7.1%

6. Claim and Claim Adjustment Expense Reserves, continued

Home Insurance

(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Incurred, Net of Reinsurance, as of December 31, 2015	2016	2017	2018	2019
2015	$20,897	$20,285	$19,071	$18,679	$ 19,342
2016		11,786	8,678	7,806	8,588
2017			13,308	12,849	14,874
2018				22,592	26,204
2019					36,861
Total					$105,869

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31, 2015	2016	2017	2018	2019
2015	$17,113	$18,322	$18,262	$18,042	$ 18,240
2016		6,251	7,180	7,148	7,223
2017			8,492	11,248	12,889
2018				15,402	21,450
2019					25,984
Total					$ 85,786

Net unpaid for accident years 2015 through 2019	$ 20,083
Net unpaid for accident years prior to 2015	895
Net unpaid claims and allocated claim adjustment expenses	$ 20,978

6. Claim and Claim Adjustment Expense Reserves, continued

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims	Average Annual Payout	
2015	$ 144	4,698	Year 1	67.4%
2016	122	1,680	Year 2	15.9%
2017	241	2,157	Year 3	5.2%
2018	993	3,570	Year 4	3.4%
2019	1,855	3,263	Year 5	3.1%
			After	5.0%

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

(dollars in thousands)	2019	2018
Claims and allocated claim adjustment expense reserve at beginning of year	$227,271	$214,619
Claims and allocated claim adjustment expense reserve acquired with Plymouth Rock Assurance Corporation of New York	57,009	-0-
Claims and allocated claim adjustment expenses incurred:		
Current year	343,440	301,431
Prior years	(20,218)	(20,843)
	323,222	280,588
Claims and allocated claim adjustment expenses paid:		
Current year	202,729	179,885
Prior years	106,115	88,051
	308,844	267,936
Claims and allocated claim adjustment expense reserve at end of year	298,658	227,271
Reinsurance recoverable on unpaid claims at end of year	80,649	63,582
Unallocated claim adjustment expense reserve at end of year	22,498	18,294
Total claims and claim adjustment expense reserves at end of year	$401,805	$309,147

6. Claim and Claim Adjustment Expense Reserves, continued

During the year ended December 31, 2019, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $20.2 million. This was comprised of $18.9 million from automobile business and $1.3 million from home business. During the year ended December 31, 2018, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $20.8 million. This was comprised of $19.1 million from automobile business and $1.7 million from home business. Massachusetts private passenger automobile business was the biggest contributor to this development in both years.

The amounts shown in the preceding table include $71.2 million and $60.3 million of estimated claim and claim adjustment expense reserves related to Pilgrim Insurance Company service business as of December 31, 2019 and December 31, 2018, respectively. Offsetting amounts are included in "amounts receivable from reinsurers and pools" as assets on the balance sheet. While these policies are issued by Pilgrim, most of the underwriting results have been ceded either to its clients, a reinsurer or industry pools via quota share reinsurance arrangements such that Pilgrim retains only a relatively small amount of the underwriting risk.

Palisades Reciprocal Group

The following tables provide data regarding incurred and paid claims and claim adjustment expense development as of December 31, 2019, net of reinsurance, as well as the total of incurred-but-not-reported reserves and cumulative number of reported claims for recent accident years for the primary business segments. The incurred-but-not-reported reserves data shown below also include expected development on reported claims. The cumulative number of reported claims is identified at the coverage level and includes claims closed with payment, claims closed without payment and all open claims. Data as of December 31, 2015 and 2016 are unaudited. Five years of data are presented, as any claim and claim adjustment expense development beyond that point would be insignificant for the relatively short-tail automobile and home coverages which the Palisades Reciprocal Group primarily writes.

6. Claim and Claim Adjustment Expense Reserves, continued

Automobile Insurance

(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Incurred, Net of Reinsurance, as of December 31, 2015	2016	2017	2018	2019
2015	$390,896	$381,236	$380,786	$374,375	$ 372,488
2016		418,424	407,180	399,411	397,115
2017			416,317	395,211	394,748
2018				434,754	433,060
2019					453,980
Total					$2,051,391

(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31, 2015	2016	2017	2018	2019
2015	$174,373	$247,825	$294,973	$333,305	$ 358,299
2016		184,540	264,491	309,897	353,446
2017			179,485	257,912	304,448
2018				195,282	282,466
2019					206,831
Total					$1,505,490

Net unpaid for accident years 2015 through 2019	$ 545,901
Net unpaid for accident years prior to 2015	13,416
Net unpaid claims and allocated claim adjustment expenses	$ 559,317

6. Claim and Claim Adjustment Expense Reserves, continued

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims	Average Annual Payout	
2015	$ 3,080	143,653	Year 1	45.9%
2016	5,597	150,381	Year 2	20.0%
2017	25,435	143,665	Year 3	12.0%
2018	56,973	150,671	Year 4	10.6%
2019	137,918	145,537	Year 5	6.7%
			After	4.8%

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

Home Insurance

(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Incurred, Net of Reinsurance, as of December 31,				
	2015	2016	2017	2018	2019
2015	$42,019	$41,614	$41,530	$40,555	$ 40,135
2016		38,804	37,088	36,016	35,721
2017			39,052	37,200	36,763
2018				51,320	51,360
2019					58,798
Total					$222,777

