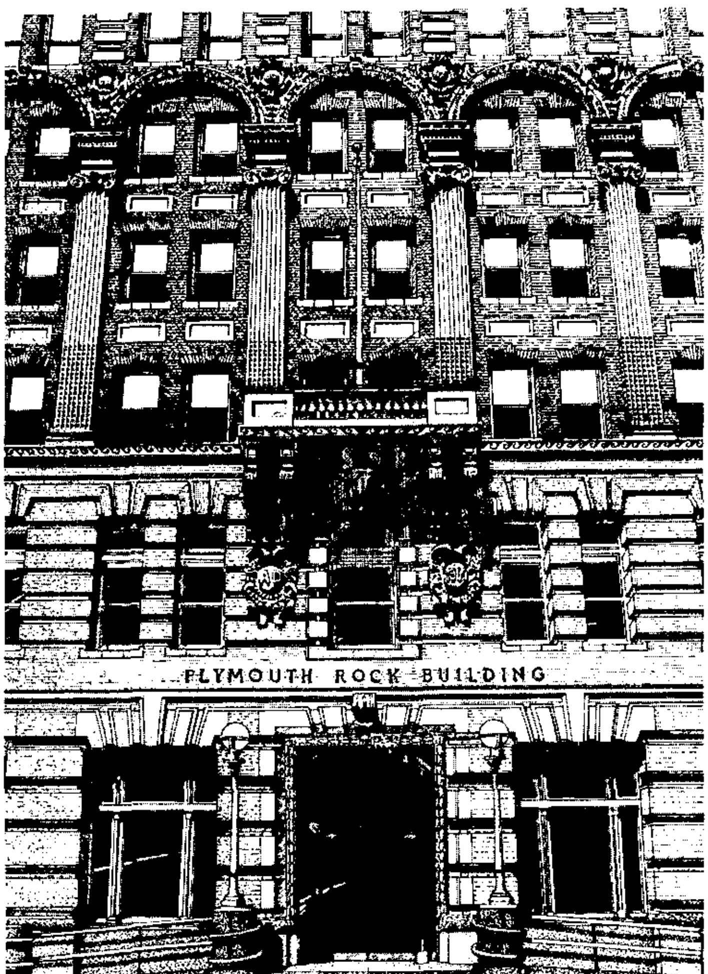
The Plymouth Rock Company



1996 Annual Report

The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 28, 1997

To Our Shareholders:

No prior year has dealt us such unpleasant operating results or, ironically, such an enhancement of our long term prospects. The good news and the bad news both qualify for the headlines. At Plymouth Rock Assurance Corporation, our Massachusetts automobile insurance writer, 1996 was a tough year indeed. The tidings from our other companies are all positive; and our relationship with the newly formed Direct Response Corporation gives us a depth, a spread and a potential for value far beyond anything we have had before.

The picture having changed substantially in recent years, it is useful here to step back and review the landscape of the Plymouth Rock enterprises. Two years ago this letter reported that Plymouth Rock Assurance Corporation accounted for too much of the group's revenues and nearly all of its profits. That situation was already destined for change, because it gave the Company too great a dependence on a single line in a single state, a market insufficient to provide the stability and growth opportunities we seek. I compared the handsome returns in Massachusetts auto insurance at that time to an unsustainable speculative bubble and suggested that we would accept a downturn "with equanimity". Last year's letter stated that a price war had begun in Massachusetts auto insurance and that net income would be down as a consequence. I also reported that we were then exploring an ambitious new venture, which would require substantial financing and would take us into those parts of the United States where Plymouth Rock does no business.

The fine results of a few years ago were indeed unsustained, and the price war in Massachusetts automobile insurance is severe enough to test the equanimity I promised. Our consolidated profits are down by 66% to $4.2 million, the entire decline attributable to the price war and unusual weather in our home state. The gross revenues of Plymouth Rock Assurance Corporation now account for slightly more than half of the total revenues received for operating management by the Plymouth Rock Companies. The Massachusetts automobile insurer's contribution to the group profits in 1996 was two-thirds of the total. Seeing that company's profit account for a smaller share of the group income has been a target of mine for some years. I had hardly hoped, however, to achieve it by shrinking the profits nearly $10 million. The rise in net income of the other profitable companies in the group, from less than half a million dollars in 1995 to almost two million in 1996, is some consolation. And, every bit as important though scarcely reflected yet in the financials, we did in fact broaden Plymouth Rock's area of interest to the entire United States by launching Direct Response Corporation, which will write automobile insurance from New York to California. In April of 1996, The Plymouth Rock Company, Peter Wood and I (together the common shareholders of Direct Response) completed a preferred stock offering which should capitalize the new company at $215 million. Peter, one of the best insurance executives of our generation, continues as chief executive of the Direct Line Group, which he founded and is the largest writer of automobile coverage in the United Kingdom. He also serves now as vice chairman of both The Plymouth Rock Company and Direct Response Corporation.

Plymouth Rock Assurance Corporation is not beyond its arduous trials. The price war is continuing into 1997 and will likely last longer than that. Few, if any, in the industry really want it, but such is the nature of price wars. Consumers pay less, at least in the short run, while we are lucky if we can stay in the black. The rates in the early 1990's turned out to exceed costs by more than anyone could have imagined. Contributing factors to this surprise included reduced auto thefts which followed a much-celebrated national downturn in crime, diminished societal and judicial tolerance for drunk driving, a welcome abatement of health care price increases that may be related to managed care, a slowdown with respect to tort inflation, and dividends from two wise public policy initiatives that permitted companies to negotiate directly with preferred body shops and depopulated the residual market pool. A methodological error in the companies' favor apparently affected the state-set rates since 1991 as well. One overreaction seems to have led to another. A large and influential carrier, concerned that its market share would fall as exuberant competitors began offering group discount plans, offered a 10% discount off the state-made rates to all members of an emergency road service club. Other companies, threatened by loss of recently profitable volume as customers weighed joining the service club's "open group", responded by providing discounts for all drivers with sufficient safe-driver credits. Soon, concurrent group discounts and safe-driver discounts were available from a wide variety of companies, giving some drivers prices 19% lower than the Commissioner's promulgated rates, which were slashed each year as well. Whatever margin was present in the premium rates of the early 1990's was returned to the public, and then some.

