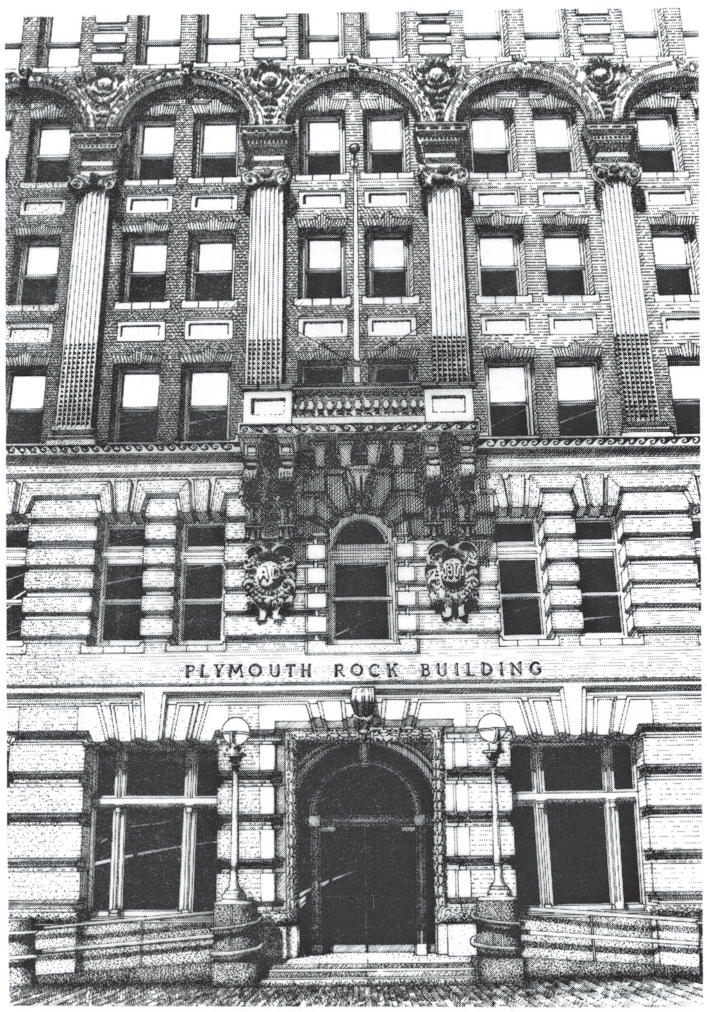
The Plymouth Rock Company



2022 Annual Report

The Plymouth Rock Company
695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 8, 2023

To Our Shareholders:

"When it rains, it pours." So says an old slogan. And it certainly poured on us in 2022. Had I listed some years back every misfortune I would not want to befall Plymouth Rock in one year, my list would have included price inflation, falling stock and bond market prices, increased automobile traffic, unusually high employee turnover, mistakes of our own making, and catastrophic weather conditions. This past year we were paid visits by all of these, with bad weather waiting to clock in for a last minute appearance as Elliott, the Yuletide storm. The overall consequence was that losses paint our bottom line red in 2022, this being the first year of that color ink since our 1984 launch. Comprehensive income, which unites all of our underwriting and managed entities and marks to market the valuation of our investment portfolio, was a dreadful $327 million in the negative. We owe $316 million of that to adverse investment returns on our equity and debt portfolios.

It is probably useful to examine the cold rain showers one by one. Inflation, as measured by the broad Consumer Price Index, was 6.5% for the year. The cost increases we care most about, those affecting automobile and home repairs, were more onerous. If the insurance premiums charged to customers could rise in parallel with the relevant inflation, there would be no drag on earnings, but regulated rates tend to lag rising claims costs. And, in some jurisdictions, political reluctance to increase the financial burdens on already stressed voters added extra delays to otherwise justified rate approvals. Our premiums, and those of the rest of the personal lines insurance carriers, simply couldn't keep up with inflationary cost increases in 2022. State Farm, the colossus of personal lines insurers, reported a property-casualty group combined ratio of 118%, which implies it paid in claims and expenses $1.18 for every premium dollar it brought in. Our number of 105% was not bad if you grade on the curve, but the absolute result was no source of smiles on Atlantic Avenue. Andy McElwee, our new president, and I are dismayed to see combined ratios over 100%, and we won't be pleased until we do several points better than that.

The stock market's calamitous performance in 2022 is, of course, already familiar to just about everybody. We owned about $2 billion in common stocks at the start of the year, so it's no surprise that our portfolio losses were measured in hundreds of millions of dollars. The mathematics of the bond market ensure that bond prices fall when interest rates rise, so the Federal Reserve's monetary tightening inevitably cost us capital there as well. We hold close to a billion dollars' worth of bonds. I think you get the picture.

The painfully high employee turnover was part and parcel of what is sometimes called the Great Resignation. The U.S. labor force participation ratio, having begun the present millennium at just over 67%, ended 2022 at about 62%. This decline is part of the explanation for today's deceptively low unemployment index, the product of a survey which includes only those actively seeking work. Covid-19, of course, accelerated the exodus from office-centric jobs. We lost people not only in response to national employment trends but also to competitors in our industry who look more favorably on working from home. We have always been proud of experiencing lower staff turnover than our competitors — and we work hard to provide an amenable workplace that encourages long tenures. This year our turnover was similar to the industry's. Notwithstanding the immediate problems of increased turnover, Andy and I hold emphatically to our view that minimizing remote work will give us a competitive advantage in training, collegiality, and creativity over the long run. The total number of insurance jobs isn't raised by turnover, so the job churn should dissipate as soon as enough people settle into the jobs that suit them. And inflationary pressures will also push some labor force dropouts back to paid employment. Meanwhile, the churn is hitting our middle ranks harder than entry-level positions near the bottom of the pay scale or officer positions near the top.

Customer service standards at Plymouth Rock held up well despite the strains on personnel. Our claims departments were harder pressed, due to greater dependence on experienced, case-seasoned staff at the supervisory level. It didn't help the claims teams, moreover, that traffic congestion was on the rise. Nationally, the number of miles driven in 2022 grew by more than a nearly unbelievable 35 billion miles from the prior year's equivalent total. Among the contributors I might list are reluctance to use public transit, increased gig delivery driving, and perhaps remote work. When everyone works from the office, many a car sits idle between rush hours. When people work from home, they find themselves drawn by domestic pressure to run errands and provide child transportation during the midday. On top of all of these depressants were problems of our own making. These were mainly borne of our setting inadequate premiums for home coverages and direct auto insurance as we grew in footprint and expanded products. I'll comment on the unforced errors in the sections on our individual groups.

Even a quick glance at our enterprise's comprehensive income shows you the consequence of 2022's various impediments to profitability. Enterprise comprehensive income, which neared record-high levels in the previous year, ran deeply in the red. The scarlet ink spread unevenly across our business components. The results for our stockholder-owned companies, dominated by the Independent Agency Group, were better than those in our managed reciprocal, where Direct Auto and Home insurance play larger roles. The stockholder-owned companies posted a net income, before adverse changes in accumulated unrealized gains, of $63 million. Comprehensive shareholder income, which adds unrealized portfolio losses to net income, was a negative $111 million. This compares, wistfully in our minds, to a positive $237 million in stockholder comprehensive income for 2021. The reciprocal group suffered a minus $74 million in net income and, after its unrealized investment losses, a negative $216 million in 2022 comprehensive income. Fortunately, we are quite large enough and more than sufficiently capitalized to withstand adversities like these.

Equity for our shareholders fell by 17%, which you can contrast to its 21% rise in 2021. While our enterprise book value also fell, it remains over $1.3 billion. As I always remind readers, book value growth is an incomplete measure of owners' rate of return because it ignores your cash dividends over the years as well as changes in the value of our real estate. Book value growth thus systematically understates the true economic appreciation in shareholder worth. Despite the adverse results in this last year, the 38-year compounded annual rate of return on shareholder book value, including your dividends, but without the benefit of rather substantial real estate valuation gains, remains a tad over 18%. The scale of the entire Plymouth Rock Assurance group of companies, as measured by direct underwritten and managed premiums, grew in 2022 to exceed $1.7 billion.

Andy joined us about a year ago as our Chief Operating Officer, overseeing all three of our operating insurance groups. Erin Macgowan joined us about the same time as Counsel to the Chairman. Both have exceeded expectations, an impossible-to-overstate contribution to my own peace of mind. Another valued contributor to calm and comfort during the storms of recent years has been Mary Boyd, who captains the largest of our three groups, the Independent Agency Group. That group faced the same inflationary pressures as the rest of the industry but somehow managed to outrun most of the competition. With total written premium volume of nearly $900 million, Mary's group is a major player among agency writers in Massachusetts and New Jersey and a growing player in our other four states. The group's written premium rose by 7% during the year, and, despite the serious hit all auto insurers took from inflation, it kept itself at underwriting breakeven with a combined ratio just under 100%. The Independent Agency auto business would, in fact, have earned a more bountiful underwriting profit had it not been for continuing challenges in New York, where the prices set when we entered that state were plainly too aggressive. The Empire State remains an outlier, with an atrocious combined ratio for 2022 of 119%. But New York regulators are now showing openness to justified rate increases, and correction of the inadequacies is in the works. Don't forget, as we face the obstacles, that New York is likely the most promising arena for the pending growth that will take Mary's group past the billion dollar milepost.

Loss ratios in Massachusetts, our largest state, and in New Hampshire, where our volume is much less, should be acceptably close to targets as soon as inflation-necessitated rate increases are approved. New Jersey had been more reluctant than other states to grant rate changes, but we are becoming confident that the regulators there are now more accepting of the painful exigencies of increased road mileage and inflation. Connecticut, where we have around $30 million in volume, and Pennsylvania, where we also have only a small volume, continue to have unsatisfactory loss ratios, but they are on the mend. Commercial automobile insurance enjoyed a brighter year, producing both growth and profitability. Pilgrim, our third-party administrator of services for other insurance companies, and our in-house insurance agency, Encharter, turned in unexciting but acceptable years. We have not yet replaced InsuraMatch, sold two years ago to Travelers, with another new national broker of our own creation, but it is still our intention to do so when we are confident that we have a gameplan more solid than most of the InsurTechs that Wall Street recently fell in and out of love with. Mary will, of course, rack up more impressive years when external conditions are more favorable, but, under the adverse circumstances of 2022, this past year has to be considered successful for her whole group – topped off by her having been honored here as the industry-wide Insurance Professional of the Year at a luncheon gala for 500. It was a proud moment for her and the whole Plymouth Rock team.

The Home Insurance Group faced a serious hill to climb in 2022 as a consequence of inflation and a rapidly hardening reinsurance market, and it was forced to start that climb from inside a hole it had dug for itself. Bill Martin and his team introduced an innovative fast-quote-and-bind product in 2020, designed to be especially easy for customers and agents to use. The notion is a good one that Andy and I fully endorse, but the original details incorporated rather too much ease of use and thus invited adverse selection. This error alone would have created a profit impediment but, in addition, the new product's base rates were set substantially too low in just about every state. Adverse selection, inadequate rates, inflation, and rising reinsurance costs came together in 2022 to make the uphill climb for the Home Group every bit as formidable a task as it sounds. The average cost of a homeowners claim, for us and the industry as a whole, rose by double digits during the past year as a tight market for available repairers added to cost inflation's pressure. The outcome was a 2022 combined ratio for Bill's group of 112%, about 15 points worse than the group's budget predicted. We were lucky not to have faced an autumn hurricane catastrophe this past year. Had we been dealt windier fall weather, the numbers would have been even worse. The hole is deep enough and the inflationary mound high enough that none of us expects anything approaching target results in 2023. Inflation remains, and the reinsurance carriers, worried about climate change, are not about to make their markets any more welcoming this year. The budgetary goal is accordingly to achieve only a slender operating profit this year in the Home Group. New Jersey and Connecticut accounted for the majority of the red ink in 2022, so the outcome of pending rate increase requests in those states will largely determine the current year's scorecard.