6. Claim and Claim Adjustment Expense Reserves, continued

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31, 2015	2016	2017	2018	2019
2015	$26,602	$33,750	$36,609	$38,177	$ 38,859
2016		25,372	30,028	31,648	32,582
2017			24,942	32,081	33,339
2018				36,767	44,961
2019					38,756
Total					$188,497

Net unpaid for accident years 2015 through 2019	$ 34,280
Net unpaid for accident years prior to 2015	8,751
Net unpaid claims and allocated claim adjustment expenses	$ 43,031

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims	Average Annual Payout	
2015	$ 721	6,523	Year 1	68.5%
2016	1,141	5,756	Year 2	16.6%
2017	1,773	4,949	Year 3	5.0%
2018	3,044	7,720	Year 4	3.3%
2019	8,315	6,920	Year 5	1.7%
			After	4.9%

6. Claim and Claim Adjustment Expense Reserves, continued

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

(dollars in thousands)	2019	2018
Claims and allocated claim adjustment expense reserve at beginning of year	$571,633	$572,973
Claims and allocated claim adjustment expense reserve acquired with Rider Insurance Company	7,023	-0-
Claims and allocated claim adjustment expenses incurred:		
Current year	509,641	486,074
Prior years	(14,319)	(46,710)
	495,322	439,364
Claims and allocated claim adjustment expenses paid:		
Current year	245,587	232,049
Prior years	226,043	208,655
	471,630	440,704
Claims and allocated claim adjustment expense reserve at end of year	602,348	571,633
Reinsurance recoverable on unpaid claims at end of year	27,509	29,509
Unallocated claim adjustment expense reserve at end of year	47,871	46,523
Total claims and claim adjustment expense reserves at end of year	$677,728	$647,665

During the year ended December 31, 2019, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $14.3 million. This change is comprised of $11.1 million from automobile business and $3.2 million from home business. The favorable development recognized in 2019 was largely attributable to significant improvements in the estimated severity of personal injury protection coverage claims. During the year ended December 31, 2018, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $46.7 million. This change is comprised of $40.3 million from automobile business and $6.4 million from home 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.

The Plymouth Rock Company and Subsidiaries

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

	2019		2018	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$646,270	$ 431,939	$561,209	$396,816
Ceded	(70,851)	(55,845)	(71,261)	(67,859)
Net	$575,419	$376,094	$489,948	$328,957

Ceded premiums earned for 2019 and 2018 were $72.0 million and $87.9 million, respectively.

7. Reinsurance, continued

Concurrent with its acquisition, Plymouth Rock Assurance Preferred Corporation entered into a 100% quota share reinsurance agreement with 21st Century North America Insurance Company under which Plymouth Rock Assurance Preferred Corporation ceded 100% of the underwriting results of all Plymouth Rock Assurance Preferred Corporation policies issued on 21st Century systems through and until December 2018. Claims and claim adjustment expenses of $1.2 million were ceded under this agreement during 2019, while premiums of $2.5 million and claims and claim adjustment expenses of $3.1 million were ceded under this agreement during 2018. Also concurrent with its acquisition, Plymouth Rock Assurance Preferred Corporation entered into service agreements with 21st Century North America Insurance Company and 21st Century Advantage Insurance Company and a 100% quota share reinsurance agreement with 21st Century North America Insurance Company under which Plymouth Rock Assurance Preferred Corporation services and assumes the underwriting results for all New York private passenger automobile policies issued on and after April 1, 2018 by Plymouth Rock Assurance Preferred Corporation on behalf of 21st Century North America Insurance Company and 21st Century Advantage Insurance Company. Premiums of $7.8 million and claims and claim adjustment expenses of $6.6 million were assumed under this agreement during 2019, while premiums of $2.8 million and claims and claim adjustment expenses of $2.3 million were assumed under this agreement during 2018.

The Plymouth Rock Company and Subsidiaries had treaties in place for quota share reinsurance for home insurance business, but these treaties were not renewed effective July 1, 2018. Home insurance premiums earned totaling $14.1 million were ceded in 2018 at a cession rate of 50 percent. The ceding commissions received under the home insurance treaties varied on the basis of loss ratio. The statements of comprehensive income for The Plymouth Rock Company and Subsidiaries included $1.4 million of claim and claim adjustment expenses related to this treaty in 2019, which was the result of $4.0 million of favorable development on a direct basis. The statements of comprehensive income for The Plymouth Rock Company and Subsidiaries are reported net of ceded premiums earned of $22.4 million and net of claims, claim expenses, and ceding commission expenses of $21.8 million in 2018.

The Plymouth Rock Company and Subsidiaries also has treaties in place for catastrophe reinsurance for automobile and home lines of business, and per-risk excess-of-loss reinsurance for home, commercial automobile, and umbrella lines of business. During the years ended December 31, 2019 and 2018, the underwriting cost incurred for these treaties was $10.4 million and $7.2 million, respectively.

7. Reinsurance, continued

The Plymouth Rock Company and Subsidiaries also has in place 100% quota share reinsurance with the National Flood Insurance Program for flood coverage written on a direct basis. Premiums ceded under this program were $771,000 and $778,000 in 2019 and 2018, respectively, while ceded claims, claim adjustment expenses and ceding commissions totaled $59,000 and $315,000, respectively.