Plymouth Rock Assurance has been a follower, not a leader, in this sequence. Its goal has been to reduce prices just enough to hold its high quality business, and add to its book those, but only those, carefully selected customers it actually wants to keep for the long run. This has proved a realistic strategy, but certainly not costless. The company suffered a relatively small net decline in volume during 1996, about 3% of the total unit count, but we were hit harder by the unavoidably lower prices. Price cuts removed 7% from the top line, so our total auto insurance revenues fell by nearly 9%. This is every bit as bad as it sounds for the 1996 financials, but not so bad for the longer term. Because we zealously hewed to our tight underwriting standards, we were able to replace some lost business with risks of even higher quality, and it now appears that the unit count has started upward again.

The price war alone would have been painful enough, but 1996's woes didn't stop there. Massachusetts had a horrendous winter, with the greatest snowfall in Boston's recorded history. Since Bunker Hill Insurance Company, our new homeowners subsidiary, had not yet begun accepting business, Plymouth Rock Assurance carried most of the burden. Additional auto skids and the leakage through ice-dammed roofs produced over $7 million in claims and loss adjustment costs that an ordinary winter would not have seen. Plymouth Rock Assurance Corporation lost $3.7 million in the first quarter, the first time it has had a red-inked net income in ten years. By yearend there was some improvement, but not all the damage could be made up. That company's combined ratio for the year was well over one hundred, a symbolic barrier it had stayed below for a decade. Plymouth Rock Assurance's 1996 results would have been worse still had they not benefited from favorable development of claim reserves and residual market assessment set-asides in prior years.

As we enter 1997, the winter weather looks to be favorable. The same can not be said of the rate situation. The Commissioner, at the end of January, announced a 6.2% decrease in the average statewide premium rate. The largest insurers, who should see this third-in-a-row cut as a sign to lay down arms, are instead continuing to war over increasingly unprofitable market share. Included in the announced decrease is a provision for retroactive adjustment of the calculation error that had favored the industry. The Commissioner noted that the 1998 and 1999 rates will also contain a downward component contributing further to the correction of the error. Retroactive adjustment seems a bit harsh to the industry (which is appealing the decision) since no one seriously believes that an error in the other direction would have been corrected and because the companies have, in effect, already returned the excess gains in unprecedented voluntary discounts below the state-made rates. More important than the correction factor, there is little hope at this time for an immediate break in the price war. The best one can wish for is that the direction of momentum has at least been reversed. Even if this is the case, expect the impact of the price reductions and discounts on our results to worsen in 1997. There is no way it can do otherwise.

We performed this year a careful and systematic study of the operating results of Plymouth Rock Assurance Corporation and its domestic competitors. The study suggests that over the past three years Plymouth Rock averaged about five points better than the mean of our peers in loss ratio and about two points higher in expense ratio. This makes logical sense. Our loss ratio advantage derives from a superior agency force and superior underwriting mathematics. Among the contributors to our expense ratio handicap are our emphasis on the best service, maintenance of a managerial corps capable of running a larger company, and slightly higher agency commissions and agency automation expenses than most companies incur. Since our combined ratios are generally a few points better than our peers, results near break-even after removal of non-repeating events at Plymouth Rock translate into fairly serious losses for the industry as a whole. Others, too, may have had some reserves left to carry forward from the good years, but next year's industry results will be naked and, I suspect, not very pretty. Suspicion may be the proper response to any Massachusetts auto insurer who suggests that it isn't hurting in 1996 and 1997.

The many challenges of this period coincided with a change in the operating structure of Plymouth Rock Assurance Corporation. As the scope of the Plymouth Rock group has widened, it has become impractical to have the daily operational decisions of any one of its components depend on my input. The kind of hands-on management which I have performed at our flagship subsidiary for over thirteen years has always been a source of enjoyment and never seemed a burden. It is with a sense of loss, not relief, therefore, that I am beginning to move away from the front line. My efforts now are spread too widely over the group's activities to be involved in everything I once touched at Plymouth Rock Assurance, so this year Keith Rodney was elected that company's president while I remain as its chairman. Keith runs the company with the support of a talented operating committee, whose members are Ray Moore, Paula Gold, and Maria Walsh, who replaced Bill Kelley as claims vice president in mid-year. There is a search in progress for a fourth member, in the position of vice president for underwriting and marketing.

Please remember as you see the painful consequences of the price war that they reflect no lack of excellence on the part of the new team. It was on my watch that the price war began, and on my watch too that we formulated our early responses to it. Keith and the other key executives are just completing their first annual budget. They are also working on a longer term plan, intended to widen the combined ratio advantage we hold with respect to our average domestic competitor. It will take several years before there can be a fair test of the new team's stewardship.

The closest siblings to Plymouth Rock Assurance are Bunker Hill Insurance Company, our Massachusetts homeowners carrier, and Mt Washington Assurance Corporation in New Hampshire. Both are wholly owned subsidiaries of The Plymouth Rock Company, and both are underwriters of personal lines business distributing their products through independent agents. Bunker Hill, located in a stately, National Historical Register building we purchased at a bargain price in downtown Boston, is in its first year. It is managed under contract by Pilgrim Insurance, our insurance service company. Vin Nieroda, who runs Pilgrim Insurance, serves simultaneously as president of Bunker Hill.

He and his team are beginning to take an independent look at the economics of the homeowners business, viewing it not just as an adjunct product to automobile insurance. Bunker Hill had a small loss this year, but the results carry little significance since the premiums and expenses began moving over from Plymouth Rock Assurance at uneven rates. Its revenues, when all the business is finally transferred in June of 1997, will be about $25 million. Most of the expenses have moved already. By the end of next year, Bunker Hill's results should conform to its actual profitability.