No one calls this past year satisfactory for the Home Group. As I have said often, however, the full picture for the group during Bill's tenure as its president remains a great deal better than recent results suggest. The Home Group's volume has grown from $75 million to more than $330 million, while providing a net profit for the whole period of about $20 million for our enterprise. That's not too shabby, as they like to say on Wall Street. Scott Kwiker, who formerly headed product and pricing for Mary Boyd, has moved from auto insurance to Bill's team to partner with him in the tasks ahead. And Andy, who spent years as president of a successful monoline homeowners writer, and I have made ourselves fully participating colleagues as well. Rate increases and the reduction of exposure to risks we should never have accepted are the orders of the day — while we watchfully limit overall catastrophe exposure and guard against collateral damage to the stability of our auto insurance book from the inevitable price increases. Don't forget, moreover, that the disappointing 2022 numbers represented a welcome improvement over the more distressing 2021 numbers for the Home Group. Andy, Bill, and I all see the 2021 and 2022 results as temporary bumps in the road for a business segment with superior prospects over the long horizon.

Once again, the most arduous journey forward is that facing Jeff Briglia and his Direct Group. Jeff presides over three segments of business, all written without the help of independent agents. One of these segments, and the least problematic, represents coverage for the personal lines policyholders we inherited when we bought Prudential's New Jersey business in 2003. The scale of this subset shrinks each year by attrition but what remains, nearly $150 million in written premium, is an ultra-seasoned cohort of policies with strong economics. The second segment is what we call Partner Business, $275 million in volume written through our active relationship with Prudential and other insurers, corporate brokers, and aggregators. Handled with care, this portion of the Direct book should by all rights be profitable for us but has not performed well in recent years. We have no reason to accept unsatisfactory results in this segment, so Jeff is cutting back on some elements of Partner volume where near-term profitability looks beyond reach. He has requested changes as part of the renewal of our Prudential contract to more closely tie compensation to performance. The third segment of the Direct Group's business is our direct-to-consumer volume, policies gained without the participation of any kind of intermediary. We write almost $80 million of this kind of business, which we characterize as Core Direct. This business is important to us, because the Core Direct segment, if developed successfully, holds especially excellent potential for future profits and growth.

We have always known that a Core Direct book would be expensive, risky, and difficult to build. Jeff's job would be hard enough had this year's inflation and the return of congested roads not aggravated the tasks at hand. Aware that the construction of a sustainable Core Direct business requires a source of external funding, we had hoped that the necessary funds would come from the other two segments. But the losses in the Partner business exceed the monotonically attriting and inflation-wounded gains in the legacy Prudential book, so the costs of building a Core Direct business show up as red ink for the full group and the whole enterprise. The combined ratio for the Direct Group was an infelicitous 111%. Improvement is needed in all four of the states where we have Direct Group volume, with New York the standout in the adverse direction for both its Partner and Core Direct segments. That state turned in a nightmarish loss ratio, even before adding the requisite expense load, approximating 110%. A hopeful sign is that new business screening is improving everywhere, including New York, and Jeff is working hard on other remedial actions. These include strengthening leadership staffing in the Partner segment, pulling back on incremental volume from stubbornly unprofitable suppliers, and introducing a targeted and hopefully magnetic product for the Core Direct segment.

This was a dreadful year for investment results. We beat the relevant market indices once again, but the absolute numbers have seldom been worse. When portfolio performance is so wanting, it is fair game to question whether decisions on my part and Jim Bailey's contributed to the sorry numbers. A good starting point is to consider strategies of ours that differ from the norms of our peer institutions. Our most glaring deviation from industry practice has to do with asset allocation. The common stock share of the investment portfolio among property casualty insurers averages roughly 20% of total invested assets, with the rest held in fixed income instruments. An industry favored segment of fixed income is blue-chip bonds, over 40% of these with more than five year durations. We, on the other hand, keep 61% of our securities portfolio in common stocks. Whatever bonds we hold tend to be of relatively short duration. A second departure relates to portfolio diversification. When other insurers do own common stocks, they tend to construct widely diversified portfolios, comprised of a great many issuers' securities. We don't. Excluding our strategic holdings of insurance company securities, our intentionally undiversified portfolio contains no more than nine carefully chosen picks. Finally, we never buy the glamour stocks that so many other investors love, and we don't trade actively the stocks we do own. We look for stocks that are temporarily out of favor but which Jim and I conclude, with advice from Rick Childs and Dan Rasmussen, should recover and prosper over the next ten years. Then we hold onto those stocks patiently unless we later see changes in the fundamentals of their businesses or spot a mistake in our earlier thinking that negates the original investment hypothesis.

With respect to committing so much of our portfolio to common stocks, we are prepared to defend and maintain our preference. We fix our eyes on total return over ten-year periods, with a high tolerance for interim volatility. That orientation, which I consider to yield a meaningful advantage, irresistibly disposes us to common stocks. The equilibrium economics of financial markets requires that stocks should always outperform bonds over long stretches of time. As I pointed out a few years back in this letter, the total return for the S&P 500 Index over the last 100-year period has been about 10%. The same return statistic holds for the 50-year return. The most recent 10-year return is 12.6%. And this is despite the fact that all of these periods terminate at a bearish moment for the market. The average return on bonds of intermediate duration since 1995 has been only 4.4% and recently less. An investment advisor or broker can be fired for a single disastrous year. A portfolio consulting firm can lose a client due to volatility, and likewise a period of losses may be trouble for a manager of a non-profit dependent on a steady endowment income stream. But we can tolerate such jolts, and volatility within reason can be our friend if we are paid to accept it. I'd keep more than 60% of our investment assets in equities if the regulators and rating agencies wouldn't look so askance.

Our preference for picking just a few stocks and limiting those choices to out-of-favor companies requires laborious analysis of fundamentals and a good bit more forbearance than is characterized by most other investors. The reward is an incrementally better return than is available from broad indices. Given the alchemy of compounding, even small return increments over long periods add up to princely rewards. One of the reasons patience is so essential is that we never expect the prices of temporarily disfavored stocks to recover right away. They are, by their nature, long-term picks. Microsoft, for example, which we bought long ago when that company was considered to have been left behind, took a decade more to disprove the skeptics. It is now our largest holding. True to form in this sense, our four most recent purchases – T. Rowe Price, Toyota, General Electric, and Ericsson – lagged the market indices and underperformed our other stocks this past year. We are comforted that, even with this drag, our overall common stock portfolio outperformed the Standard & Poor's 500 Index, as it has most of the last 30 years. Our 30-year average internal rate of return on stocks is 12.3% in contrast to the S&P 500's 9.6%. Another way to accentuate the positive is to look at 2021 and 2022 together. For the two years starting January 1, 2021, our common stock portfolio provided us a net gain. This past year's retreat relinquished only 70% of the prior year's advances. Two steps forward and one step back is something a buy-and-hold investor learns to live with.

Because we feel compelled by rating agency and regulatory constraints to hold a large portfolio of bonds, we do so. Unlike those insurers, though, that feel safest owning long-term blue-chip bonds and locking in coupons for years to come, we worry more about interest rate risk than reinvestment risk. We are, on the other hand, more accepting of a modicum of credit risk than others. Our bond portfolio now consists of 23% BB-rated instruments and 77% higher-rated bonds, none having long durations. Given the Federal Reserve's inflation fighting actions in 2022, this past year was no picnic for bondholders of any stripe, but long maturities were hit particularly hard. We have never owned any of those. Instead, we are able to turn over our short-duration bonds for richer ones as they mature, and the new money invested in bonds will now receive a more suitable reward. The Bloomberg index for bonds with maturities of ten years or more was down 27%. Our bond return was a negative 4.3%.

This was a comfortably boring year for our real estate holdings. We didn't buy any buildings, and we didn't sell any. Most probably, we will never be sellers. All is quiet on that front, although I assume commercial real estate values are currently in decline. We have no bank mortgages to pay, and we occupy most of the space in the buildings we own – with some stable intermediate-term tenants on the floors we may someday need for expansion. Although we commission periodic outside appraisals of our properties, market price fluctuations are of only little practical consequence to us. Our private equity investments in Lindsay Goldberg Funds IV and V, meanwhile, yielded banner returns. I have some skepticism these days about those private equity firms who depend too much on auction purchases, excessive leverage, and quick turnovers of their investments, but Lindsay Goldberg is of a better breed.

The contextual story for 2022 is one of unsettling politics both internationally and at home. The world situation is plainly less comforting than it was just a few years ago. Russia's invasion of Ukraine threatens not just a morass for the nations directly at arms and for the neighbors who will suffer shortages, but it has most likely cemented the start of a new Cold War era and launched what may be a long, hot proxy war between Russia and the United States. And this is surely the rosier scenario compared with what can happen should nuclear weapons be employed. The inevitability of Russia's aggression is hard to assess; I suspect this all might have been avoided had leaders judged the long-term consequences of their actions more astutely over the last few decades. Meanwhile, the once promising and largely harmonious relations between the two greatest world players, the United States and China, have fallen off a cliff with an alacrity few had foreseen. There is unfortunately little prospect for recovery of constructive coexistence any time soon, especially while the future of Taiwan hangs fraught in the balance. This is a shamefully lost opportunity. And here at home, it is hard not to describe the domestic political situation as becoming other than a house divided against itself. The evil genies of discord and falsehood, monsters that can trample the fragile flower of our constitutional democracy, have been summoned from their bottle. I wish none of the above was true, but, on the other hand, none of it is yet irreparable should wisdom and decency prevail. My generation wished deeply to leave the world better than we found it. It seems probable that we will leave it in worse shape. For Plymouth Rock at the firm level, at least, there is some narrow comfort. The positioning of our Company isolates us from much of what happens in the broader world. Other than through our common stock holdings and impacts of general cost inflation, we are largely unaffected in a commercial sense by most anything that happens beyond our six states. We face no currency risks or harm from overseas political turmoil. We import nothing from abroad and sell nothing abroad. Our rates are regulated by the states rather than the federal government. Yes, we should worry greatly about the international picture, but a good deal less for Plymouth Rock's sake.

One silver lining of a rough year is that it can engender greater clarity of thought than normal times. Hoping this to be the case, let me offer a summary view of our company at this juncture. Overall, I urge you to see the current set of challenges as temporary rather than structural. We are strong in talent, product, technology, and service quality, and I am feeling good about the future. Customers and agents are happy with us, and for all the right reasons. We are growing as some of our major competitors in the agency space shrink. Inflation will still be a nemesis in 2023 if commensurate rate approvals fail to materialize, but eventually prices will catch up with trend. Our Home Group has to dig out of its pricing hole as well as to keep up with inflation, but its team is the most impressive it has ever been. Home's most serious cause for concern may be its expanding appetite for reinsurance in a tightening catastrophe coverage market. And while the Direct Group faces even harder tasks in balancing underwriting discipline with its growth ambitions, the potential reward justifies the effort. One competitor likes to describe the successful direct-to-consumer players as protected by a treacherous moat. While the metaphor is apt, the swim still seems irresistible.

I cannot predict the stock and bond markets, of course, but I can assert without qualms that the American economy is basically in quite good health and, therefore, that equity prices will in time recover. It may be useful to add that, since 1945, there have only been two time periods in which an S&P index decline of more than 10% was repeated in immediately subsequent years. While the bond market inflicted pain this year, higher interest rates will be our ally in the years to come. In Virgil's epic poem, Aeneas gathers his battered immigrant band at a particularly disheartening moment and reassures them with these words: "Forsan et haec olim meminisse juvabit." Adapting his message to our own situation with a bit of license, I might say: "Someday perhaps we will look back at this period with pleasure as we recall how we overcame its numerous assaults."