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

Pilgrim Insurance Company provides automobile insurance services to unrelated insurance companies. The statements of comprehensive income for The Plymouth Rock Company and Subsidiaries are reported net of $58.8 million and $61.8 million of ceded premiums earned and $54.7 million and $55.5 million of claims and claim adjustment expenses incurred and ceded in 2019 and 2018, respectively, related to Pilgrim Insurance Company's third-party business. Pilgrim Insurance Company began to retain a small amount of underwriting risk relating to these third-party service arrangements during 2015, but continued to cede most of the underwriting risk either to its clients, a reinsurer or industry pools via quota share reinsurance arrangements. The statements of comprehensive income of The Plymouth Rock Company and Subsidiaries include $4.7 million and $4.6 million of net premiums earned in underwriting activities and $4.3 million and $4.2 million of net claims and claim adjustment expenses incurred in 2019 and 2018, respectively, for Pilgrim Insurance Company's third-party business. These retained amounts reflect 7.0% and 7.0% of direct premiums earned and 7.0% and 7.1% of direct claims and claim adjustment expenses incurred of the total activity of the business during 2019 and 2018, respectively.

7. Reinsurance, continued

Palisades Reciprocal Group

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

	2019		2018	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$849,023	$571,052	$793,572	$512,825
Ceded	(27,304)	(4,542)	(24,904)	(3,643)
Net	$821,719	$566,510	$768,668	$509,182

Ceded premiums earned for 2019 and 2018 were $26.9 million and $24.9 million, respectively.

Concurrent with its acquisition, AtHome Insurance Company entered into a 100% quota share reinsurance agreement with 21st Century North America Insurance Company under which AtHome Insurance Company cedes 100% of the underwriting results of all policies issued by AtHome prior to its acquisition. Claims and claim adjustment expenses of $1.2 million and $152,000 were ceded under this agreement during 2019 and 2018, respectively. As of the time of acquisition, AtHome Insurance Company was not transacting business in any state and had non-renewed its pre-acquisition private passenger automobile business in New York.

The Palisades Reciprocal Group has in place catastrophe reinsurance for the automobile and home lines of business, and per-risk excess-of-loss reinsurance treaties on the home, commercial automobile, and umbrella lines of business. During the years ended December 31, 2019 and 2018, the underwriting cost incurred for these treaties was $17.2 million and $17.3 million, respectively.

The Palisades Reciprocal Group also has in place 100% quota share reinsurance with the National Flood Insurance Program for flood coverage that it writes on a direct basis. Premiums ceded under this program were $3.4 million and $3.7 million in 2019 and 2018, respectively, while ceded claims, claim adjustment expenses and ceding commissions totaled $639,000 and $1.5 million, respectively.

8. Secured Loan

On July 24, 2013, The Plymouth Rock Company took out a secured loan for $45.0 million from a bank. This loan was payable in full by July 24, 2016, and was structured with monthly payments of interest only, payable at a variable interest rate based on LIBOR. The Plymouth Rock Company prepaid $30.0 million of the balance of this loan without penalty during 2014. During 2015, The Plymouth Rock Company increased its borrowing by $20.0 million, and the date on which the loan is payable in full was extended to August 31, 2018. The Plymouth Rock Company prepaid without penalty $20.0 million of the balance of this loan in 2016 and $10.0 million in 2017. During 2018, the loan was extended a second time to August 31, 2021. The carrying value of this loan of $5.0 million at both December 31, 2019 and 2018 reflected its fair value. The Plymouth Rock Company had pledged to the bank, as collateral, securities which had a market value of approximately $7.1 million and $8.7 million as of December 31, 2019 and 2018, respectively. The Plymouth Rock Company incurred $178,880 and $147,000 of interest expense on this loan during 2019 and 2018, respectively.

9. Subsequent Events

Subsequent events have been evaluated from December 31, 2019 through March 10, 2020. There are no material subsequent events.

10. Commitments and Contingencies

The Plymouth Rock Company and Subsidiaries incurred real estate rental expenses for 2019 and 2018 totaling $9.8 million and $9.3 million, respectively. For the years 2020 through 2024, the minimum lease obligations to unrelated third parties range from $5.4 million to $9.9 million annually. Total obligations of The Plymouth Rock Company and Subsidiaries under real estate and automobile leases are $68.3 million through 2031.

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

10. Commitments and Contingencies, continued

During 2018, Plymouth Rock Management Company of New Jersey vacated certain other office space with the anticipation of subleasing that space for the remaining periods of the applicable leases. As the sublease rental income was expected to be less than Plymouth Rock Management Company of New Jersey's rental expense obligation for the remainder of the lease terms, a charge of approximately $1.5 million was recorded at December 31, 2018 to reflect the expected unrecoverable amount under these lease obligations. This space was subleased during 2019 and Plymouth Rock Management Company of New Jersey recorded a benefit of $401,000 reflecting the terms of the sublease.

Since December 2011, Plymouth Rock Assurance Corporation has entered into several agreements with companies that write Massachusetts private passenger automobile insurance to sell surplus residual market credit premiums that can be used to reduce residual market assignments. Plymouth Rock Assurance Corporation recognized revenue from these sales in the amounts of $737,000 and $1.5 million in 2019 and 2018, respectively.

