The Plymouth Rock Company
695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 8, 2014

To Our Shareholders:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

James M. Stone