Bill Kelley, after ten years as the head of claims for Plymouth Rock Assurance, is now the president of Mt Washington, working with chairman Ray Moore to expand our presence in New Hampshire. Bill is leaving his life-long claims specialty, having built a department of which he can be rightfully proud, to try his hand at the full range of executive challenges. First among them is to increase the scale of Mt Washington, which wrote about $7.2 million in 1996 at a small net profit for the year. It has been close to the breakeven line, on one side or the other, for four years in a row. We have all recognized since it began that Mt Washington will need about $25 million in premiums to reach a reasonable economy of scale point. This is, of course, easier said than done in as small a state as New Hampshire. Bill, however, is a man of unusual perseverance. He has established as a goal that, without extending beyond the three northern New England states, he will break the economy of scale barrier and earn an annual return on capital every bit as healthy as those of the larger insurers in the Plymouth Rock group.

After Plymouth Rock Assurance, the largest insurer in the Plymouth Rock family is now Palisades Safety and Insurance Association, the reciprocal automobile insurer our group manages in New Jersey. Under Hal Belodoff's fine leadership, the management company and the reciprocal together earned more than $1.1 million dollars on reciprocal premium of over $45 million. The management company alone earned just over half a million dollars, its first significant profit since inception. Although some unusual events helped contribute to success in 1996, we consider the prospects for the future in New Jersey quite promising. New Jersey never had the boom years that recently led to financial whipsaw in Massachusetts, and its long term regulatory history has been unnerving to insurers. As a consequence, competition there is only so intense. More companies still want to reduce their volume in New Jersey than increase it, and few of our competitors in that state have spent the time and money required to develop excellence in customer service.

The loss ratio at the reciprocal, estimated at 62% for the 1996 calendar year, remains several points superior to that of the New Jersey industry. The gross expense ratio for the management company and the reciprocal, taken together and including both loss adjustment expenses and investment expenses, is around 39%. This is a few points worse than industry norms, but economies of scale in the next few years should help significantly to close the gap. As a minor historical footnote, it is interesting to remember that, over five years ago, when we first conferred with the New Jersey Insurance Department on entering the state, the Commissioner asked what premium level would be required for sufficient scale economies to complete the start-up phase. My guess at the time was $40 million, half again the equivalent number in New Hampshire, and it has not changed. Palisades passed its mark this year. As Palisades continues to grow, it will try to achieve a sustainable combined ratio advantage over its peers. Because New Jersey is a state that some companies are still paying to exit, Hal envisions Palisades as a $200 million company. This would correspond to about a 4% market share in New Jersey, similar to what Plymouth Rock Assurance already has in Massachusetts. The volume and combined ratio goals would add up to a big success, but they look rather realistic from here. I am certain that Keith Rodney, as Palisades' chairman, would be thrilled to see the New Jersey kid catch its older sibling in size and strength.

Hal is supported in his New Jersey chores by two first rate officers. Frank Arment, who took over the Palisades claims function after a long and successful career at the Hartford Insurance Group, has guided Palisades in building a claims force whose performance and competence belie the company's recent origins. He is a fine example of how much we can benefit from other carriers' early retirement programs. Karen Murdock oversees Palisades' marketing and underwriting operations, and has successfully established Palisades' reputation for first class service. An additional word on Karen is befitting here, since Karen, Maria Walsh and John Delano, Karen's counterpart at Pilgrim, became the first Plymouth Rock employees to become officers of a Plymouth Rock company through internal promotion. It is a welcome sign of a maturing organization that outside searches are no longer necessary in filling some key jobs. I hope we are moving toward a healthy balance of internal advances, which build morale and strengthen corporate culture, and outside searches, which add new ideas and prevent taking the familiar for granted. In any event, Palisades, Plymouth Rock Assurance and Pilgrim could not have done better no matter how or where the searches were conducted.

Vin Nieroda, who runs our insurance services company, Pilgrim Insurance, also had a fine year, and, as a consequence of his success, he has been given some weighty new responsibilities. Pilgrim brought more than a million dollars to the bottom line from gross fee revenues of just over $10 million and $21 million in managed premium volume. Vin and I had agreed for some years that there were two goals he should set as president of a Plymouth Rock operating subsidiary: proving marketplace acceptance by earning at least a million dollars a year after taxes on a continuing basis, and establishing an enterprise in which every involved person took pride from their association. Pilgrim Insurance now meets both tests. As a sign of the board's confidence in Vin, he has not only been given responsibility, under contract, for Bunker Hill Insurance, but also Boston Risk Management Corporation, which has become a subsidiary of Pilgrim. Boston Risk, our brokerage and consulting subsidiary, has not yet crossed the threshold into profitability, but Bob Barrese and Fred Church are continuing their efforts to cure this by launching a very long-awaited workers compensation project, with a major health care company as a partner. All of us think the new project under discussion can prove worthy of its lengthy gestation period.

Direct Response Corporation was financed in April, when a group of highly prestigious investors led by Morgan Stanley Capital Partners subscribed to a $210 million preferred stock issue. The Plymouth Rock Company will put in $5 million to complete the company's capitalization. The first $31.5 million arrived at the closing. The next tranche of $91.6 million arrives this coming April, contingent only on the continued participation of Peter and me. The final $91.6 million is scheduled for April of 1998, though the investors have the right to delay the final subscription if Direct Response has not met certain hurdles and operating benchmarks by that time. Only if Direct Response misses the benchmarks every year until 2001 do the investors have the right to opt out of the final round. Direct Response has set out an objective worthy of its impressive stake. To consider itself a success in ten years, it will have to be profitably providing automobile insurance to over a million customers around the country. It will need all the mathematical analysis and regulatory focus that has characterized Plymouth Rock, marketing talent and information technology skills comparable to those at Direct Line, and household-level recognition for customer service a noticeable cut above the norm for its industry.