Plymouth Rock Management Company of New Jersey and Palisades Safety and Insurance Association entered into an agreement in November 2016 to purchase $2.7 million of New Jersey urban tax credits at a cost of $2.5 million. The purchase price was paid in March 2017. These credits were used to reduce the Palisades Reciprocal Group's premium tax liability by $2.7 million over 2017 and 2018. Plymouth Rock Management Company of New Jersey and Palisades Safety and Insurance Association entered into an agreement in September 2019 to purchase $15.0 million of New Jersey economic redevelopment tax credits at a cost of $14.0 million. The credits will be purchased in annual increments of $1.5 million at an annual cost of $1.4 million over a period of 10 years, which is expected to run from 2020 through 2029. The credits are expected to reduce the Palisades Reciprocal Group's premium tax liability by $1.5 million in each year of that 10-year period.

11. Goodwill and Intangible Assets

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

One subsidiary, InsuraMatch, LLC, has made purchases of insurance agencies that resulted in goodwill of $3.4 million at both December 31, 2019 and 2018, respectively. These purchases have also given rise to intangible assets in the form of expirations, noncompetition agreements, and brand names.

11. Goodwill and Intangible Assets, continued

InsuraMatch, LLC acquired policy expirations and a call center operation. The policy expirations gave rise to intangible assets of $913,000 that are now fully amortized. The acquisition of the call center gave rise to goodwill of $39,000. During 2016, InsuraMatch, LLC entered into an insurance policy renewal rights agreement which gave rise to intangible assets of $11,000 and $680,000 in 2019 and 2018, respectively. Intangible assets, which are amortized over periods ranging from two to 15 years, were carried at $2.1 million and $2.8 million at December 31, 2019 and 2018, respectively.

Amortization associated with these intangible assets for 2019 and 2018 was $802,000 and $785,000, respectively. Amortization is expected to range from $285,000 to $346,000 annually from 2020 through 2024.

As part of the purchase of Plymouth Rock Assurance Preferred Corporation effective April 1, 2018, Plymouth Rock Assurance Corporation also acquired intangible assets in the form of state licenses and a rating plan, as well as an intangible liability for the value of the business acquired valued at $986,000. This liability, which is being amortized over four years, had amortization of $247,000 and $185,000 in 2019 and 2018, respectively, that resulted in a carrying value of $555,500 and $801,000 at December 31, 2019 and 2018, respectively. Amortization is expected to range from $62,000 to $247,000 annually from 2020 through 2022. As this transaction was accounted for as an asset purchase, the difference between the purchase price and the fair value of financial assets and liabilities, including the value of business acquired, was allocated to the state licenses and the rate plan. The state licenses, which are indefinite-lived intangibles, had a carrying value of approximately $263,000 at both December 31, 2019 and 2018.

As part of the purchase of Plymouth Rock Assurance Corporation of New York effective January 1, 2019, Plymouth Rock Assurance Corporation also acquired intangible assets in the form of state licenses and the value of the business acquired valued at $310,000 and $1.3 million, respectively, as well as an intangible liability for the value of renewal obligations valued at $7.7 million. The state licenses, which are indefinite-lived intangibles, had a carrying value of $310,000 at December 31, 2019. The value of business acquired was amortized over 12 months, consistent with the earning of the unearned premium, therefore the entire $1.3 million was amortized in 2019. The renewal obligation liability, which is being amortized over three years, had amortization of $2.6 million in 2019 that resulted in a carrying value of $5.2 million at December 31, 2019. Amortization for this liability is expected to be $2.6 million annually in each of 2020 and 2021. This transaction was accounted for as a business combination.

11. Goodwill and Intangible Assets, continued

Palisades Reciprocal Group

The Palisades Reciprocal Group's purchase of Teachers Auto Insurance Company of New Jersey in 2007 resulted in goodwill of $3.3 million at both December 31, 2019 and 2018. The purchases in 2007 of Teachers Auto Insurance Company of New Jersey and of renewals from National General Insurance Company also resulted in the creation of intangible assets. These intangible assets are in the form of a trademark, a state license and renewal rights. At both December 31, 2019 and 2018, the carrying value of the trademark was $2.4 million and the carrying value of the state license was $150,000. These intangible assets are reviewed annually for impairment; no impairment was recorded in either 2019 or 2018. The remaining intangible assets are being amortized over 20 years and were recorded at $3.4 million and $4.1 million at December 31, 2019 and 2018, respectively. Amortization associated with these intangible assets was $713,000 and $796,000 in 2019 and 2018, respectively. Amortization is expected to range from $413,000 to $639,000 annually from 2020 through 2024.

The Palisades Reciprocal Group also acquired intangible assets in the form of state licenses as part of the purchase of AtHome Insurance Company effective August 1, 2018. As this transaction was accounted for as an asset purchase, the difference between the purchase price and the fair value of financial assets and liabilities, including the value of business acquired, was allocated to the state licenses. The state licenses, which are indefinite-lived intangibles, had a carrying value of approximately $38,000 at both December 31, 2019 and 2018.