James M. Stone

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Report of Independent Auditors

To the Board of Directors of The Plymouth Rock Company

Opinion

We have audited the accompanying consolidated financial statements of The Plymouth Rock Company and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Chairman's Letter, but does not include the consolidated financial statements and our auditors' reports thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

PricewaterhouseCoopers LLP

New York, New York
March 14, 2023

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2022 and 2021
(dollars in thousands)

Assets	2022	2021
The Plymouth Rock Company and Subsidiaries		
Cash and cash equivalents	$ 22,585	$ 24,396
Investment securities	1,262,873	1,465,777
Accrued investment income	3,708	2,909
Premiums receivable	197,091	179,477
Ceded unearned premium reserves	29,506	31,793
Deferred acquisition costs	58,885	53,663
Amounts receivable from reinsurers and pools	96,563	88,900
Amounts due from service clients	4,282	1,415
Prepaid expenses, agent loans, and deposits	15,632	12,993
Real estate	172,527	172,980
Fixed assets	53,539	58,047
Income tax recoverable	3,219	-0-
Goodwill and intangible assets	4,212	4,327
Deferred rental revenue	1,865	1,941
Other assets	2,639	1,151
Subtotal	1,929,126	2,099,769
Palisades Reciprocal Group		
Cash and cash equivalents	11,289	10,590
Investment securities	1,512,321	1,733,535
Accrued investment income	7,164	6,161
Premiums receivable	170,201	165,228
Ceded unearned premium reserves	5,217	5,225
Deferred acquisition costs	38,410	37,089
Amounts receivable from reinsurers and pools	26,945	29,904
Fixed assets	78	315
Income tax recoverable	22,411	10,611
Goodwill and intangible assets	10,983	11,739
Other assets	5,138	1,916
Subtotal	1,810,157	2,012,313
Total assets	$3,739,283	$4,112,082

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2022 and 2021
(dollars in thousands)

Liabilities	2022	2021
The Plymouth Rock Company and Subsidiaries		
Claim and claim adjustment expense reserves	$ 469,335	$ 435,568
Unearned premium reserves	400,616	372,512
Advance premiums	10,979	11,214
Commissions payable and accrued liabilities	143,171	139,867
Amounts payable to reinsurers	14,003	16,065
Unearned service fees	5,131	1,859
Intangible liabilities	-0-	62
Income tax payable	-0-	15,495
Deferred income taxes	32,032	85,005
Real estate liabilities	9,348	10,925
Other liabilities	2,522	6,887
Subtotal	1,087,137	1,095,459
Palisades Reciprocal Group		
Claim and claim adjustment expense reserves	782,814	748,564
Unearned premium reserves	393,515	381,886
Advance premiums	10,301	11,074
Commissions payable and accrued liabilities	61,650	59,307
Amounts payable to reinsurers	1,786	114
Intangible liabilities	-0-	395
Deferred income taxes	37,811	76,065
Other liabilities	5,028	5,195
Subtotal	1,292,905	1,282,600
Total liabilities	2,380,042	2,378,059
Equity		
The Plymouth Rock Company and Subsidiaries		
Common stock and paid-in capital	12	3,817
Retained earnings	781,268	924,576
Net unrealized gain/(loss) on investments	(13,793)	(2,593)
The Plymouth Rock Company stockholders' equity	767,487	925,800
Palisades Reciprocal Group		
Retained earnings	622,010	814,503
Net unrealized gain/(loss) on investments	(30,256)	(6,280)
Palisades Reciprocal Group equity	591,754	808,223
Total liabilities and equity	$3,739,283	$4,112,082

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, 2022 and 2021
(dollars in thousands)

	2022		
Revenues	PRC and Subsidiaries	Palisades Reciprocal Group	Fully Consolidated
Premiums earned in underwriting activities	$ 667,555	$ 898,231	$1,565,786
Fees earned from service activities	237,622	2,207	239,829
Investment income and capital gains	53,466	13,193	66,659
Subtotal	958,643	913,631	1,872,274
Less: Intra-group transactions			227,471
Total revenues before unrealized gains on equity securities			1,644,803
Expenses			
Claims and claim adjustment expenses	492,368	725,938	1,218,306
Policy acquisition, underwriting, and general expenses	195,242	281,152	476,394
Service activity expenses	190,364	1,999	192,363
Subtotal	877,974	1,009,089	1,887,063
Less: Intra-group transactions			227,471
Total expenses			1,659,592
Income before taxes and unrealized gains on equity securities	80,669	(95,458)	(14,789)
Income taxes	18,126	(21,209)	(3,083)
Net income before unrealized gains on equity securities	62,543	(74,249)	(11,706)
Change in unrealized gains on equity securities, net of tax	(161,920)	(118,244)	(280,164)
Net income	(99,377)	(192,493)	(291,870)
Other comprehensive income, net of tax:			
Unrealized gain/(loss) on investments during year	(11,200)	(23,976)	(35,176)
Comprehensive income	$ (110,577)	$ (216,469)	$ (327,046)

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, 2022 and 2021
(dollars in thousands, except per share data)

	2021		
Revenues	PRC and Subsidiaries	Palisades Reciprocal Group	Fully Consolidated
Premiums earned in underwriting activities	$ 640,673	$ 907,898	$1,548,571
Fees earned from service activities	232,503	1,422	233,925
Investment income and capital gains	161,910	88,778	250,688
Subtotal	1,035,086	998,098	2,033,184
Less: Intra-group transactions			223,529
Total revenues before unrealized gains on equity securities			1,809,655
Expenses			
Claims and claim adjustment expenses	449,161	719,310	1,168,471
Policy acquisition, underwriting, and general expenses	200,744	280,562	481,306
Service activity expenses	192,908	1,807	194,715
Subtotal	842,813	1,001,679	1,844,492
Less: Intra-group transactions			223,529
Total expenses			1,620,963
Income before taxes and unrealized gains on equity securities	192,273	(3,581)	188,692
Income taxes	46,373	(2,011)	44,362
Net income before unrealized gains on equity securities	145,900	(1,570)	144,330
Change in unrealized gains on equity securities, net of tax	98,944	102,550	201,494
Net income	244,844	100,980	345,824
Other comprehensive income, net of tax:			
Unrealized gain/(loss) on investments during year	(7,969)	(15,758)	(23,727)
Comprehensive income	$ 236,875	$ 85,222	$ 322,097

The Plymouth Rock Company and Subsidiaries - Per share data	2022	2021
Weighted average common shares outstanding	124,137	124,009
Net income before unrealized gains on equity securities per share	$ 503.82	$1,176.53
Net income per share	$ (800.54)	$1,974.41
Common shares outstanding at end of year	124,041	124,009
Common stockholders' equity per share	$6,187.38	$7,465.60

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021
(dollars in thousands)

Cash flows from operating activities	2022	2021
The Plymouth Rock Company and Subsidiaries		
Gross premiums collected	$ 765,734	$ 738,468
Reinsurance premiums paid	(86,736)	(86,393)
Finance charges collected	6,327	7,942
Fees and commissions collected	235,786	233,921
Investment income and capital gains received	49,343	157,559
Gross claims and claim expenses paid	(504,012)	(446,196)
Reinsured claims and claim expenses collected	38,137	26,868
Policy acquisition, underwriting, and general expenses paid	(205,501)	(204,356)
Income taxes paid	(40,226)	(39,795)
Service activity expenses paid	(163,191)	(152,906)
Net cash provided by operating activities	95,661	235,112
Palisades Reciprocal Group		
Gross premiums collected	953,095	957,465
Reinsurance premiums paid	(47,261)	(42,253)
Finance charges collected	2,008	-0-
Fees and commissions collected	2,139	1,413
Investment income and capital gains received	20,454	99,597
Gross claims and claim expenses paid	(703,443)	(704,556)
Reinsured claims and claim expenses collected	13,203	30,494
Policy acquisition, underwriting, and general expenses paid	(289,148)	(272,688)
Income taxes recovered and paid	8,959	(16,454)
Service activity expenses paid	(1,999)	(1,807)
Net cash provided by operating activities	(41,993)	51,211
Total net cash provided by operating activities	$ 53,668	$ 286,323

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, 2022 and 2021
(dollars in thousands)

Cash flows from financing activities	2022	2021
The Plymouth Rock Company and Subsidiaries		
Intergroup secured loans	$ (1,529)	$ (1,671)
Repurchase of common stock	(3,004)	-0-
Tax impacts of stock based compensation	(2,645)	-0-
Dividends to stockholders	(40,770)	(73,298)
Net cash used in financing activities	(47,948)	(74,969)
Palisades Reciprocal Group		
Intergroup secured loans	1,529	1,671
Net cash used in financing activities	1,529	1,671
Net cash provided by:		
The Plymouth Rock Company and Subsidiaries	$ 47,713	$ 160,143
Palisades Reciprocal Group	$ (40,464)	$ 52,882
Total	$ 7,249	$ 213,025
Investment of net cash provided		
The Plymouth Rock Company and Subsidiaries		
Change in cash and cash equivalents	$ (1,812)	$ 15,747
Net investment activity	19,752	113,907
Sale of business segments, net of sold cash and cash equivalents	-0-	(1,424)
Net real estate activity	6,223	6,128
Purchase of fixed assets	23,550	25,785
Net cash provided by investing activities	$ 47,713	$ 160,143
Palisades Reciprocal Group		
Change in cash and cash equivalents	$ 699	$ 9,099
Net investment activity	(41,189)	43,420
Purchase of intangible assets	26	363
Net cash provided by investing activities	$ (40,464)	$ 52,882
Total net cash invested	$ 7,249	$ 213,025

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, 2022 and 2021
(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, 2020	$ 2,522	$ 753,030	$ 5,376	$ 760,928
Comprehensive income	-0-	244,844	(7,969)	236,875
Stock-based compensation	1,295	-0-	-0-	1,295
Dividends to stockholders	-0-	(73,298)	-0-	(73,298)
December 31, 2021	$ 3,817	$ 924,576	$ (2,593)	$ 925,800
Comprehensive income	-0-	(99,377)	(11,200)	(110,577)
Stock-based compensation	(3,805)	(157)	-0-	(3,962)
Dividends to stockholders	-0-	(40,770)	-0-	(40,770)
Repurchase of common stock	-0-	(3,004)	-0-	(3,004)
December 31, 2022	$ 12	$ 781,268	$ (13,793)	$ 767,487

Palisades Reciprocal Group	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain/(Loss) on Investments	Total Equity
December 31, 2020	$ -0-	$ 713,523	$ 9,478	$ 723,001
Comprehensive income	-0-	100,980	(15,758)	85,222
December 31, 2021	$ -0-	$ 814,503	$ (6,280)	$ 808,223
Comprehensive income	-0-	(192,493)	(23,976)	(216,469)
December 31, 2022	$ -0-	$ 622,010	$ (30,256)	$ 591,754

Fully Consolidated Equity	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain/(Loss) on Investments	Total Equity
December 31, 2020	$ 2,522	$1,466,553	$ 14,854	$1,483,929
December 31, 2021	3,817	1,739,079	(8,873)	1,734,023
December 31, 2022	12	1,403,278	(44,049)	1,359,241

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, operates in Massachusetts, New York, New Hampshire, Connecticut and Pennsylvania, 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 in New Jersey, New York, Pennsylvania and Connecticut. 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 the Palisades Reciprocal Group in exchange for negotiated fees.