At a Morgan Stanley Capital Partners conference in July, Peter and I spelled out our specific goals for 1996 as these: (1) attain licensed carrier status in all major states; (2) recruit a first rate executive team; (3) select and begin implementing the company's data processing systems; and (4) formulate both a marketing philosophy and a plan for getting the first $100 million in written premium. I am pleased to say that we were on target when the new year began. Direct Response bought from John Hancock Mutual Life Insurance a virtually inactive property and casualty subsidiary, which was licensed for auto insurance in over 40 states. The top level operating team, led by Chuck Bryan, a former president of the Casualty Actuarial Society and a former chief financial officer and chief actuary of USAA (the largest direct writer of personal lines in this country), is mostly complete. Jane Dickson, until recently an officer of Direct Line, has moved to the United States and taken over the company's legal and human resources functions. Eric Gottheim, an actuary we first met when he was at GEICO, will head up the risk selection effort. Kathy Gleeson, also trained at GEICO, will manage customer services. Peter Graham, formerly the second in command in the data processing department at Direct Line in the U.K., joined us and has assembled a team to meld a system licensed from a vendor with our own proprietary systems elements. And, Dennis Robich, an energetic former officer of Allstate, has begun the marketing effort, which will take us simultaneously into general market advertising and partnerships with carefully selected affinity groups. No one pretends it will be easy to build the United States' best billion dollar insurer within ten years, but we are hard at the attempt.

Our investments, which have long prospered under the management of Jim Bailey and Rick Childs, had another strong year. In fixed income investments, where we have purposely avoided speculation on interest rates, our results were comparable to those of the relevant indices (which declined moderately as rates rose). That is all we expect. On the equity side, where we explicitly accept the risks inherent in a non-diversified portfolio in exchange for extra returns when our analysis is better than that of the market, we had a splendid year. Our portfolio of marketable equities was up by 39%, versus a gain of 23% in the Standard and Poor's Index. Our marketable equity portfolio has now risen by 160% in three years, which is more than twice the increase for the bull market as a whole. Since our non-marketable equity investments are not all appraised on a regular basis, their performance is a bit harder to calibrate. It appears, however, that these have done about as well as the marketable equities. This means that there have probably been some gains in our net worth that can not be reflected on the balance sheet until the underlying investments have readily determinable market values.

The only disquieting element to the investment picture is that the domestic stock markets are at dizzying levels, and it is ever harder to find a bargain. Since we have no interest in trading, we must live on our perceptions of long term undervaluation by others. Even in generally strong markets, some companies are undervalued, but in boom times there is less and less to choose from. That may force us more into alternative equity vehicles, such as real estate (that's ownership, not mortgages to developers), venture funds, and occasional foreign equities. I would feel more comfortable about the advantages of systematic fundamental analysis in more normal times, when our equity selections could be principally from among domestic stocks.

A warm welcome is due to our newest Plymouth Rock director, Chuck Chokel, whose principal responsibility is as the chief financial officer of the Progressive Insurance Companies in Cleveland. Progressive has long been a supportive and constructive shareholder of Plymouth Rock. Chuck is proving all of that and more as a director.

I hardly need to dwell on next year's challenges. Just staying the course for those parts of the business that are presently meeting expectations is one task. Threats and turmoil can arise from the most unexpected places, especially when the businesses are all still at entrepreneurial scale. Guiding Plymouth Rock Assurance Corporation through its raging waters, and making sure that it is poised to emerge from the price war with an enhanced competitive advantage, is a top agenda item for half a dozen of your officers. If their strategy is sound and its execution steady, we may still be able to make lemonade out of the current barrage of lemons. Completing the management transition at Plymouth Rock Assurance is another essential task. Direct Response Corporation will go live sometime in 1997 and sell its first policies in New York State before the year ends. Peter and I will be satisfied only if its first customers recognize right from the inception the high standard for policyholder service which will become the company's signature. At the same time, Jim Bailey and I have come to a shared awareness that we must give even more emphasis to the investment side of the business. Before long we should be handling half a billion dollars in investment assets, and, as Direct Response takes off, that number can only grow. These are big changes, but they are welcome. Your senior team is relieved beyond measure that Plymouth Rock's activities were broadened before the cycle in Massachusetts automobile insurance headed for its anticipated and inevitable, though presumably temporary, drought. We do not see our overall endeavor as weakened by the dry spell, and, in fact, there has never been a time of challenges more worthwhile or opportunities more appealing.

James M. Stone

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 1996 and 1995

Assets	1996	1995
Cash and marketable securities	$207,922,650	$210,518,279
Premiums receivable	12,862,881	12,218,710
Real estate	8,224,710	6,812,786
Accrued investment income	2,561,592	2,532,682
Receivable from reinsurers	33,066,634	31,665,067
Deferred acquisition costs	8,093,603	9,930,529
Fixed assets	4,913,014	4,580,929
Deferred income taxes	2,815,271	3,713,005
Other assets	3,546,240	1,172,731
Total assets	$284,006,595	$283,144,718
Liabilities		
Claim and claim adjustment expense reserve	$115,609,451	$113,768,074
Unearned premium reserve	26,014,708	30,368,907
Premiums payable to reinsurers	17,708,340	18,807,922
Advance premium	7,402,907	7,696,847
Commissions payable and accrued liabilities	17,335,290	14,924,199
Unearned service fees	4,293,749	4,614,753
Other liabilities	2,020,649	2,443,074
Total liabilities	190,385,094	192,623,776
Stockholders' Equity		
Common stock and paid-in capital	19,563,891	19,563,891
Retained earnings	66,197,907	63,315,336
Net unrealized gain on investments	4,200,365	4,070,856
Common stockholders' equity	89,962,163	86,950,083
Minority interests in subsidiaries	3,659,338	3,570,859
Total stockholders' equity, including minority interests	93,621,501	90,520,942
Total liabilities and stockholders' equity	$284,006,595	$283,144,718

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 1996 and 1995

Revenues	1996	1995
Premiums earned in underwriting activities	$ 96,503,448	$ 98,812,414
Fees earned from service activities	12,264,434	11,918,892
Investment income and capital gains	13,724,776	17,412,458
Total revenues	122,492,658	128,143,764
Expenses		
Claim and claim adjustment expenses	69,410,785	65,789,596
Policy acquisition, underwriting and general expenses	38,698,027	34,256,339
Service activity expenses	10,314,157	11,804,138
Total expenses	118,422,969	111,850,073
Income before federal income taxes	4,069,689	16,293,691
Federal income taxes	(158,681)	3,963,423
Net income	$ 4,228,370	$ 12,330,268