Effective June 14, 2018, Palisades Safety and Insurance Association and Palisades Property and Casualty Insurance Company entered into an agreement with American Commerce Insurance Company and MAPFRE U.S.A. Corp. pursuant to which Palisades Safety and Insurance Association and Palisades Property and Casualty Insurance Company acquired the rights to serve as a replacement carrier for American Commerce Insurance Company's New Jersey private passenger automobile and home insurance business, respectively. Palisades Reciprocal Group paid $800,000 related to this acquisition in 2018, with a final payment due in December 2020 based on the earned premium recorded during the first policy year. That payment in 2020 was estimated to be $1.7 million as of December 31, 2018, but was revised upward to $2.1 million as of December 31, 2019 based on observed policy conversion rates. These replacement carrier rights are intangible assets that will be amortized over a period of 15 years. Amortization of $192,000 and $28,000 was recorded during 2019 and 2018, respectively, leaving a carrying value of $2.6 million and $2.5 million at December 31, 2019 and 2018, respectively. Amortization is expected to be $192,000 annually from 2020 through 2024.

11. Goodwill and Intangible Assets, continued

Effective April 4, 2018, Palisades Property and Casualty Insurance Company also acquired the right to serve as the replacement carrier for Pennsylvania and New York home insurance business from several entities of the Farmers Insurance Group. The purchase price for this business is based on the volume of written premium recorded during the first two policy years, with the final settlement occurring in 2021. These replacement carrier rights are intangible assets that will be amortized over a period of 15 years. The fair value of these rights was $380,000. Amortization of $25,000 and $9,000 was recorded during 2019 and 2018, respectively, resulting in carrying values of $346,000 and $371,000 at December 31, 2019 and 2018, respectively. Amortization is expected to be $25,000 annually from 2020 through 2024.

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

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)	2019	2018
Net income	$204,074	$ 72,112
Depreciation and amortization	26,379	23,330
Deferred income taxes	10,201	(1,875)
Change in unrealized gains on equity securities, net of tax	(91,088)	(8,478)
Other-than-temporary impairment, net of tax	(3,065)	(4,602)
Change in operating assets and liabilities:		
Accrued investment income	(42)	966
Premiums receivable	(14,086)	(421)
Ceded unearned premium reserves	1,191	14,974
Deferred acquisition costs	(7,367)	(5,165)
Amounts receivable from reinsurers and pools	(17,962)	(30,401)
Claim and claim adjustment expense reserves	30,973	43,743
Unearned premium reserves	28,340	11,752
Advance premiums	812	1,785
Commissions payable and accrued liabilities	13,886	19,016
Amounts payable to reinsurers	(3,002)	(1,551)
Unearned service fees	3,760	1,268
Prepaid expenses, agent loans, and deposits	(4,812)	(305)
Income tax recoverable and payable	(14,677)	5,926
Amounts due from service clients	(2,148)	738
Other assets and other liabilities	482	(5,542)
Net cash provided by operating activities	$161,849	$137,270

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

Palisades Reciprocal Group

(dollars in thousands)	2019	2018
Net income	$123,816	$53,449
Depreciation and amortization	1,960	820
Deferred income taxes	(2,553)	(1,147)
Change in unrealized gains on equity securities, net of tax	(111,170)	(20,413)
Other-than-temporary impairment, net of tax	(5,509)	-0-
Gain recognized on business combination	(3,709)	-0-
Change in operating assets and liabilities:		
Accrued investment income	654	789
Premiums receivable	(10,148)	(8,022)
Ceded unearned premium reserves	(382)	(2)
Deferred acquisition costs	(9,148)	(3,675)
Amounts receivable from reinsurers and pools	3,378	(8,455)
Claim and claim adjustment expense reserves	21,476	6,221
Unearned premium reserves	28,147	16,032
Advance premiums	131	1,879
Commissions payable and accrued liabilities	(3,509)	4,262
Amounts payable to reinsurers	454	139
Income tax recoverable	(6,895)	3,920
Other assets and other liabilities	2,650	(2,231)
Net cash provided by operating activities	$ 29,643	$43,566

13. Consolidated Revenues

Revenues, net of reinsurance, by company or group for 2019 and 2018 were:

(dollars in thousands)	2019	2018
Underwriting company revenues:		
Plymouth Rock Assurance Group	$ 497,093	$ 436,084
Bunker Hill Insurance Group	66,667	44,197
Palisades Reciprocal Group	829,587	782,044
Subtotal	1,393,347	1,262,325
Management company revenues:		
The Plymouth Rock Company	115,309	59,215
SRB Corporation	112,165	91,557
InsuraMatch, LLC	7,783	8,757
Pilgrim Insurance Company	32,606	34,529
Plymouth Rock Management Company of New Jersey	198,744	192,774
Subtotal	466,607	386,832
Eliminations with subsidiaries of The Plymouth Rock Company:		
Technology costs	(48,512)	(46,822)
Dividends	(116,118)	(68,140)
Other	(35,596)	(43,358)
Subtotal	(200,226)	(158,320)
Elimination of intra-group transactions	(199,520)	(190,087)
Total revenues before unrealized gains on equity securities	$1,460,208	$1,300,750

14. Compensation Plans

The Plymouth Rock Company and Subsidiaries maintain two plans under Section 401(k) of the Internal Revenue Code. These plans are defined contribution plans that together cover all employees. Expenses of $9.2 million and $8.3 million were incurred related to these plans during 2019 and 2018, 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 $5.0 million and $3.8 million during 2019 and 2018, respectively.