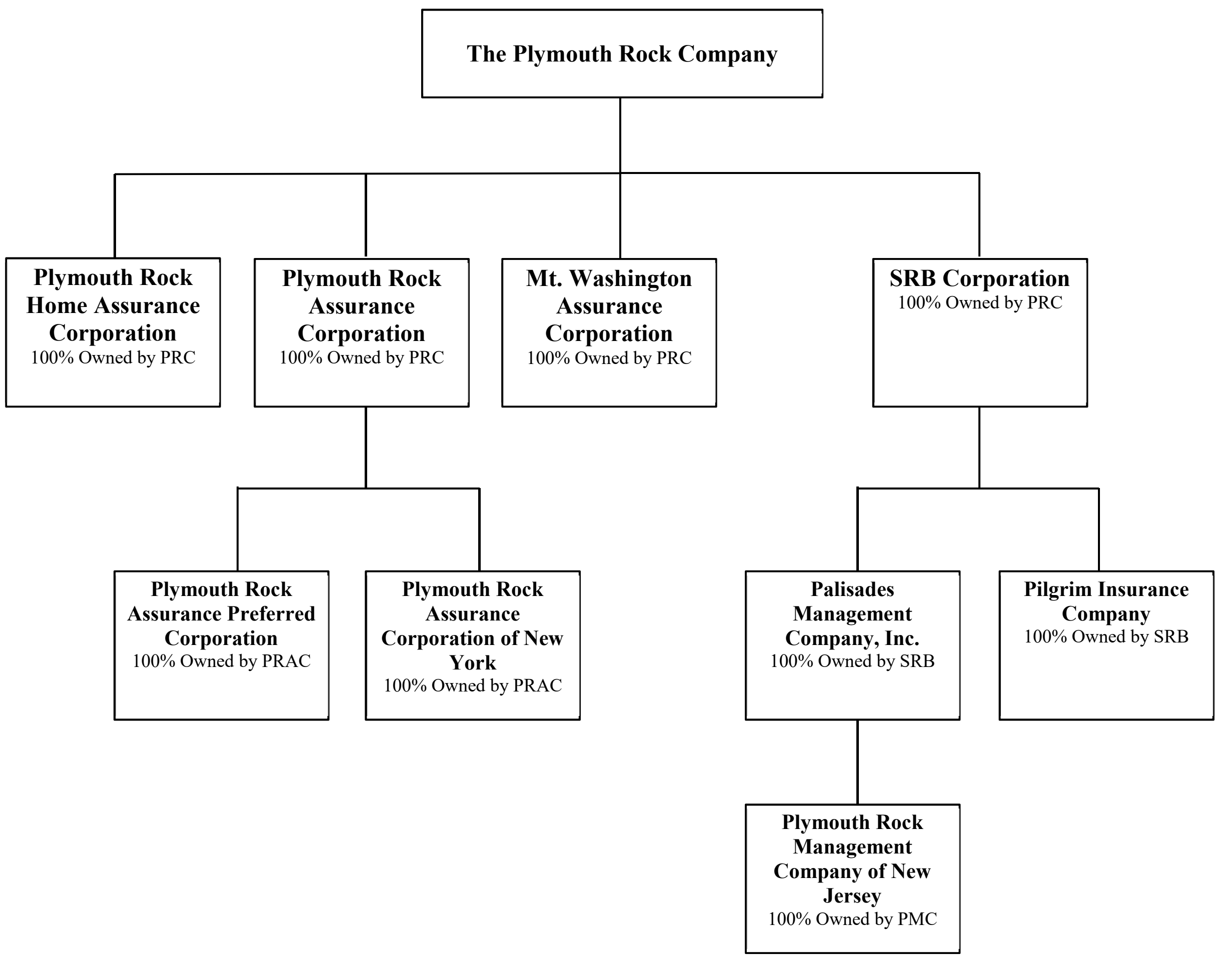
1. Nature of Operations, continued

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 of $18.6 million at both December 31, 2022 and 2021. This accounts for 3.1 percent and 2.3 percent, of the equity of the Palisades Reciprocal Group at December 31, 2022 and 2021, respectively. As these surplus notes and preferred stock features are not typical of an ordinary service arrangement, it is appropriate for The Plymouth Rock Company and Subsidiaries to consolidate the results of the members of the Palisades Reciprocal Group. 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:



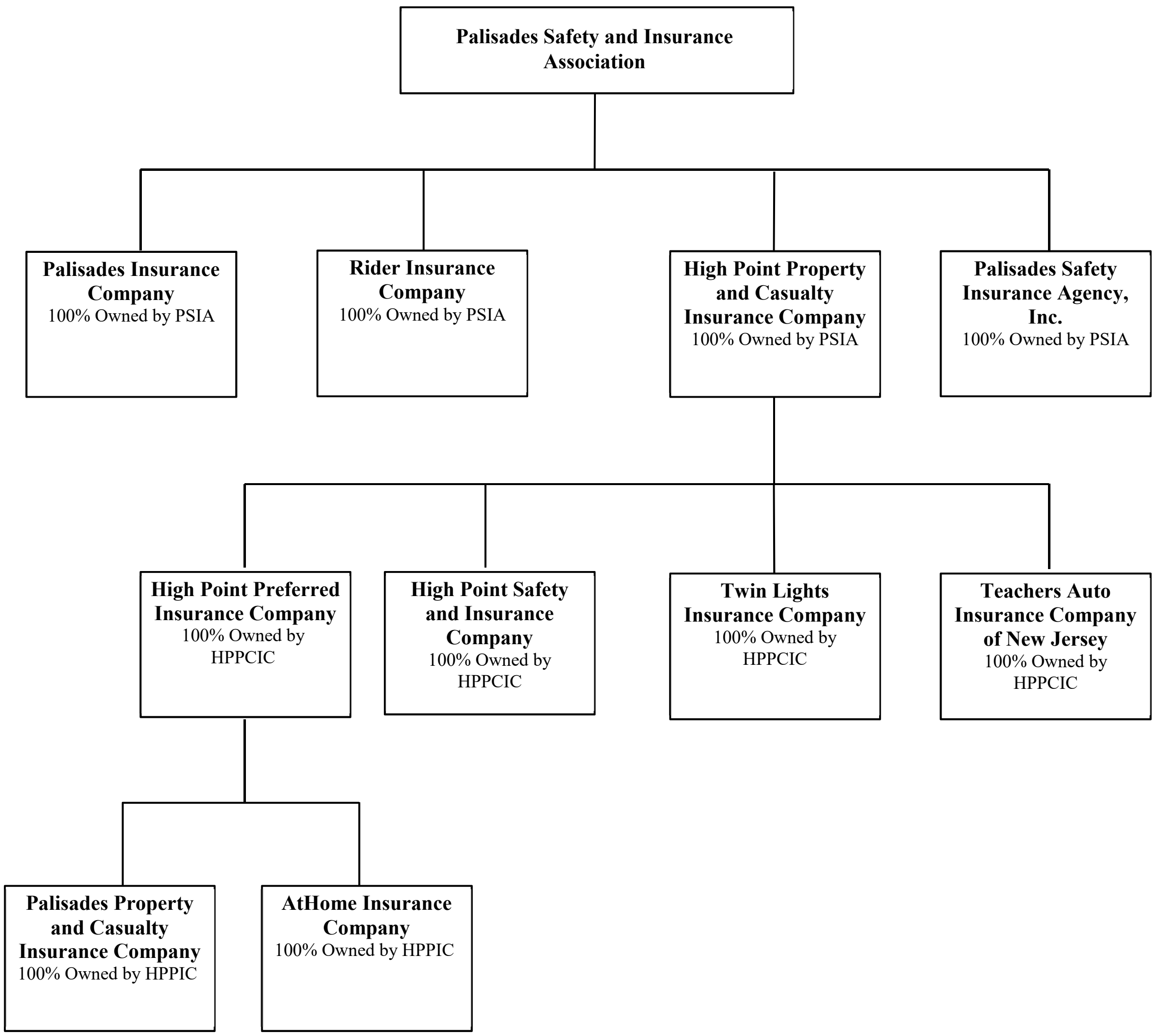
2. Organization of The Plymouth Rock Company and Subsidiaries, continued

On February 1, 2021, SRB Corporation sold to Travelers Marketplace Holdings, LLC ("Travelers") all of the issued and outstanding equity interests of InsuraMatch, LLC. Travelers paid $40.2 million in cash to acquire the equity interests of InsuraMatch, LLC plus certain agreed upon closing costs. As part of this transaction InsuraMatch, LLC's investments in subsidiaries Encharter Insurance, LLC (Massachusetts) and Encharter Insurance, LLC (Connecticut) were distributed to SRB Corporation.

Other subsidiaries include 711 Atlantic Avenue Company, LLC and 695 Atlantic Avenue Company, L.L.C., 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 Insurance Company, which are wholly owned subsidiaries of Plymouth Rock Home Assurance Corporation; and Shared Technology Services Group Inc. which is a wholly owned subsidiary of SRB Corporation; and High Point Brokerage Company, Inc., National Atlantic Insurance Agency, Inc., and 581 Main Street LLC, which are wholly owned subsidiaries of Palisades Management Company, Inc.

3. Organization of the Palisades Reciprocal Group

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



Other subsidiaries include Rider Insurance Agency, Inc. and Palisades Safety Insurance, Inc., which are wholly owned subsidiaries of Palisades Safety and Insurance Association and Niagara Atlantic Holding Corporation, which is a wholly owned subsidiary of Palisades Property and Casualty Insurance Company.

4. Summary of Significant Accounting Policies

A. Principles of Consolidation

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

B. Stock-Based Compensation

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

C. Use of Estimates

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

4. Summary of Significant Accounting Policies, continued

D. Cash and Investments

Cash and cash equivalents include money market funds and short-term money market instruments with maturity dates no longer than 90 days from the date of acquisition. For both The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group, these securities are included in "Investment securities" in the Consolidated Balance Sheets. The Plymouth Rock Company and Subsidiaries had a balance of outstanding checks within accrued liabilities of \$23.0 million and \$20.9 million at December 31, 2022 and 2021, respectively. Liabilities for outstanding checks for the Palisades Reciprocal Group were \$33.5 million and \$34.6 million at December 31, 2022 and 2021, 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. 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. Changes in the fair value of marketable fixed income securities are credited or charged directly to equity.

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 \$473,000 and \$69,000 as of December 31, 2022 and 2021, 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, and 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.

4. Summary of Significant Accounting Policies, continued

D. Cash and Investments, continued

Alternative equity investments are valued using the equity method 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 2022 and 2021 for The Plymouth Rock Company and Subsidiaries was $106.9 million and $102.9 million, respectively, while the net amortization for the Palisades Reciprocal Group for 2022 and 2021 was $98.2 million and $102.1 million, respectively.

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. The reserves for doubtful collections for The Plymouth Rock Company and Subsidiaries were $1.7 million and $2.0 million at December 31, 2022 and 2021, respectively. The reserves for doubtful collections of the Palisades Reciprocal Group at December 31, 2022 and 2021 were $7.2 million and $10.3 million, respectively.

4. Summary of Significant Accounting Policies, continued

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 2022 and 2021, fees earned of $227.5 million and $223.5 million, respectively, 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 for impairment whenever an event occurs indicating that impairment is likely.

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. 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 2022 or 2021.

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 evaluated for impairment annually using either independent appraisals or analysis of expected future cash flows.

4. Summary of Significant Accounting Policies, continued

J. Long-Term Leases

The Plymouth Rock Company adopted Accounting Standards Codification (ASC) Topic 842 effective January 1, 2022. This standard requires all lessees with lease terms of more than 12 months to recognize a right-of-use asset and a corresponding lease liability in their balance sheets based on the present value of future lease obligations. Upon adoption, the Company elected to apply a practical expedient under which the Company was not required to reassess any of its existing contracts, classification of the leases or the initial direct costs for existing leases. In addition, the Company elected to apply a practical expedient to not separate non-lease components from the associated lease components. Finally, the Company elected to apply an appropriate risk-free discount rate to the present value calculations when the interest rate implicit in the lease is not readily available.

The balance sheet includes a right-of-use asset in fixed assets as well as a lease liability in a new line called real estate liabilities. For purposes of comparative consistency, the Company has re-stated the December 31, 2021 balance sheet to reflect the impact of the adopted guidance. The balance sheet for The Plymouth Rock Company and Subsidiaries now includes a right-of-use asset of $10.4 million in fixed assets and a lease liability of $10.9 million in real estate liabilities, and includes a reduction in commission payable and accrued liabilities of $228,000 and a reduction to other liabilities of $284,000 as of December 31, 2021. The right-of-use asset and lease liability were $8.6 million and $9.2 million, respectively, as of December 31, 2022. The adoption of this standard will have no impact on comprehensive income or cash flows.