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, 1996 and 1995

	1996	1995
Cash flows from operating activities		
Gross premiums collected	$134,210,680	$140,473,881
Reinsurance premiums paid	(42,901,823)	(48,101,262)
Finance charges collected	2,730,978	3,158,794
Fees and commissions collected	10,746,129	11,151,145
Investment income received	12,076,426	14,801,011
Gross claims and claim expenses paid	(104,804,381)	(87,442,882)
Reinsured claims and claim expenses collected	37,130,849	32,725,333
Policy acquisition, underwriting, and general expenses paid	(38,967,056)	(32,983,055)
Federal income taxes paid	(100,000)	(4,616,074)
Service activity expenses paid	(7,799,647)	(9,453,898)
Net cash provided by operating activities	2,322,155	19,712,993
Cash flows from financing activities		
Issuance of common stock	-0-	9,027,867
Dividends to stockholders	(1,212,799)	(1,280,832)
Dividends to preferred stockholder of subsidiary	(140,000)	(140,000)
Net cash provided by financing activities	(1,352,799)	7,607,035
Net cash provided	$ 969,356	$ 27,320,028
Investment of net cash provided		
Net investment activity	$ (3,288,014)	$ 18,983,130
Purchases of real estate	1,636,113	6,857,056
Purchases of fixed assets	2,621,257	1,479,842
Net cash invested	$ 969,356	$ 27,320,028

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

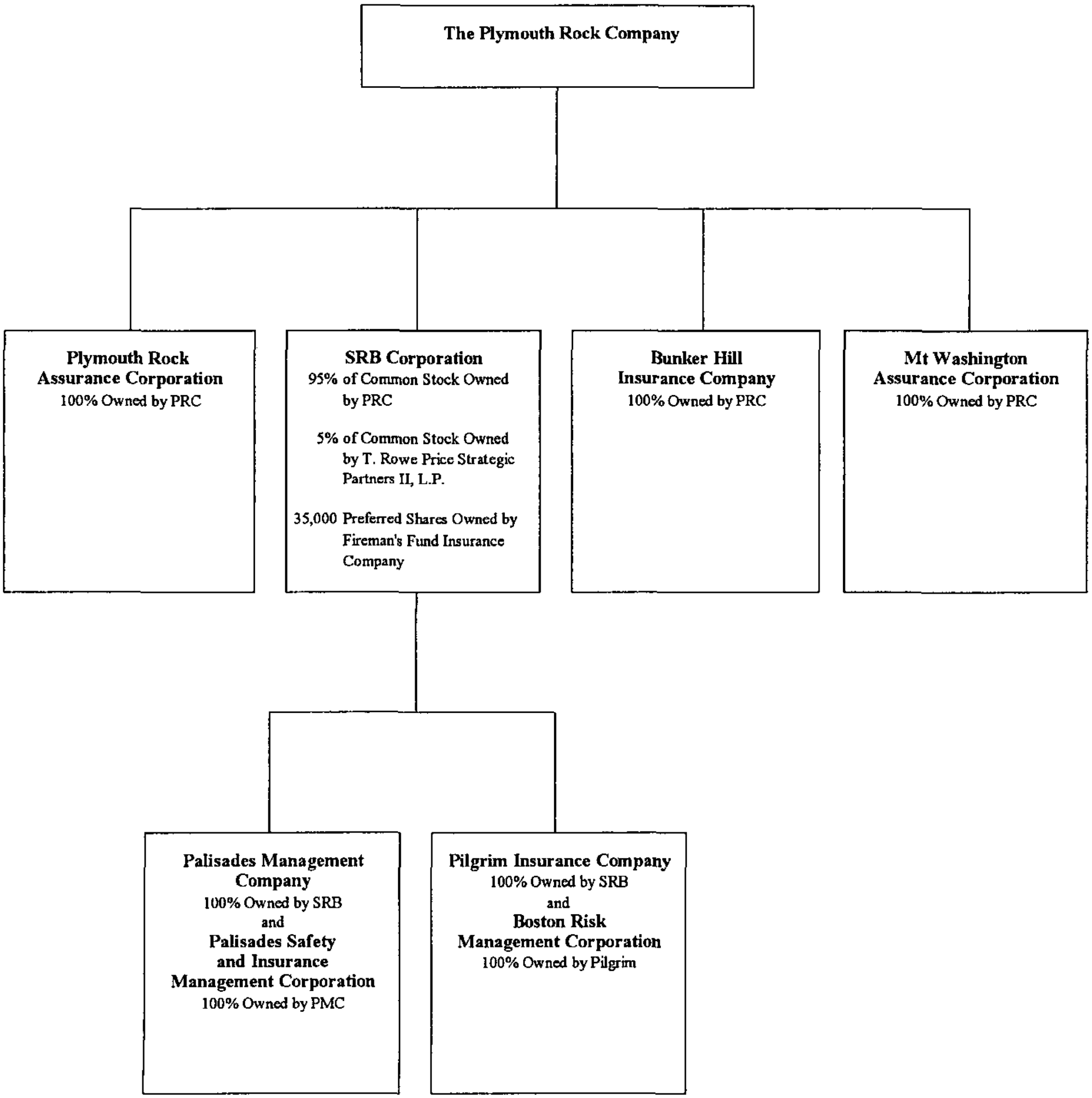
For the years ended December 31, 1996 and 1995

	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain on Investments	Minority Interests	Total Stockholders' Equity
December 31, 1994	$10,536,024	$52,398,900	$(2,218,925)	$3,562,370	$64,278,369
Issuance of common stock	9,027,867	-0-	-0-	-0-	9,027,867
Net income	-0-	12,330,268	-0-	15,489	12,345,757
Dividends to stockholders	-0-	(1,280,832)	-0-	-0-	(1,280,832)
Dividends to preferred stockholder of subsidiary	-0-	(133,000)	-0-	(7,000)	(140,000)
Net unrealized gain during 1995	-0-	-0-	6,289,781	-0-	6,289,781
December 31, 1995	19,563,891	63,315,336	4,070,856	3,570,859	90,520,942
Net income	-0-	4,228,370	-0-	95,479	4,323,849
Dividends to stockholders	-0-	(1,212,799)	-0-	-0-	(1,212,799)
Dividends to preferred stockholder of subsidiary	-0-	(133,000)	-0-	(7,000)	(140,000)
Net unrealized gain during 1996	-0-	-0-	129,509	-0-	129,509
December 31, 1996	$19,563,891	$66,197,907	$ 4,200,365	$3,659,338	$93,621,501

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

1. Organization of the Plymouth Rock Companies

The corporate and ownership structure of the Plymouth Rock Companies is shown in the following chart:



THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

A. Principles of Consolidation

The consolidated financial statements include the accounts of The Plymouth Rock Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to 1996 reporting practices.