Effective January 15, 2015, stock incentive awards of 6,577 shares were granted to four key officers. The vesting period for these shares ended during 2019 with 4,330 of the shares vesting based on financial performance during the period and an appraised price of $10,950 for The Plymouth Rock Company's Class A common shares. These awards were exercised for a combination of common stock of The Plymouth Rock Company and cash. Expenses of $2.8 million and $2.5 million were recorded related to these awards during 2019 and 2018, respectively.

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

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

15. Fixed Assets

The table below summarizes fixed assets at December 31, 2019 and 2018.

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	Useful Lives	2019	2018
Computers and software development	3-5 years	$118,416	$124,108
Leasehold improvements	10 years	24,992	21,740
Furniture and fixtures	5 years	10,424	8,507
Vehicles	3 years	480	87
Total cost		154,312	154,442
Less: accumulated depreciation		104,004	109,720
Net book value		$ 50,308	$ 44,722

Fixed assets of $265,000 were added during 2019 as part of the acquisition of Plymouth Rock Assurance Corporation of New York. Depreciation expenses incurred were $24.0 million and $20.7 million during 2019 and 2018, respectively. As a result of an accounting policy change, any furniture and fixtures placed into service on or after January 1, 2020 will be depreciated over 10 years.

Palisades Reciprocal Group

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

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

16. Investment Securities and Investment Income

A. Marketable Securities

The Plymouth Rock Company and Subsidiaries

At December 31, 2019 and 2018, amortized cost, unrealized gains and losses before federal income taxes, and market value of marketable fixed income securities classified as available for sale and marketable common stocks were as follows:

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

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

16. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2019 and 2018, maturities of marketable securities were as follows:

(dollars in thousands)	2019 Amortized Cost	2019 Market Value	2018 Amortized Cost	2018 Market Value
Due in 90 days or less	$ 77,784	$ 77,813	$ 16,578	$ 16,562
Due after 90 days and in one year or less	104,255	104,697	48,827	48,658
Due after one year and in five years or less	291,748	294,934	205,251	204,198
Due after five years and in ten years or less	8,349	8,697	21	22
Due after ten years	455	456	4	4
Asset-backed securities	36,825	37,068	62,231	61,976
Common stocks	298,071	571,681	269,780	423,779
Total	$817,487	$1,095,346	$602,692	$755,199

All marketable fixed income securities are classified as available for sale. At December 31, 2019 and 2018, common stocks that had been in an unrealized loss position for longer than twelve months had a total market value of $1.8 million and $2.7 million, respectively. Gross unrealized losses related to these common stocks were $354,000 and $814,000 at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, other marketable securities were held that had been in an unrealized loss position for longer than twelve months with a total market value of $18.2 million and $119.0 million, respectively. Gross unrealized losses related to these other marketable securities were $41,000 and $1.2 million at December 31, 2019 and 2018, respectively. These losses are viewed as resulting from market conditions and are believed to be temporary. A loss of $3.9 million was recorded in 2019 for other-than-temporary impairment of two common stock holdings. A loss of $6.0 million was recorded in 2018 for other-than-temporary impairment of one common stock holding.

16. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

Palisades Reciprocal Group

At December 31, 2019 and 2018, amortized cost, unrealized gains and losses before federal income taxes, and market value of marketable fixed income securities classified as available for sale and marketable common stocks were as follows:

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

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

16. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2019 and 2018, maturities of marketable securities were as follows:

	2019		2018	
(dollars in thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in 90 days or less	$ 78,158	$ 78,181	$ 41,943	$ 41,893
after 90 days and in one year or less	150,219	150,782	109,994	109,500
Due after one year and in five years or less	456,989	462,209	434,692	431,723
Due after five years and in ten years or less	751	748	132	134
Asset-backed securities	105,236	105,416	190,545	188,959
Preferred stocks	133	131	-0-	-0-
Common stocks	341,931	685,261	331,997	527,655
Total	$1,133,417	$1,482,728	$1,109,303	$1,299,864

All marketable fixed income securities are classified as available for sale. At December 31, 2019 and 2018, common stocks that had been in an unrealized loss position for longer than twelve months had a total market value of $8.9 million and $1.9 million, respectively. Gross unrealized losses related to these common stocks were $1.6 million and $578,000 at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, other marketable securities classified as available for sale that had been in an unrealized loss position for longer than twelve months had total market values of $69.7 million and $361.2 million, respectively. Gross unrealized losses related to these other marketable securities were $149,000 and $4.7 million at December 31, 2019 and 2018, respectively. These losses are viewed as resulting from market conditions and are believed to be temporary. A loss of $7.0 million was recorded in 2019 for other-than-temporary impairment of two common stock holdings. There were no securities deemed other-than-temporarily impaired at December 31, 2018.

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 were carried at $105,000 at both December 31, 2019 and 2018.