The right-of-use asset and lease liability were the following at December 31, 2022 and 2021:

(dollars in thousands)	2022	2021
Right-of-use asset	$ 8,618	$10,355
Lease liability	$ 9,232	$10,867
Weighted average remaining lease term (years)	4.4	3.8
Weighted average discount rate	1.9%	1.1%

4. Summary of Significant Accounting Policies, continued

J. Long-Term Leases, continued

The following table shows the Company's lease liabilities, on an undiscounted basis for the periods indicated:

(dollars in thousands)	Commitments
2023	$ 2,859
2024	2,363
2025	1,610
2026	1,028
2027	711
Thereafter	1,206
Total	9,777
Interest	(545)
Lease liability	$ 9,232

The Plymouth Rock Company and Subsidiaries incurred real estate rental expenses during 2022 and 2021 totaling $3.5 million and $4.1 million, respectively.

5. Segment Reporting

Business is primarily managed in three operating groups: Independent Agency Group, Direct Group, and Home Insurance Group. As discussed in Note 1, the use of these group names is solely for internal convenience and has no legal significance. Premiums and key metrics by group for 2022 and 2021 were as follows:

(dollars in thousands)

Gross premiums written and managed:	2022	2021
Independent Agency Group	$ 891,438	$ 834,472
Direct Group	504,289	526,130
Home Insurance Group	332,286	308,247
Total	$1,728,013	$1,668,849
Premiums earned in underwriting activities:		
Independent Agency Group	$ 805,816	$ 785,599
Direct Group	495,465	525,022
Home Insurance Group	264,505	237,950
Total	$1,565,786	$1,548,571
Statistical metrics:		
Independent Agency Group:		
Policies in force	432,753	408,427
Net loss ratio	62.8%	59.8%
Net combined ratio	99.9%	98.4%
Direct Group:		
Policies in force	251,357	264,763
Net loss ratio	71.9%	66.9%
Net combined ratio	111.0%	105.7%
Home Insurance Group:		
Policies in force	289,225	282,230
Net loss ratio	61.4%	66.6%
Net combined ratio	112.1%	117.7%

6. Income Taxes

Income taxes on the statements of comprehensive income for 2022 and 2021 consist of:

(dollars in thousands)	2022	2021
The Plymouth Rock Company and Subsidiaries	$ (28,510)	$ 75,083
Palisades Reciprocal Group	(52,641)	25,249
Total	$ (81,151)	$100,332

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, it is more likely than not that there will be sufficient future taxable income at both The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group to realize all deferred tax assets, with the exception of federal net operating loss carryforwards acquired with Rider Insurance Company and certain state net operating loss carryforwards belonging to The Plymouth Rock Company.

Rider Insurance Company, which is included in the Palisades Reciprocal Group, has federal net operating loss carryforwards that begin to expire at the end of 2031 and are limited under Internal Revenue Code Section 382. Palisades Reciprocal Group is expected to only be able to apply net operating loss carryforwards to $58,000 of income before taxes on an annual basis. Therefore, the Company has established a valuation allowance of $4.7 million at both December 31, 2022 and 2021, in light of this limitation. There were no other federal net operating loss carryforwards available as of December 31, 2022 or 2021.

The Plymouth Rock Company had state net operating loss carryforwards at each of December 31, 2022 and 2021. A portion of these were used in each of 2022 and 2021; however, it is unlikely that these carryforwards, which begin to expire at the end of 2028, will be fully utilized. Therefore, the Company has established a valuation allowance of $389,000 and $249,000 as of December 31, 2022 and 2021, respectively.

There are no tax positions of questionable merit that require a reserve for potential disallowance. As of December 31, 2022, neither The Plymouth Rock Company and Subsidiaries nor the Palisades Reciprocal Group was subject to federal examinations for tax years prior to 2019. Neither The Plymouth Rock Company and Subsidiaries nor the Palisades Reciprocal Group have examinations by state taxing authorities presently in progress.

6. Income Taxes, continued

The Plymouth Rock Company and Subsidiaries

Income taxes on the statements of comprehensive income for 2022 and 2021 consist of:

(dollars in thousands)	2022	2021
Current year federal income taxes	$ 17,571	$ 39,738
Current year state income taxes	3,655	6,590
Current year foreign income taxes	289	-0-
Change in deferred federal taxes	(4,099)	(2,242)
Change in deferred state taxes	710	2,287
Sub-total	18,126	46,373
Change in deferred federal taxes on equity securities	(43,343)	26,806
Change in deferred state taxes on equity securities	(3,293)	1,904
Total Tax Expense//(Benefit)	$(28,510)	$ 75,083

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 2022 and 2021 is as follows:

(dollars in thousands)	2022	2021
Federal income taxes at statutory rate	$ (26,856)	$ 67,184
State income taxes, net of federal tax benefit	304	9,396
Dividend received deduction	(1,322)	(1,240)
Other	(636)	(257)
Total provision for income taxes	$ (28,510)	$ 75,083

Deferred income taxes on the balance sheets as of December 31, 2022 and 2021 consist of the net effects of these temporary differences:

6. Income Taxes, continued

(dollars in thousands)	2022	2021
Net unrealized gain on investments	$(31,180)	$(80,764)
Depreciation	(16,524)	(25,310)
Unearned premiums	16,066	14,799
Compensation expense	14,814	14,798
Deferred acquisition expense	(12,451)	(11,374)
Discounting of claim reserves	3,743	3,722
Investment and partnership timing differences	(3,678)	(1,966)
Loss reserve transition adjustment	(585)	(756)
Net operating losses	389	249
Valuation allowance	(389)	(249)
Other	(2,237)	1,846
Total	$(32,032)	$(85,005)

Palisades Reciprocal Group

Income taxes on the statements of comprehensive income for 2022 and 2021 consist of:

(dollars in thousands)	2022	2021
Current year federal income taxes	$(20,997)	$ (700)
Current year state income taxes	20	5
Current year foreign income taxes	216	-0-
Change in deferred federal taxes	(448)	(1,316)
Sub-total	(21,209)	(2,011)
Change in deferred federal taxes on equity securities	(31,432)	27,260
Total	$(52,641)	$ 25,249

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 2022 and 2021 is as follows:

(dollars in thousands)	2022	2021
Federal income taxes at statutory rate	$(51,478)	$ 26,508
State income taxes, net of federal tax benefit	15	4
Dividend received deduction	(1,310)	(1,211)
Interest from state and municipal bonds	-0-	(9)
Other	132	(43)
Total provision for income taxes	$ (52,641)	$ 25,249

6. Income Taxes, continued

Deferred income taxes on the balance sheets as of December 31, 2022 and 2021 consist of the net effects of these temporary differences:

(dollars in thousands)	2022	2021
Net unrealized gain on investments	$(46,326)	$(84,132)
Deferred acquisition expense	(18,362)	(17,807)
Unearned premiums	16,741	16,285
Discounting of claim reserves	7,092	7,098
Net operating losses	4,910	4,910
Valuation allowance	(4,734)	(4,725)
Guaranty fund accrual	1,628	1,782
Investment and partnership timing differences	1,557	340
Reserves for doubtful collections	1,517	2,153
Loss reserve transition adjustment	(1,056)	(1,407)
Intangibles	(26)	75
Other	(752)	(637)
Total	$(37,811)	$(76,065)

7. Claims 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 balance sheet 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 maturity of the data available and the claims settlement practices for each 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.

7. Claims and Claim Adjustment Expense Reserves, continued

The Plymouth Rock Company and Subsidiaries

The following tables provide data regarding incurred and paid claims and claim adjustment expense development as of December 31, 2022, 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. Five years of data are presented, as any claims 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.

Automobile Insurance

(dollars in thousands)

Accident	Claims and Allocated Claim Adjustment Expenses Incurred, Net of Reinsurance, as of December 31,				
Year	2018	2019	2020	2021	2022
2018	$ 278,839	$ 279,424	$ 273,229	$ 267,187	$ 264,188
2019		306,579	296,322	288,858	278,135
2020			277,766	262,261	252,378
2021				351,291	345,486
2022					386,172
Total					$1,526,359

7. Claims and Claim Adjustment Expense Reserves, continued

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31, 2018	2019	2020	2021	2022
2018	$ 164,483	$ 213,857	$ 231,727	$ 243,164	$ 251,374
2019		176,745	227,214	243,418	254,532
2020			154,372	194,445	211,046
2021				212,122	268,555
2022					236,553
Total					$1,222,060

Net unpaid for accident years 2018 through 2022	$ 304,299
Net unpaid for accident years prior to 2018	14,494
Net unpaid claims and allocated claim adjustment expenses	$ 318,793

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims
2018	$ 5,609	131,908
2019	10,509	128,149
2020	21,778	96,625
2021	34,876	115,888
2022	48,335	105,049

Average Annual Payout	
Year 1	62.2%
Year 2	10.3%
Year 3	9.8%
Year 4	2.0%
Year 5	3.1%
After	12.6%

Home Insurance

(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Incurred, Net of Reinsurance, as of December 31, 2018	2019	2020	2021	2022
2018	$ 22,592	$ 26,204	$ 25,681	$ 26,483	$ 26,606
2019		36,861	35,679	34,983	34,290
2020			50,388	53,905	52,597
2021				68,574	69,465
2022					75,745
Total					$ 258,703

7. Claims and Claim Adjustment Expense Reserves, continued

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, Net of Reinsurance, as of December 31,				
	2018	2019	2020	2021	2022
2018	$ 15,402	$ 21,450	$ 23,029	$ 23,910	$ 24,619
2019		25,984	31,376	32,307	32,055
2020			36,889	49,245	50,350
2021				47,363	62,724
2022					42,813
Total					$212,561

Net unpaid for accident years 2018 through 2022	$ 46,142
Net unpaid for accident years prior to 2018	1,655
Net unpaid claims and allocated claim adjustment expenses	$ 47,797

Accident Year	Total Incurred But-Not-Reported Reserves	Cumulative Number of Reported Claims
2018	$ 161	4,117
2019	248	3,512
2020	239	5,208
2021	1,946	6,135
2022	14,333	4,550

Average Annual Payout	
Year 1	66.1%
Year 2	17.6%
Year 3	4.2%
Year 4	2.6%
Year 5	2.8%
After	6.7%

7. Claims 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)	2022	2021
Claims and allocated claim adjustment expense reserves at beginning of year	$337,710	$304,568
Claims and allocated claim adjustment expenses incurred:		
Current year	461,917	419,865
Prior years	(34,877)	(31,569)
	427,040	388,296
Claims and allocated claim adjustment expenses paid:		
Current year	279,366	259,485
Prior years	118,794	95,669
	398,160	355,154
Claims and allocated claim adjustment expense reserves at end of year	366,590	337,710
Reinsurance recoverable on unpaid claims at end of year	77,516	73,971
Unallocated claim adjustment expense reserves at end of year	26,707	24,651
Intra-group transactions	(1,478)	(764)
Total claims and claim adjustment expense reserves at end of year	$469,335	$435,568

During the year ended December 31, 2022, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $34.9 million. This change resulted from favorable development of $33.1 million on automobile business and $1.8 million on home business. During the year ended December 31, 2021, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $31.6 million. This change resulted from favorable development of $34.1 million on automobile business and unfavorable development of $2.5 million on home business. Massachusetts private passenger automobile business was the largest contributor to the favorable development in both years. The 2021 unfavorable development from home business is due to the development of large losses.

7. Claims and Claim Adjustment Expense Reserves, continued

The amounts shown in the preceding table include $65.0 million and $64.1 million of estimated claims and claim adjustment expense reserves related to Pilgrim Insurance Company's service business as of December 31, 2022 and December 31, 2021, 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, 2022, 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. Five years of data are presented, as any claims 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.