B. Tangible Assets

The cash and marketable securities category is composed primarily of fixed income investments, which are carried at market value. The calculation of gain or loss on the sale of marketable securities is based on specific identification at the time of sale. The market values of investments are based on quoted market prices.

Real estate and fixed assets are carried at cost less accumulated depreciation. The Company provides for depreciation and amortization principally on the straight-line method over the estimated useful lives or the applicable lease terms.

C. Income Taxes

The Company files its federal income tax return on a consolidated basis. The Company's federal income tax return reflects current income taxes, which are not the same as the provision for income taxes shown in the Consolidated Statements of Income. This is because the rules of the Internal Revenue Code and those of generally accepted accounting principles can differ with respect to the time periods in which income and expenses are recognized.

Federal income taxes consist of:

	1996	1995
Current	$(989,691)	$3,927,133
Deferred	831,010	36,290
Total	$(158,681)	$3,963,423

Deferred income taxes in the balance sheet as of December 31, 1996 and 1995 consist of the net effect of these temporary differences:

	1996	1995
Discounting of claim reserves	$3,646,032	$3,445,343
Deferred income	2,549,536	2,848,911
Net unrealized (gain) loss on investments	(2,163,824)	(2,097,104)
Other	(1,216,473)	(484,145)
Total	$2,815,271	$3,713,005

2. Summary of Significant Accounting Policies, continued

C. Income Taxes, continued

The net unrealized gain on investments is presented in stockholders' equity, net of an estimate of applicable deferred income taxes.

The Company's reported provision for federal income taxes is less than that computed by applying the federal income tax rate for these years to income from operations before federal income taxes. This is principally because the Company receives significant non-taxable interest from state and municipal bonds.

D. Revenues Earned in Underwriting and Service Activities

Premium revenues are earned on a daily basis over the terms of the policies. Unearned premiums represent billed amounts which are applicable to the unexpired terms of policies in force and are presented net of reinsurance. Premiums receivable are net of reserves for doubtful collections of $463,398 and $381,787 at December 31, 1996 and 1995, respectively, and are presented net of unbilled amounts of $15,228,970 and $15,529,896, respectively.

Underwriting revenue is derived from personal lines property and casualty insurance activity, predominantly in Massachusetts. The Company also derives fee income by providing insurance, investment management, brokerage, policy processing, billing, claims management and systems development services in two Northeast states. Fee income is earned over the related contract periods.

E. Reinsurance

Treaty reinsurance is used to reduce exposure to large claims. The Company regularly evaluates the financial condition of its reinsurer and monitors the concentration of credit risk to minimize significant exposure. The Company maintains catastrophe, quota share and excess of loss contracts that are prospective in nature and remains primarily liable as the direct insurer on all voluntary risks.

Amounts recoverable for claim reserves and paid claims are reflected as receivable from reinsurers. The income statement is reflected net of reinsurance activity as follows:

	1996		1995	
	Premiums Written	Losses Incurred	Premiums Written	Losses Incurred
Gross	$139,041,024	$106,645,758	$144,981,028	$97,199,797
Ceded	(46,940,193)	(37,234,973)	(41,880,238)	(31,410,201)
Net	$ 92,100,831	$ 69,410,785	$103,100,790	$65,789,596

Ceded premiums earned for 1996 and 1995 were $41,596,990 and $42,128,502, respectively.

2. Summary of Significant Accounting Policies, continued

E. Reinsurance, continued

The Company has a 40 percent quota share reinsurance treaty which reinsures certain coverages for losses in excess of approximately 88 percent of premiums earned during specified accounting periods. Revenues and expenses are reflected net of quota reinsurance totaling approximately $25 million for both 1996 and 1995.

The Company has a catastrophe reinsurance treaty. At December 31, 1996, the Company had paid approximately $3,978,000 (net of cumulative losses and commissions) to the reinsurer to cover future catastrophes. This contract has an experience rating feature whereby a substantial portion of the amount paid could be returned to the Company if the experience continues to be favorable.

The Company is a member of Commonwealth Automobile Reinsurers and accounts for ceded policies as reinsurance. The Company's estimated share of the Commonwealth Automobile Reinsurers deficit is recorded in claim and claim adjustment expenses.

The Company acts as an intermediary for certain other insurance companies in administering commercial automobile insurance programs. The Company's income statement and reinsurance activity exclude premiums earned of $21,898,725 and $17,076,060 and claim and claim adjustment expenses of $15,759,501 and $9,340,646 in 1996 and 1995, respectively. In connection with these arrangements, receivables and claim reserves exclude $7,323,910 and $4,255,484 at December 31, 1996 and 1995, respectively.

F. Deferred Acquisition Costs

Commissions and premium taxes are deferred and amortized pro rata over the contract periods in which the related premiums are earned. All amounts deferred at December 31 are charged to operations in the following year as the related premiums are earned. Deferred acquisition costs are presented net of deferred commission income on ceded reinsurance.

G. Claim and Claim Adjustment Expenses

Claim reserves represent the estimated liability for claims reported to the Company plus reserves for claims incurred but not yet reported. Claim adjustment expense reserves represent the estimated expenses related to settling these claims. Claim and claim adjustment expense reserves are presented before estimated recovery for reinsurance. The methods of making such estimates and establishing the resulting reserves are reviewed regularly, and any adjustments are reflected in income currently. Losses incurred in 1996 and 1995 include payments for events reported in prior years. Payments for prior reported events amounted to approximately $37.7 million and $44.1 million in 1996 and 1995, respectively. Reserves carried for these claims at prior year end were $49.1 million and $45.4 million, respectively. Claim and claim adjustment expense reserves at December 31, 1994 were approximately $103.8 million.