C. Alternative Equity Investments

Investments in marketable alternative equities include positions in entities that focus predominantly on arbitrage relating to publicly announced mergers and acquisitions. Substantially all of the investments made by these entities are in publicly traded securities, and investors have contractual rights to withdraw funds from these entities each year. At December 31, 2019 and 2018, The Plymouth Rock Company and Subsidiaries recorded values for these marketable alternative equity investments, which include realized and unrealized gains, of $54.6 million and $55.1 million, respectively. At December 31, 2019 and 2018, the Palisades Reciprocal Group recorded values for these marketable alternative equity investments of $40.7 million and $53.2 million, respectively.

Non-marketable alternative equity investments include interests in partnerships that invest in companies that are not publicly traded. These investments are valued by applying the equity method to values in their most recently available financial statements. The Plymouth Rock Company and Subsidiaries recorded values for non-marketable alternative equity investments of $32.3 million and $31.5 million at December 31, 2019 and 2018, respectively. The Palisades Reciprocal Group recorded values for non-marketable alternative equity investments of $18.1 million and $15.6 million at December 31, 2019 and 2018, respectively.

As of December 31, 2019, The Plymouth Rock Company and Subsidiaries had commitments outstanding to invest $57.1 million in 12 private equity funds. Four of these funds are Lindsay Goldberg & Bessemer L.P. II (Fund II), Lindsay Goldberg & Bessemer L.P. III (Fund III), Lindsay Goldberg & Bessemer L.P. IV (Fund IV), and Lindsay Goldberg & Bessemer L.P. V (Fund V). The Chairman of The Plymouth Rock Company is a member of the general partner that manages each of these four funds. At December 31, 2019, The Plymouth Rock Company and Subsidiaries had $23,000, $246,000 and $17.2 million invested in Fund II, Fund III, Fund IV, respectively, with outstanding commitments to Fund II, Fund III, Fund IV and Fund V at that date of $1.1 million, $894,000, $11.7 million and $30.0 million, respectively.

As of December 31, 2019, the Palisades Reciprocal Group had commitments outstanding to invest $18.0 million in six 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 $1,199.5 million and $922.8 million at December 31, 2019 and 2018, respectively. Assets in this category valued using either the equity method or the cost method totaled $87.0 million and $86.6 million, respectively, at December 31, 2019 and 2018. The other assets in this category were reported at fair values totaling $1,112.5 million and $836.2 million, respectively, at December 31, 2019 and 2018.

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

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

16. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

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

Palisades Reciprocal Group

Cash, cash equivalents, and investment securities totaled $1,546.5 million and $1,382.2 million at December 31, 2019 and 2018, respectively. Assets in this category that are valued using either the equity method or the cost method totaled $58.8 million and $68.8 million at December 31, 2019 and 2018, respectively. The fair values of the other assets in this category totaled $1,487.7 million and $1,313.5 million at December 31, 2019 and 2018, 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, 2019: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 4,961	$ -0-	$-0-	$ 4,961
U.S. government securities	213,260	10	-0-	213,270
Foreign government securities	160	-0-	-0-	160
State and municipal securities	-0-	37,285	-0-	37,285
Corporate debt securities	-0-	441,204	-0-	441,204
Asset-backed securities	-0-	105,416	-0-	105,416
Marketable preferred stocks	131	-0-	-0-	131
Marketable common stocks	685,262	-0-	-0-	685,262
Total fair value	$ 903,774	$ 583,915	$-0-	$ 1,487,689
Assets valued using either the equity method or the cost method				58,788
Total value of cash, cash equivalents, and investment securities				$1,546,477

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

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 2019 and 2018 were as follows:

(dollars in thousands)	2019	2018
Interest income and dividends from securities	$ 26,491	$ 17,704
Earnings from non-marketable securities and alternative equity investments	(529)	8,013
Rental income	6,734	5,003
Finance charges on premiums receivable	8,637	8,709
Gross investment income	41,333	39,429
Rental expenses	(7,170)	(3,762)
Investment expenses	(2,733)	(2,694)
Investment income	31,430	32,973
Net realized capital gains (losses)	41,904	9,523
Investment income and capital gains before unrealized gains on equity securities	73,334	42,496
Change in unrealized gains on equity securities	115,949	10,924
Investment income and capital gains	$189,283	$ 53,420

16. Investment Securities and Investment Income, continued

E. Analysis of Investment Income and Capital Gains, continued

Palisades Reciprocal Group

The components of investment income and capital gains before federal income taxes during 2019 and 2018 were as follows:

(dollars in thousands)	2019	2018
Interest income and dividends from securities	$ 36,929	$ 28,443
Earnings from non-marketable securities and alternative equity investments	3,245	5,358
Finance charges on premiums receivable	85	-0-
Gross investment income	40,259	33,801
Investment expenses	(9,406)	(9,079)
Investment income	30,853	24,722
Net realized capital gains (losses)	3,268	3,332
Investment income and capital gains before unrealized gains on equity securities	34,121	28,054
Change in unrealized gains on equity securities	140,721	25,839
Investment income and capital gains	$174,842	$ 53,893

16. Investment Securities and Investment Income, continued

F. Investment Activity

The Plymouth Rock Company and Subsidiaries

Activity in investment securities during 2019 and 2018 was as follows:

(dollars in thousands)	2019	2018
Balance at beginning of year	$ 841,840	$ 792,121
Change in marketable securities:		
Proceeds from maturities	(257,331)	(114,375)
Proceeds from sales	(348,726)	(150,218)
Purchases, including acquired in acquisition	818,574	342,416
Net change in marketable securities	212,517	77,823
Net change in non-marketable securities	-0-	(797)
Net change in alternative equity investments	385	(39,228)
Net investment activity	212,902	37,798
Net change in sales and purchases in process	2,224	(4,072)
Net change in unrealized gain/(loss) on marketable and non-marketable securities	125,352	15,993
Balance at end of year	$ 1,182,318	$ 841,840

Palisades Reciprocal Group

Activity in investment securities during 2019 and 2018 was as follows:

(dollars in thousands)	2019	2018
Balance at beginning of year	$ 1,368,652	$1,282,782
Change in marketable securities:		
Proceeds from maturities	(215,201)	(178,975)
Proceeds from sales	(313,359)	(184,423)
Purchases, including acquired in acquisition	551,812	479,156
Net change in marketable securities	23,252	115,758
Net change in alternative equity investments	(9,996)	(55,316)
Net investment activity	13,256	60,442
Net change in sales and purchases in process	859	(208)
Net change in unrealized gain/(loss) on marketable and non-marketable securities	158,749	25,636
Balance at end of year	$1,541,516	$1,368,652

17. Real Estate

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

The purchase of the property at 711 Atlantic Avenue added $20.8 million and $48.7 million in land and building assets during 2019. In addition to these purchase and sale activities, building improvement costs of $2.9 million and $2.1 million were incurred on properties in 2019 and 2018, respectively. The table below summarizes the real estate costs and carrying values at December 31, 2019 and 2018:

(dollars in thousands)	2019	2018
Land	$ 26,741	$ 7,449
Buildings, improvements, and other	88,554	53,665
Total cost	115,295	61,114
Less: accumulated depreciation	18,729	27,164
Net book value	$ 96,566	$ 33,950

Rental income from lessees other than The Plymouth Rock Company and Subsidiaries totaled $6.7 million and $5.0 million in 2019 and 2018, respectively. For each of the years 2020 through 2024, minimum annual rent receivable by The Plymouth Rock Company and Subsidiaries is $3.4 million. Total obligations to The Plymouth Rock Company and Subsidiaries from non-affiliated lessees through 2024 are $24.1 million. Buildings and improvements are depreciated over their useful lives, which range from three to 39 years.

The total appraised value of real estate interests as of December 1, 2019 and 2018, as determined by an independent appraiser using the income and sales comparison approaches, was $182.5 million and $131.5 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, 2019 and 2018 is composed of Class A common shares and Class B common shares, with shares of both classes having a par value of $0.10 each. There are 300,000 Class A common shares authorized, of which 64,226 and 60,410 were issued and outstanding on December 31, 2019 and 2018, respectively.

There are 90,000 Class B common shares authorized, of which 59,783 and 62,413 were issued and outstanding on December 31, 2019 and 2018, respectively. The Class A common shares are fully transferable and have the right to elect 20 percent of the Board of Directors. The Class B common shares are not transferable, but may be converted to Class A common shares on a one-for-one basis at any time at the option of the holder, and are converted automatically upon the occurrence of certain events. The Class B common shares have the right to elect 80 percent of the Board of Directors, a right which has never been exercised in full. Presently, two directors are elected by the Class B shareholders and all other directors are elected by the Class A shareholders.

B. Statutory Surplus and Dividend Availability

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

On a statutory accounting basis, capital and surplus of the insurance company subsidiaries of The Plymouth Rock Company totaled $463.6 million and $310.9 million at December 31, 2019 and 2018, respectively. The combined net income of these subsidiaries on a statutory accounting basis was $25.5 million and $18.9 million in 2019 and 2018, respectively.

Capital and surplus of the insurance companies in the Palisades Reciprocal Group totaled $641.6 million and $529.7 million at December 31, 2019 and 2018, respectively. The combined net loss on a statutory accounting basis for these insurance companies was $9.6 million in 2019. The combined net income on a statutory accounting basis for these insurance companies was $49.9 million 2018.

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

18. Stockholders' Equity, continued

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

Management Directors and Corporate Officers

Richard F. Adam
James N. Bailey
Daniel C. Barrett
Harry M. Baumgartner
Hal Belodoff
Mary J. Boyd
Marc V. Buro
Frederick C. Childs
Kristin V. Collins
Sarah J. Cook
Yogesh S. Deshmukh
Edward J. Fernandez
James M. Flynn
Howard R. Goldberg
Colleen M. Granahan
William D. Hartranft
Brendan M. Kirby
Scott N. Kwiker
Paul D. Luongo
Thomas J. Lyons
Richard J. Mariani
Wilbur L. Martin IV
Karen A. Murdock
Louis C. Palomeque
David L. Pearlmutter
Anne M. Petruff
Mary A. Sprong
Karen L. Stickel
Steven D. Stojanovich
James M. Stone
Barry O. Tagen
Aaron M. Wheaton
Gerald I. Wilson
Jeffrey A. Wright

Counsel:
Ropes & Gray LLP

Independent Auditor:
PricewaterhouseCoopers LLP