Automobile Insurance
(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Incurred, net of reinsurance, as of December 31,				
	2018	2019	2020	2021	2022
2018	$ 434,753	$ 433,060	$ 433,183	$ 431,921	$ 426,260
2019		453,980	450,225	447,277	439,939
2020			443,078	434,211	427,302
2021				521,930	526,658
2022					533,848
Total					$2,354,007

7. Claims and Claim Adjustment Expense Reserves, continued

(dollars in thousands)

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, net of reinsurance, as of December 31,				
	2018	2019	2020	2021	2022
2018	$ 195,282	$ 282,466	$ 341,596	$ 385,541	$ 407,269
2019		206,831	296,496	350,579	390,992
2020			189,977	282,631	335,424
2021				252,821	365,446
2022					247,768
Total					$1,746,899

Net unpaid for accident years 2018 to 2022	$ 607,108
Net unpaid for accident years prior to 2018	19,553
Net unpaid claims and allocated claim adjustment expenses	$ 626,661

Accident Year	Total Incurred but-not-reported reserves	Cumulative number of reported claims	Average Annual Payout	
2018	$ 4,919	154,375	Year 1	46.3%
2019	10,396	155,164	Year 2	21.0%
2020	32,737	126,272	Year 3	12.8%
2021	64,270	145,938	Year 4	9.8%
2022	158,181	133,143	Year 5	5.1%
			After	5.0%

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

7. Claims 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,				
	2018	2019	2020	2021	2022
2018	$ 51,320	$ 51,360	$ 50,113	$ 49,707	$ 49,428
2019		58,798	56,721	57,656	58,254
2020			87,577	89,539	89,999
2021				125,936	123,554
2022					126,261
Total					$447,496

Accident Year	Claims and Allocated Claim Adjustment Expenses Paid, net of reinsurance, as of December 31,				
	2018	2019	2020	2021	2022
2018	$ 36,767	$ 44,961	$ 46,578	$ 46,999	$ 48,192
2019		38,756	49,000	52,657	54,557
2020			59,949	81,221	84,767
2021				82,451	110,323
2022					76,818
Total					$374,657

Net unpaid for accident years 2018 to 2022	$ 72,839
Net unpaid for accident years prior to 2018	7,865
Net unpaid claims and allocated claim adjustment expenses	$ 80,704

Accident Year	Total Incurred but-not-reported reserves	Cumulative number of reported claims
2018	$ 645	7,772
2019	1,155	7,346
2020	2,435	13,336
2021	4,556	16,369
2022	23,284	10,919

Average Annual Payout	
Year 1	67.0%
Year 2	20.1%
Year 3	4.5%
Year 4	2.1%
Year 5	2.4%
After	3.9%

7. Claims and Claim Adjustment Expense Reserves, continued

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

(dollars in thousands)	2022	2021
Claims and allocated claim adjustment expense reserve at beginning of year	$670,131	$625,316
Claims and allocated claim adjustment expenses incurred:		
Current year	660,109	647,866
Prior years	(23,039)	(17,638)
	637,070	630,228
Claims and allocated claim adjustment expenses paid:		
Current year	324,586	335,271
Prior years	275,250	250,142
	599,836	585,413
Claims and claim allocated adjustment expense reserve at end of year	707,365	670,131
Reinsurance recoverable on unpaid claims at end of year	24,244	28,023
Unallocated claim adjustment expense reserve at end of year	51,421	51,049
Unallocated claim adjustment expense reserve at end of year	(216)	(639)
Total claims and claim adjustment expense reserves at end of year	$ 782,814	$ 748,564

During the year ended December 31, 2022, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $23.0 million. This change resulted from favorable development of $21.3 million on automobile business and $1.7 million on home business. During the year ended December 31, 2021, reserves for claims and allocated claim adjustment expenses for prior years developed favorably by $17.6 million. This change resulted from favorable development of $19.4 million automobile business and unfavorable development of $1.8 million on home business. Improvement in the estimated severity of bodily injury and personal injury protection coverage claims were the largest contributors to this auto development in both years. The unfavorable development on home business for 2021 was primarily the result of delayed recognition of a few large fire claims.

8. 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:

	2022		2021	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$783,086	$538,492	$734,638	$472,120
Ceded	(85,140)	(46,124)	(81,963)	(22,959)
Net	$697,946	$492,368	$652,675	$449,161

Ceded premiums earned for 2022 and 2021 were $87.4 million and $83.5 million, respectively.

8. Reinsurance, continued

Concurrent with its acquisition effective April 1, 2018, 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. Claims and claim adjustment expenses of negative \$116,000 were ceded under this agreement during 2021, while ceded claims and claim adjustment expenses of \$90,000 were recorded in 2022 as a result of prior accident year loss development recorded during 2022. 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 by Plymouth Rock Assurance Preferred Corporation on Plymouth Rock systems on behalf of 21st Century North America Insurance Company and 21st Century Advantage Insurance Company on and after April 1, 2018. Premiums of \$205,000 and claims and claim adjustment expenses of negative \$832,000 were assumed under this agreement during 2022, while premiums of \$1.7 million and claims and claim adjustment expenses of \$592,000 were assumed under this agreement during 2021.

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, 2022 and 2021, the underwriting cost incurred for these treaties was \$24.0 million and \$21.0 million, respectively.

The Plymouth Rock Company and Subsidiaries also has in place 100% quota share reinsurance with the National Flood Insurance Program for flood coverage written on a direct basis. Premiums ceded under this program were \$551,000 and \$598,000 in 2022 and 2021, respectively, while ceded claims, claim adjustment expenses and ceding commissions totaled \$32,000 and \$34,000, 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. Plymouth Rock Assurance Corporation and Pilgrim Insurance Company record their estimated shares of this activity based on information provided by CAR.

8. Reinsurance, continued

Pilgrim Insurance Company provides automobile insurance services to unrelated insurance companies. The statement of comprehensive income for The Plymouth Rock Company and Subsidiaries are reported net of $53.0 million and $56.8 million of ceded premiums earned and $37.4 million and $18.5 million of claims and claim adjustment expenses incurred and ceded in 2022 and 2021, 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 for The Plymouth Rock Company and Subsidiaries include $2.9 million of net premiums earned in underwriting activities in both 2022 and 2021 and $2.9 million and $2.3 million of net claims and claim adjustment expenses incurred in 2022 and 2021, respectively, for Pilgrim Insurance Company's third-party business. These retained amounts reflect 5.1% and 4.9% of direct premiums earned and 7.2% and 11.0% of direct claims and claim adjustment expenses incurred of the total activity of the business during 2022 and 2021, respectively.

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:

	2022		2021	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$958,841	$737,307	$945,050	$753,482
Ceded	(48,972)	(11,369)	(40,424)	(34,172)
Net	$909,869	$725,938	$904,626	$719,310

Ceded premiums earned for 2022 and 2021 were $49.0 million and $40.3 million, respectively.

8. Reinsurance, continued

Concurrent with its acquisition effective August 1, 2018, 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 negative $680,000 were ceded under this agreement during 2022, while ceded claims and claim adjustment expenses of negative $262,000 were recorded in 2021. These results were due to prior accident year loss development recorded during both 2022 and 2021. 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, 2022 and 2021, the underwriting cost incurred for these treaties was $32.4 million and $7.5 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 $2.6 million and $3.1 million in 2022 and 2021, respectively, while ceded claims, claim adjustment expenses and ceding commissions totaled $570,000 and $6.6 million, respectively.

9. Secured Loans

SRB Corporation established a $30.0 million line of credit with a bank in February 2021, which was reduced to $15.0 million in December 2022. The Plymouth Rock Company had pledged to the bank, as collateral, securities which had a market value of $23.9 million as of December 31, 2022 and $60.8 million as of December 31, 2021. Interest expense and commitment fees of $49,000 and $45,000 were incurred on this line during 2022 and 2021, respectively.

10. Subsequent Events

Subsequent events have been evaluated from December 31, 2022 through March 14, 2023. No material subsequent events have been identified.

11. Commitments and Contingencies

Other than lease liabilities, 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 are being purchased in annual increments of $1.5 million at an annual cost of $1.4 million over a period of 10 years. This first annual purchase did not close until June 2022, which missed a February 28, 2022 performance deadline that resulted in a purchase price for the 2021 tax year credits being reduced to $1.2 million. As the 2021 premium tax return was filed by the time the purchase closed, the return was amended to apply the credits. The credits are expected to reduce the Palisades Reciprocal Group's premium tax liability by $1.5 million in each of the eight years from 2023 through 2030.

12. Goodwill and Intangible Assets

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

The Company purchased insurance agencies that resulted in goodwill of $3.4 million at both December 31, 2022 and 2021, respectively. These purchases also gave rise to intangible assets in the form of expirations, noncompetition agreements, and brand names. The goodwill and intangible assets resulting from these transactions were not included in the sale of InsuraMatch, LLC effective February 1, 2021.

During 2017, 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. Intangible assets, which are amortized over periods ranging from two to 15 years, were carried at $1.7 million at December 31, 2021. Effective February 1, 2021, the intangible assets associated with the renewal rights agreement entered into 2016 with a carrying value of $1.3 million were included in the sale of InsuraMatch, LLC.

Total amortization associated with intangible assets for InsuraMatch, LLC and its affiliates, Encharter Insurance, LLC (Massachusetts) and Encharter Insurance, LLC (Connecticut), for 2022 and 2021 was $111,000 and $131,000, respectively. Amortization is expected to decline from $77,000 in 2023 to $0 in 2027.

12. Goodwill and Intangible Assets, continued

As part of the purchase of Plymouth Rock Assurance Preferred Corporation, Plymouth Rock Assurance Corporation 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 was amortized over four years, had amortization of $62,000 and $247,000 in 2022 and 2021, respectively, which resulted in a carrying value of $0 at December 31, 2022 and $62,000 at December 31, 2021. This liability was fully amortized as of December 31, 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 intangible assets with indefinite lives, had a carrying value of $263,000 at both December 31, 2022 and 2021.

As part of the purchase of Plymouth Rock Assurance Corporation of New York, Plymouth Rock Assurance Corporation also acquired intangible assets in the form of state licenses valued at $310,000 and an intangible liability for renewal obligations valued at $7.7 million. The state licenses, which are intangible assets with indefinite lives, had a carrying value of $310,000 at both December 31, 2022 and 2021. The renewal obligations liability, which was amortized over three years, became fully amortized in 2021.

<u>Palisades Reciprocal Group</u>

The Palisades Reciprocal Group's purchase of Teachers Auto Insurance Company of New Jersey in 2007 resulted in goodwill of $3.3 million, which was the carrying value at both December 31, 2022 and 2021. This purchase along with the purchase of renewals from National General Insurance Company in 2017 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, 2022 and 2021, 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 and no impairment was recorded in either 2022 or 2021. The remaining intangible assets for the renewal rights are being amortized over 20 years and had a carrying value of $1.7 million and $2.2 million at December 31, 2022 and 2021, respectively. Amortization associated with these intangible assets was $513,000 in 2022 and $572,000 in 2021. Amortization is expected to decline from $460,000 in 2023 to $120,000 in 2027.

12. Goodwill and Intangible Assets, continued

The Palisades Reciprocal Group also acquired intangible assets in the form of state licenses as part of the purchase of AtHome Insurance Company. 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 intangible assets with indefinite lives, had a carrying value of $38,000 at both December 31, 2022 and 2021.

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 of $1.9 million made in December 2020 based on the earned premium recorded during the first policy year. These replacement carrier rights are intangible assets that will be amortized over a period of 15 years. Amortization of $185,000 was recorded during 2022 and 2021, respectively, leaving carrying values of $2.0 million and $2.2 million at December 31, 2022 and 2021, respectively. Amortization is expected to be $185,000 annually from 2023 through 2027.

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 was based on the volume of written premium recorded during the first two policy years, with the final settlement occurring in 2022. These replacement carrier rights are intangible assets that will be amortized over a period of 15 years. The carrying value of these rights was $757,000 and $801,000 at December 31, 2022 and 2021, respectively, with an additional $26,000 of renewal rights being added during 2022. Amortization of $69,000 and $94,000 was recorded during 2022 and 2021, respectively. Amortization is expected to be $64,000 annually from 2023 through 2027.