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Consolidated Revenues

Revenues, net of reinsurance, for the separate companies for 1996 and 1995 are:

	1996	1995
The Plymouth Rock Company	$ 12,985,492	$ 3,856,910
Plymouth Rock Assurance Corporation	101,719,743	111,102,096
Mt Washington Assurance Corporation	3,877,604	3,653,931
Bunker Hill Insurance Company	2,771,146	-0-
SRB Corporation	6,850,222	5,775,945
Pilgrim Insurance Company	10,066,171	8,085,842
Palisades Management Company (Consolidated)	4,946,203	3,282,660
	143,216,581	135,757,384
Intercompany eliminations	(20,723,923)	(7,613,620)
Total revenues	$122,492,658	$128,143,764

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

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

	1996	1995
Net income	$4,228,370	$12,330,268
Depreciation and amortization	3,290,610	2,328,256
Minority interests	95,479	15,489
Change in premiums receivable	(644,171)	(2,918,377)
Change in accrued investment income	(28,910)	(249,600)
Change in receivable from reinsurers	(1,401,567)	(2,202,888)
Change in deferred acquisition costs	1,836,926	(1,842,454)
Change in deferred income taxes	831,010	36,290
Change in claim and claim adjustment expense reserve	1,841,377	4,457,935
Change in premiums payable to reinsurers	(1,099,582)	(832,251)
Change in unearned premium reserve	(4,354,199)	3,255,062
Change in advance premium	(293,940)	(2,161,033)
Change in commissions payable and accrued liabilities	1,914,936	5,397,584
Change in unearned service fees	(321,004)	1,364,314
Change in other assets and other liabilities	(3,237,804)	4,875,602
Income on sale of investment securities	(318,758)	(4,217,701)
Income on disposal of fixed assets	(16,618)	76,497
Net cash provided by operating activities	$2,322,155	$19,712,993

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Real Estate

The Company incurred approximately $1,636,000 on building improvements in 1996 and purchased two buildings at a total cost of approximately $6,822,000 in 1995. The table below summarizes real estate at December 31, 1996 and 1995.

	1996	1995
Land	$1,719,628	$1,719,628
Buildings and improvements	6,773,541	5,137,428
Total cost	8,493,169	6,857,056
Less: accumulated depreciation	268,459	44,270
Net book value	$8,224,710	$6,812,786

Rental income other than from Plymouth Rock Companies aggregated approximately $1,141,000 and $324,000 in 1996 and 1995, respectively. Approximately 68,300 square feet of office space and 660 square feet of retail space are leased from the Company. For each of the years 1997 through 2003, minimum annual rent receivable by the Company is approximately $405,000. Total obligations of lessees through 2003 are approximately $2,836,000. Buildings and improvements are depreciated over their useful lives, which range from two to thirty-nine years.

6. Fixed Assets

Purchases of fixed assets were approximately $2,621,000 and $1,480,000 in 1996 and 1995, respectively. The table below summarizes fixed assets at December 31, 1996 and 1995.

	Useful Lives	1996	1995
Furniture and fixtures	5-10 years	$ 3,323,782	$ 2,994,093
Computers	3-5 years	6,819,926	5,556,287
Leasehold improvements	2-6 years	2,978,762	2,413,106
Vehicles	3 years	1,045,147	946,900
Total cost		14,167,617	11,910,386
Less: accumulated depreciation and amortization		9,254,603	7,329,457
Net book value		$ 4,913,014	$ 4,580,929

7. Lease Commitments

Rental expenses for 1996 and 1995 aggregated approximately $1,826,000 and $1,772,000, respectively. There are several leases totaling approximately 96,000 square feet of office space and 22,500 square feet of storage space. Certain leases contain renewal options which may be exercised from three to twelve months prior to expiration. For each of the years 1997 through 2003, the minimum lease obligations of the Company are approximately $945,000 annually. Total obligations for leases through 2003 are approximately $6,616,000.

8. Investments and Investment Income

All investment securities are classified as Available for Sale and are carried at market value. Net unrealized capital gains and losses on Available for Sale securities, net of applicable deferred taxes, are credited or charged directly to stockholders' equity.

A. Composition of Investment Portfolio

At December 31, 1996 and 1995, amortized cost, unrealized gains and losses before federal income taxes and market value of cash and marketable securities are as follows:

At December 31, 1996:	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
Cash and cash equivalents	$ 18,807,078	$ -0-	$ -0-	$ 18,807,078
U.S. government securities	7,700,621	52,251	92,105	7,660,767
State and municipal securities	62,795,882	654,728	43,682	63,406,928
Corporate debt securities	67,882,361	533,521	224,615	68,191,267
Mortgage-backed securities	35,266,084	120,475	444,093	34,942,466
Common stocks	9,106,435	5,807,709	-0-	14,914,144
Total	$201,558,461	$7,168,684	$ 804,495	$207,922,650

At December 31, 1995:	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
Cash and cash equivalents	$ 21,665,322	$ -0-	$ -0-	$ 21,665,322
U.S. government securities	22,023,187	202,321	-0-	22,225,508
State and municipal securities	91,923,929	1,307,277	75,451	93,155,755
Corporate debt securities	30,717,728	617,348	64,247	31,270,829
Mortgage-backed securities	29,520,328	345,960	14,360	29,851,928
Common stocks	8,499,825	3,860,673	11,561	12,348,937
Total	$204,350,319	$6,333,579	$ 165,619	$210,518,279

At December 31, 1996, maturities of cash and marketable securities are as follows:

	Amortized Cost	Market Value
Cash	$ 18,807,078	$ 18,807,078
Due in 90 days or less	135,279	135,486
Due after 90 days and in one year or less	5,239,097	5,294,864
Due after one year and in five years or less	126,698,601	127,151,326
Due after five years	41,571,971	41,619,752
Common stocks	9,106,435	14,914,144
Total	$201,558,461	$207,922,650