12. Goodwill and Intangible Assets, continued

As part of the purchase of Rider Insurance Company effective October 17, 2019, Palisades Safety and Insurance Association acquired intangible assets in the form of state licenses valued at $655,000, the brand name valued at $25,000, a rating plan valued at $50,000, the value of the business acquired valued at $2.6 million, and renewal obligations at $1.5 million. The state licenses and brand name, which are intangible assets with indefinite lives, had a carrying value of $680,000 at both December 31, 2022 and 2021. The rating plan was amortized over two years and had amortization of $20,000 in 2021. The rating plan was fully amortized in 2021. The value of business acquired was amortized over 12 months, consistent with the earning of the unearned premium. There was amortization of $1.7 million in 2020 and it was fully amortized by the end of that year. The renewal obligation liability is being amortized over three years and had amortization of $395,000 in 2022 and $499,000 in 2021. This left a carrying value of $0 and $395,000 at December 31, 2022 and 2021, respectively. This liability was fully amortized as of December 31, 2022. This transaction was accounted for as a business combination.

13. Fixed Assets

The table below summarizes fixed assets at December 31, 2022 and 2021.

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	Useful Lives	2022	2021
Computers and software development	3-5 years	$135,459	$133,352
Leasehold improvements	10 years	25,505	25,331
Furniture and fixtures	5-10 years	11,541	10,805
Vehicles	3 years	480	480
Total cost		172,985	169,968
Less: accumulated depreciation		128,064	122,276
Sub-total		44,921	$47,692
Right-of use of long-term leases		8,618	10,355
Net book value		$ 53,539	$ 58,047

Depreciation expenses incurred were $26.3 million and $28.7 million during 2022 and 2021, respectively.

13. Fixed Assets, continued

Palisades Reciprocal Group

(dollars in thousands)	Useful Lives	2022	2021
Computers and software development	2-3 years	$ 1,696	$ 1,696
Total cost		1,696	1,696
Less: accumulated depreciation		1,618	1,381
Net book value		$ 78	$ 315

Depreciation expenses incurred were $237,000 and $412,000 during 2022 and 2021, respectively.

14. 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)	2022	2021
Net income	$ (99,377)	$244,844
Depreciation and amortization	33,052	33,066
Deferred income taxes	(3,389)	248
Change in unrealized gains on equity securities, net of tax	161,920	(98,944)
Change in operating assets and liabilities:		
Accrued investment income	(799)	570
Premiums receivable	(17,614)	2,460
Ceded unearned premium reserves	2,287	1,506
Deferred acquisition costs	(5,222)	(1,028)
Amounts receivable from reinsurers and pools	(7,278)	4,993
Claim and claim adjustment expense reserves	34,480	25,925
Unearned premium reserves	28,104	10,496
Advance premiums	(235)	1,377
Commissions payable and accrued liabilities	1,941	11,902
Amounts payable to reinsurers	(1,709)	(4,431)
Unearned service fees	1,452	(1,385)
Prepaid expenses, agent loans, and deposits	(2,639)	(609)
Income tax recoverable and payable	(18,714)	6,329
Amounts due from service clients	(2,790)	1,813
Other assets and other liabilities	(7,809)	(4,020)
Net cash provided by operating activities	$ 95,661	$235,112

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

Palisades Reciprocal Group

(dollars in thousands)	2022	2021
Net income	$(192,493)	$100,980
Depreciation and amortization	636	706
Deferred income taxes	(448)	(1,316)
Change in unrealized gains on equity securities, net of tax	118,244	(102,550)
Change in operating assets and liabilities:		
Accrued investment income	(1,003)	(501)
Premiums receivable	(4,973)	10,171
Ceded unearned premium reserves	(8)	(63)
Deferred acquisition costs	(2,773)	1,626
Amounts receivable from reinsurers and pools	1,834	(3,613)
Claim and claim adjustment expense reserves	33,863	48,926
Unearned premium reserves	11,629	(3,208)
Advance premiums	(773)	2,245
Commissions payable and accrued liabilities	2,343	9,876
Amounts payable to reinsurers	1,711	(1,830)
Income tax recoverable	(11,800)	(17,149)
Other assets and other liabilities	2,018	6,911
Net cash provided by operating activities	$ (41,993)	$ 51,211

15. Consolidated Revenues

Revenues, net of reinsurance, by company or group for 2022 and 2021 were:

(dollars in thousands)	2022	2021
Underwriting company revenues:		
Plymouth Rock Assurance Group	$ 575,998	$ 600,837
Plymouth Rock Home Assurance Group	113,676	110,459
Palisades Reciprocal Group	913,633	998,096
Subtotal	1,603,307	1,709,392
Management company revenues:		
The Plymouth Rock Company	148,828	188,910
SRB Corporation	99,554	151,770
InsuraMatch and Encharter	5,397	4,614
Pilgrim Insurance Company	27,888	29,252
Plymouth Rock Management Company of New Jersey	227,929	223,142
Subtotal	509,596	597,688
Eliminations with subsidiaries of The Plymouth Rock Company:		
Technology costs	(53,885)	(53,837)
Dividends	(121,870)	(180,984)
Other	(64,874)	(39,075)
Subtotal	(240,629)	(273,896)
Elimination of intra-group transactions	(227,471)	(223,529)
Total revenues before unrealized gains on equity securities	$1,644,803	$1,809,655

The reference above to Plymouth Rock Assurance Group refers to the combined revenue of Plymouth Rock Assurance Corporation, Plymouth Rock Assurance Corporation of New York, Plymouth Rock Assurance Preferred Corporation and Mt. Washington Assurance Corporation. The reference above to Plymouth Rock Home Assurance Group refers to the combined revenue of Plymouth Rock Home Assurance Corporation, Bunker Hill Insurance Company, Bunker Hill Insurance Casualty Company, Bunker Hill Preferred Insurance Company and Bunker Hill Property Insurance Company.

16. Compensation Plans

The Plymouth Rock Company and Subsidiaries maintain a plan under Section 401(k) of the Internal Revenue Code. This plan is a defined contribution plan that covers all employees. Expenses of $11.1 million and $11.2 million were incurred related to this plan during 2022 and 2021, 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 $2.7 million and $8.8 million during 2022 and 2021, respectively.

Effective June 1, 2019, 6,115 stock appreciation units were granted to nine key officers. These units vest in 2024 contingent upon certain financial performance and service requirements being met. During 2022, one participating officer retired and 1,862 units were considered vested based on the fulfillment of 39 months of service during the 60-month vesting period while an additional 1,003 units were forfeited. These vested units were exercised in May 2022 for common stock of The Plymouth Rock Company at an appraised value of $14,230 for The Plymouth Rock's Class A common shares. During 2021, 600 units were forfeited as a result of the retirement of two participating officers and 550 units were added. Based on financial performance, expenses of $6.5 million and $6.1 million were recorded related to these units during 2022 and 2021, respectively.

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.

17. Investment Securities and Investment Income

A. Marketable Securities

The Plymouth Rock Company and Subsidiaries

At December 31, 2022 and 2021, 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, 2022: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 9,068	$ 1	$ 250	$ 8,819
Corporate debt securities	348,200	551	17,118	331,633
Asset-backed securities	18	-0-	-0-	18
Common stocks	678,911	277,778	117,900	838,789
Total	$1,036,197	$ 278,330	$ 135,268	$1,179,259

At December 31, 2021: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 9,301	$ 7	$ 51	$ 9,257
Corporate debt securities	337,018	469	3,546	333,941
Asset-backed securities	13	1	-0-	14
Common stocks	666,567	377,506	8,667	1,035,406
Total	$1,012,899	$ 377,983	$ 12,264	$1,378,618

At December 31, 2022 and 2021, maturities of marketable securities by due date category were as follows:

	2022		2021	
(dollars in thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value
90 days or less	$ 6,821	$ 6,803	$ 926	$ 926
90 days and in one year or less	22,771	22,536	22,206	22,234
After one year and in five years or less	327,676	311,113	322,136	318,983
After five years and in ten years or less	-0-	-0-	1,051	1,055
Asset-backed securities	18	18	13	14
Common stocks	678,911	838,789	666,567	1,035,406
Total	$1,036,197	$1,179,259	$1,012,899	$1,378,618

17. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

All marketable fixed income securities are classified as available for sale. At December 31, 2022 and 2021, common stocks that had been in an unrealized loss position for longer than twelve months had a total market value of $62.8 million and $791,000, respectively. Gross unrealized losses related to these common stocks were $26.2 million and $119,000 at December 31, 2022 and 2021, respectively. At December 31, 2022, marketable fixed income securities classified as available for sale that had been in an unrealized loss position for longer than twelve months had a total market values of $138.9 million. Gross unrealized losses related to these other marketable securities were $13.4 million. At December 31, 2021, there were no material marketable fixed income securities held that had been in an unrealized loss position for longer than twelve months. These losses are viewed as resulting from market conditions and are considered temporary.

Palisades Reciprocal Group

At December 31, 2022 and 2021, 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, 2022: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 18,095	$ -0-	$ 591	$ 17,504
Corporate debt securities	742,292	1,231	38,940	704,583
Asset-backed securities	83	1	1	83
Preferred stocks	133	-0-	20	113
Common stocks	483,341	323,805	64,883	742,263
Total	$1,243,944	$ 325,037	$ 104,435	$1,464,546

At December 31, 2021: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 18,819	$ 105	$ 136	$ 18,788
Corporate debt securities	784,996	589	8,514	777,071
Asset-backed securities	123	6	1	128
Preferred stocks	133	32	-0-	165
Common stocks	476,252	413,441	4,895	884,798
Total	$1,280,323	$ 414,173	$ 13,546	$1,680,950

17. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2022 and 2021, maturities of marketable securities by due date category were as follows:

(dollars in thousands)	2022 Amortized Cost	2022 Market Value	2021 Amortized Cost	2021 Market Value
90 days or less	$ 14,637	$ 14,594	$ 6,946	$ 6,962
90 days and in one year or less	73,940	72,761	60,618	60,728
After one year and in five years or less	671,631	634,573	733,113	725,014
After five years and in ten years or less	179	159	3,138	3,155
Asset-backed securities	83	83	123	128
Preferred Stocks	133	113	133	165
Common stocks	483,341	742,263	476,252	884,798
Total	$1,243,944	$1,464,546	$1,280,323	$1,680,950

All marketable fixed income securities are classified as available for sale. At December 31, 2022, common stocks that had been in an unrealized loss position for longer than twelve months had a total market value of $33.1 million. Gross unrealized losses related to these common stocks were $13.3 million. At December 31, 2021, there were no common stocks that had been in an unrealized loss position for longer than twelve months. At December 31, 2022 and 2021, marketable fixed income securities classified as available for sale that had been in an unrealized loss position for longer than twelve months had total market values of $370.4 million and $1.2 million, respectively. Gross unrealized losses related to these marketable fixed income securities were $32.9 million and $35,000 at December 31, 2022 and 2021, respectively. These losses are viewed as resulting from market conditions and are believed to be temporary.

B. Non-Marketable Securities

The Plymouth Rock Company and Subsidiaries have investments in privately held stocks. Such investments were carried at $91,000 as of December 31, 2022 and 2021.

17. Investment Securities and Investment Income, continued

C. Alternative Equity Investments

Investments in marketable alternative equities include positions in entities that focus on a diverse range of investment strategies. Substantially all 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, 2022 and 2021, The Plymouth Rock Company and Subsidiaries recorded values for these marketable alternative equity investments, which include realized and unrealized gains, of $45.6 million and $51.2 million, respectively. At December 31, 2022 and 2021, the Palisades Reciprocal Group recorded values for these marketable alternative equity investments of $28.1 million and $31.6 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 $38.0 million and $36.1 million at December 31, 2022 and 2021, respectively. The Palisades Reciprocal Group recorded values for non-marketable alternative equity investments of $19.6 million and $21.0 million at December 31, 2022 and 2021, respectively.

As of December 31, 2022, The Plymouth Rock Company and Subsidiaries had commitments outstanding to invest $32.2 million in 12 private equity funds. Two of these funds are Lindsay Goldberg & Bessemer L.P. III (Fund III), and Lindsay Goldberg & Bessemer L.P. V (Fund V). The Chairman of The Plymouth Rock Company is a member of the general partnership that manages each of these funds.

As of December 31, 2022, the Palisades Reciprocal Group had commitments outstanding to invest $8.6 million in seven private equity funds.

17. 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 $1,285 million and $1,490 million at December 31, 2022 and 2021, respectively. Assets in this category valued using either the equity method or the cost method totaled $83.3 million and $87.1 million, respectively, at December 31, 2022 and 2021. The other assets in this category were reported at fair values totaling $1,201 million and $1,403 million, respectively, at December 31, 2022 and 2021.

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

At December 31, 2022: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 22,585	$ -0-	$-0-	$ 22,585
U.S. government securities	8,819	-0-	-0-	8,819
Corporate debt securities	-0-	331,633	-0-	331,633
Asset-backed securities	-0-	18	-0-	18
Marketable common stocks	838,789	-0-	-0-	838,789
Non-marketable securities	-0-	91	-0-	91
Total fair value	$870,193	$331,742	$-0-	$1,201,935
Assets valued using either the equity method or the cost method				83,523
Total value of cash, cash equivalents, and investment securities				$1,285,458

17. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

At December 31, 2021: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 24,396	$ -0-	$-0-	$ 24,396
U.S. government securities	9,244	13	-0-	9,257
Corporate debt securities	-0-	333,941	-0-	333,941
Asset-backed securities	-0-	14	-0-	14
Marketable common stocks	1,035,406	-0-	-0-	1,035,406
Non-marketable securities	-0-	91	-0-	91
Total fair value	$1,069,046	$334,059	$-0-	$1,403,105
Assets valued using either the equity method or the cost method				87,068
Total value of cash, cash equivalents, and investment securities				$1,490,173

Palisades Reciprocal Group

Cash, cash equivalents, and investment securities totaled $1,524 million and $1,744 million at December 31, 2022 and 2021, respectively. Assets in this category that are valued using either the equity method or the cost method totaled $47.7 million and $52.6 million at December 31, 2022 and 2021, respectively. The fair values of the other assets in this category totaled $1,476 million and $1,692 million at December 31, 2022 and 2021, respectively.

17. 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, 2022: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 11,289	$ -0-	$-0-	$ 11,289
U.S. government securities	17,504	-0-	-0-	17,504
Corporate debt securities	-0-	704,583	-0-	704,583
Asset-backed securities	-0-	83	-0-	83
Marketable preferred stocks	113	-0-	-0-	113
Marketable common stocks	742,263	-0-	-0-	742,263
Total fair value	$771,169	$704,666	$-0-	$1,475,835
Assets valued using either the equity method or the cost method				47,775
Total value of cash, cash equivalents, and investment securities				$1,523,610

At December 31, 2021: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 10,590	$ -0-	$-0-	$ 10,590
U.S. government securities	18,781	7	-0-	18,788
Corporate debt securities	-0-	777,071	-0-	777,071
Asset-backed securities	-0-	128	-0-	128
Marketable preferred stocks	165	-0-	-0-	165
Marketable common stocks	884,798	-0-	-0-	884,798
Total fair value	$914,334	$777,206	$-0-	$1,691,540
Assets valued using either the equity method or the cost method				52,585
Total value of cash, cash equivalents, and investment securities				$1,744,125

17. 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 2022 and 2021 were as follows:

(dollars in thousands)	2022	2021
Interest income and dividends from securities	$ 31,473	$ 33,413
Earnings from non-marketable securities and alternative equity investments	3,035	27,425
Rental income	11,885	10,374
Finance charges on premiums receivable	6,327	7,942
Gross investment income	52,720	79,154
Rental expenses	(8,756)	(7,064)
Investment expenses	(8,688)	(9,291)
Investment income	35,276	62,799
Net realized capital gains (losses)	18,190	99,111
Investment income and capital gains before unrealized gains on equity securities	53,466	161,910
Change in unrealized gains on equity securities	(208,556)	127,655
Investment income and capital gains	$(155,090)	$ 289,565

17. 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 2022 and 2021 were as follows:

(dollars in thousands)	2022	2021
Interest income and dividends from securities	$ 32,547	$ 30,579
Earnings from non-marketable securities and alternative equity investments	34	10,581
Finance charges on premiums receivable	2,008	-0-
Gross investment income	34,589	41,160
Investment expenses	(10,272)	(11,320)
Investment income	24,317	29,840
Net realized capital gains (losses)	(11,124)	58,938
Investment income and capital gains before unrealized gains on equity securities	13,193	88,778
Change in unrealized gains on equity securities	(149,676)	129,809
Investment income and capital gains	$(136,483)	$ 218,587

17. Investment Securities and Investment Income, continued

F. Investment Activity

The Plymouth Rock Company and Subsidiaries

Activity in investment securities during 2022 and 2021 was as follows:

(dollars in thousands)	2022	2021
Balance at beginning of year	$1,465,777	$1,234,657
Change in marketable securities:		
Proceeds from maturities	(41,523)	(75,986)
Proceeds from sales	(531,332)	(999,646)
Purchases	596,152	1,176,456
Net change in marketable securities	23,297	100,824
Net change in non-marketable securities	-0-	(14)
Net change in alternative equity investments	(3,545)	13,097
Net investment activity	19,752	113,907
Net change in sales and purchases in process	-0-	(352)
Net change in unrealized gain/(loss) on marketable and non-marketable securities	(222,656)	117,565
Balance at end of year	$1,262,873	$1,465,777

Palisades Reciprocal Group

Activity in investment securities during 2022 and 2021 was as follows:

(dollars in thousands)	2022	2021
Balance at beginning of year	$ 1,733,535	$ 1,581,571
Change in marketable securities:		
Proceeds from maturities	(72,500)	(88,390)
Proceeds from sales	(524,958)	(1,169,037)
Purchases	561,079	1,297,895
Net change in marketable securities	(36,379)	40,468
Net change in alternative equity investments	(4,810)	2,952
Net investment activity	(41,189)	43,420
Net change in sales and purchases in process	-0-	(1,318)
Net change in unrealized gain/(loss) on marketable and non-marketable securities	(180,025)	109,862
Balance at end of year	$ 1,512,321	$ 1,733,535

18. Real Estate

At December 31, 2022 and 2021, The Plymouth Rock Company and Subsidiaries owned properties located at 695 Atlantic Avenue and 711 Atlantic Avenue in Boston, and 581 Main Street in Woodbridge, New Jersey. Building improvement costs of $6.2 million and $6.1 million were incurred on properties in 2022 and 2021, respectively. The table below summarizes the real estate costs and carrying values at December 31, 2022 and 2021:

(dollars in thousands)	2022	2021
Land	$ 38,634	$ 38,634
Buildings, improvements, and other	169,272	163,049
Total cost	207,906	201,683
Less: accumulated depreciation	35,379	28,703
Net book value	$172,527	$172,980

Rental income from lessees other than The Plymouth Rock Company and Subsidiaries totaled $11.9 million and $10.4 million in 2022 and 2021, respectively. For each of the years 2023 through 2027, minimum annual rent receivable by The Plymouth Rock Company and Subsidiaries is $3.1 million. Total obligations to The Plymouth Rock Company and Subsidiaries from non-affiliated lessees through 2027 are $23.4 million. Buildings and improvements are depreciated over their useful lives, which range from three to 39 years.

The property at 711 Atlantic Avenue was appraised at $67.5 million as of December 1, 2022 compared with its carrying value of $74.1 million and $74.6 million at December 31, 2022 and 2021 respectively. We considered the lower appraisal value compared to carrying value to be a triggering event that required an evaluation of potential impairment of the property at 711 Atlantic Avenue at December 31, 2022. After evaluating expected future cash flows of the property at 711 Atlantic Avenue, it was determined that no adjustment to its carrying value of $74.1 million as of December 31, 2022 was necessary. The property at 581 Main Street was appraised at $61.9 million as of October 29, 2021 as compared with its carrying value of $61.4 million and $61.5 million at December 31, 2022 and 2021, respectively. The property at 695 Atlantic Avenue was appraised at $96.5 million as of October 1, 2020 compared with its carrying value of $37.0 million and $36.9 million as of December 31, 2022 and 2021, respectively. Because of changing market conditions and uncertainties inherent in the appraisal process, especially during the current pandemic, the amounts that could be realized if the properties were actually offered for sale may differ from their appraised values.

19. Stockholders' Equity

A. Common Stock

Common stock of The Plymouth Rock Company at December 31, 2022 and 2021 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 64,258 and 64,226 were issued and outstanding at December 31, 2022 and 2021, respectively.

There are 90,000 Class B common shares authorized, of which 59,783 were issued and outstanding at both December 31, 2022 and 2021. The Class A common shares are fully transferable and have the right to elect 20 percent of the Board of Directors. The Class B common shares are not transferable but may be converted to Class A common shares on a one-for-one basis at any time at the option of the holder and are converted automatically upon the occurrence of certain events. The Class B common shares have the right to elect 80 percent of the Board of Directors, a right which has never been exercised in full. Presently, two directors are elected by the Class B shareholders and all other directors are elected by the Class A shareholders.

Following a plan approved by the Board of Directors, The Plymouth Rock Company purchased and subsequently retired 211 outstanding shares of its Class A common stock held by one shareholder at a cost of $3.0 million during 2022.

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 $546.2 million and $681.3 million at December 31, 2022 and 2021, respectively. The combined net income of these subsidiaries on a statutory accounting basis was $6.9 million and $50.2 million in 2022 and 2021, respectively.

Capital and surplus of the insurance companies in the Palisades Reciprocal Group totaled $546.9 million and $744.1 million at December 31, 2022 and 2021, respectively. These insurance companies reported a combined net loss on a statutory accounting basis of $78.1 million and $3.1 million in 2022 and 2021, respectively.

19. Stockholders' Equity, continued

B. Statutory Surplus and Dividend Availability, continued

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.

C. Earnings Per Share

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

Directors and Officers of The Plymouth Rock Company

Directors

James M. Stone, *Chairman*

James N. Bailey

Hal Belodoff

Michael J. Johnston

Wilmot H. Kidd, III

Andrew A. McElwee, Jr.

Norman L. Rosenthal

Sandra A. Urie

Sir Peter J. Wood

Officers

James M. Stone
Chief Executive Officer

James N. Bailey
Treasurer, Secretary, and Clerk

Andrew A. McElwee, Jr.
President and Chief Operating Officer

Mary A. Sprong
Vice President

Erin R. Macgowan
Vice President

Directors and Officers of the Principal Plymouth Rock Companies

Non-Management Directors

Hal Belodoff
Donald I. Bryan
Kerry A. Emanuel
Colleen M. Granahan
John C. Hill
Neil N. Jasey
Michael J. Johnston
Wilmot H. Kidd, III
Julie A. Rochman
Norman L. Rosenthal
Sandra A. Urie
Sir Peter J. Wood

Management Directors and Corporate Officers

Richard F. Adam
James N. Bailey
David V. Bartolotta
Harry M. Baumgartner
Peter A. Bishop
Mary J. Boyd
Jeffrey E. Briglia
Andrew D. Brown
Frederick C. Childs
Francis Cregg
Andrew T. DeCicco
Lauren E. Dwyer
David A. Eastes
Howard R. Goldberg
William D. Hartranft
Richard J. Jaros
Sunil S. Kini
Brendan M. Kirby
Scott N. Kwiker
Andrew J. Leeds
Erin R. Macgowan
John M. Mansfield
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