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Investments and Investment Income, continued

B. Investment Activity

The components of cash and marketable securities activity during 1996 and 1995 are as follows:

	1996	1995
Balance at beginning of year	$210,518,279	$187,230,410
Change in marketable securities:		
Sales prior to maturity	(137,792,221)	(165,842,579)
Redemptions at maturity	(886,059)	(4,200,474)
Purchases	138,248,510	197,393,337
Change in marketable securities	(429,770)	27,350,284
Change in cash and cash equivalents	(2,858,244)	(8,367,154)
Net investment activity	(3,288,014)	18,983,130
Net change in purchases in process	496,156	(5,225,229)
Net change in unrealized gain on investments	196,229	9,529,968
Balance at end of year	$207,922,650	$210,518,279

C. Analysis of Investment Income and Capital Gains

The components of investment income and capital gains before federal taxes during 1996 and 1995 are as follows:

	1996	1995
Interest income from securities	$10,893,874	$10,828,611
Rental income	1,140,958	324,196
Finance charges from premiums receivable	2,730,978	2,750,303
Gross investment income	14,765,810	13,903,110
Rental expenses	(908,532)	(319,896)
Investment expenses	(451,260)	(388,457)
Investment income	13,406,018	13,194,757
Realized capital gains	318,758	4,217,701
Investment income and capital gains	$13,724,776	$17,412,458

9. Savings and Investment Plan and Deferred Compensation Plan

The Company has a Savings and Investment Plan under Section 401(k) of the Internal Revenue Code. The Plan, which is a defined contribution plan, covers all employees 21 years or older with at least one year of service. The Company provided $853,915 and $771,510 for discretionary contributions in 1996 and 1995, respectively.

The Company has a Deferred Compensation Plan for officers, managers and directors other than its founding shareholders. The Plan provides for a rate of return on voluntary deferrals based on the financial performance of the Company. The Company accrued $2,293,509 and $1,464,624 as of December 31, 1996 and 1995, respectively, for liabilities relating to the Plan.

10. Stockholders' Equity

A. Common Stock

Common stock at December 31, 1996 and 1995 is composed of Class A common and Class B common shares, both classes having a par value of $0.10 per share. There are 300,000 Class A shares authorized, of which 147,786 and 145,815 were issued and outstanding on December 31, 1996 and 1995, respectively. There are 90,000 Class B shares authorized, of which 84,516 and 86,487 were issued and outstanding on December 31, 1996 and 1995, respectively.

The Class A common shares are fully transferable and have the right to elect 20 percent of the Board of Directors. The Class B common shares are not transferable, but may be converted to Class A common shares on a one for one basis at any time at the option of the holder, or automatically upon the occurrence of certain events. The Class B common shares elect 80 percent of the Board of Directors.

B. Preferred Stockholder's Interest in Subsidiary

A subsidiary of the Company has issued 35,000 shares of cumulative preferred stock with no par value, all of which were outstanding at December 31, 1996 and 1995. The preferred stockholder is entitled to receive cumulative cash dividends of 4 percent per year, increasing to 7 percent per year under certain circumstances, when declared by the subsidiary's Board of Directors out of funds legally available. The preferred stockholder is also entitled to receive, if and when declared by the Board of Directors, special cumulative dividends of 20 percent of the difference between the subsidiary's net income and the amount of regular preferred dividends for that year. Such special dividends are limited to $1,000,000 on a cumulative basis. Under certain conditions the preferred shares may be redeemed by the subsidiary at $120 per share with adjustment for dividends. In addition, under certain circumstances the holder may redeem the preferred stock at $100 per share plus any accrued but unpaid dividends. In the event of corporate liquidation, the preferred stockholder of the subsidiary is entitled to receive out of available subsidiary funds $120 per share ($4,200,000 in the aggregate), with adjustment for certain dividends paid, plus any accrued but unpaid dividends. The preferred stock is convertible under certain default circumstances, with appropriate regulatory approval, into specified amounts of the subsidiary's common stock.

C. Statutory Surplus and Dividend Availability

The Company's 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 generally accepted accounting principles. On a statutory accounting basis, capital and surplus of the Company's insurance subsidiaries aggregated approximately $60,026,000 and $57,614,000 at December 31, 1996 and 1995, respectively. Regulatory limits restrict the amount of dividends which can be remitted to the Company from its insurance subsidiaries without approval of state insurance regulators.

Coopers
&Lybrand

Coopers & Lybrand L.L.P.

a professional services firm

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of The Plymouth Rock Company and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, cash flows and changes in stockholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Plymouth Rock Company and subsidiaries as of December 31, 1996 and 1995, and the consolidated results of their operations, and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Boston, Massachusetts
February 6, 1997

Directors and Officers of The Plymouth Rock Company

Directors

James M. Stone, *Chairman*

Peter J. Wood, *Vice Chairman*

James N. Bailey

Charles B. Chokel

Michael J. Johnston

Wilmot H. Kidd, III

Keith R. Rodney

Officers

James M. Stone
President

Keith R. Rodney
Executive Vice President and Clerk

James N. Bailey
Treasurer

William M. Kelley
Vice President

Raymond D. Moore
Vice President

Directors and Officers of the Plymouth Rock Group of Companies

Non-Management Directors

Charles B. Chokel
Normand A. Dion
Alexander Ellis, III
Michael J. Johnston
Wilmot H. Kidd, III
Eugene J. Meyung
David L. Warnock
Peter J. Wood

Management Officers and Directors

Francis P. Arment
James N. Bailey
Robert L. Barrese
Hal Belodoff
Frederic C. Church, Jr.
John W. Delano
Paula W. Gold
William M. Kelley
Stewart W. Kemp
Raymond D. Moore
Karen A. Murdock
Vincent V. Nieroda
Keith R. Rodney
James M. Stone
Maria C. Walsh

Independent Accountants:
Coopers & Lybrand L.L.P.

Counsel:
Ropes & Gray