

together.  
COMMITTED TO MUTUAL SUCCESS

ANNUAL STATEMENT 2017



# together.

COMMITTED TO MUTUAL SUCCESS

## OUR MISSION

Provide insurance products that allow our policyholders to conduct their business with the knowledge that they are protected by a financially strong insurer. We strive for profitable growth through our commitment to individualized customer service and by providing the independent agent with a stable market for quality insurance products.

## OUR VALUES

- Delivering Financial Strength
- Commitment to Integrity
- Superior Customer Service
- Continued Learning and Improvement
- Corporate and Social Responsibility



# 2017

AT-A-GLANCE

**\$232 MILLION**  
POLICYHOLDERS' SURPLUS

**\$200.8** MILLION DIRECT WRITTEN PREMIUM

**8.6%** GROWTH OVER 2016

**90.6%** PREMIUM RETENTION

**27,034** POLICIES IN EFFECT

**210** YEARS OF SERVICE FROM 15 EMPLOYEES  
WITH MILESTONE ANNIVERSARIES

**15** INSURANCE DESIGNATIONS EARNED  
BY 13 EMPLOYEES

**96.7%** COMBINED RATIO

**\$35.7** MILLION NEW BUSINESS



175 years. A demisemiseptcentennial anniversary! In a country as “young” as the United States—it is only 242-years-old after all—175 continuous years in business is something to commemorate. During 2017, we used every opportunity to reflect on our history, look ahead to our future, and celebrate the moments and the people in the present that make Harford Mutual a very special place.

My one-year term as the Chairman of the National Association of Mutual Insurance Companies (NAMIC) Board of Directors came to a close in September. I was honored and humbled to be able to represent Harford Mutual during its 175th anniversary year as I traveled the country attending 14 State Association meetings and sharing NAMIC’s commitment to mutuality. I saw and heard firsthand the benefits that NAMIC brings to its 1,400 members and, by extension, their 170 million policyholders through their leadership in advocacy, focus on continuing education, and dedication to member services. The Chairmanship also provided me the opportunity to share our own evolutionary story and exchange ideas on positive business practices in the rapidly-changing employment and technology realms.

Our Marketing team, with the help of several committees, planned and executed a calendar full of events to ensure the 175th Anniversary encompassed not only staff, but our agents and community partners as well, beginning with appreciation dinners in the spring served to our local first responders. The year was capped off with a holiday lighting of our beautiful building and property, followed by a reception for local dignitaries and special guests. The accompanying 2017 Anniversary Yearbook pictorially encapsulates our anniversary celebrations and will serve

as a unique guidebook for our next historical milestone in 2042.

As much as the anniversary was an underlying presence, 2017 proved to be groundbreaking on its own merits. Writing \$20 million in direct written premium in the month of January was a first for our company and a bellwether for the premium growth in the year to come. Our Vice President & Treasurer, June Poole, and our Vice President & Corporate Secretary, Frank Kellner, were both individually honored not once, but twice, for their professional and philanthropic contributions to our communities. We completed a full and successful year of business unit segmentation and started writing in South Carolina in September 2017 and Georgia in February 2018, expanding our market for the first time in nearly three decades. Harford Mutual was named a 2017 “Top Workplace” by The Baltimore Sun Media Group, a noteworthy achievement as this award is a direct result of our employees’ feedback. We continue to invest significant effort and resources in career and professional development, and this recognition is a testament that employees believe in the company’s mission.

We had an exceptional production year, writing over \$35.7 million in new business premium. A major driver of our growth was the segmentation of Underwriting by account size into Business Units—Foundation, Middle Market, and Large—all of which outperformed new business goals. With the strong premium retention and significant outperformance to plan in new business, year-end revenue grew by \$15.9 million to end at \$200.8 million, pushing us through the \$200 million mark for the first time in our 175 years of business.

Five-year direct written premium growth is an incredible \$77.2 million, 62.4%, averaging a 10.2% annual growth rate. The 10-year revenue growth is equally impressive at \$95.1 million, 90.0%, and is evidence of our strong agency partnerships, improved diversification, account-size focus and segmentation, expanded loss control and risk management and, of course, our talented and professional staff.

The flurry of claim severity during the final quarter of the year, the poor results from the automobile line which equally continues to plague the entire industry, and individual claims with severity potential, stressed our combined. However, our positive loss results in the first and second quarters allowed our year-end combined of 96.7 to come in 2.1 points below plan. Mutual success only comes when our considerable growth is coupled with commensurate profitability. Our 10-year combined ratio stands at 97.3, and we have achieved an underwriting profit in 11 out of the past 13 years.

Total assets, which eclipsed half a billion dollars for the first time in our history, have grown by \$197.2 million, a 64% increase over 10 years, with 82% of the increase coming in the last five years. Year-end policyholders’ surplus grew by \$23.4 million to \$232.0 million, 11.2%, maintaining the company’s conservative leverage and bolstering our financial strength.

In March 2018, John Goodin, Senior Vice President, Commercial Business Services, retired after nine years with Harford Mutual and more than 40 years in the insurance industry. While John’s departure was bittersweet, we are fortunate to have Susan Dinnien, a 25-year insurance

veteran, immediately assume the role of Vice President & Chief Underwriting Officer. Jeff Rink, Vice President, Marketing & Business Development, who joined Harford Mutual in 2009, was promoted to Senior Vice President. Jeff has been an integral member of Senior Leadership over the last nine years, spearheading the charge for the company’s significant and profitable revenue growth.

Looking back, 2017 was exceptional on so many levels—a year worthy of its place in Harford Mutual’s continuing story. Looking ahead—new challenges, new faces, and new initiatives keep us working diligently to maintain our strong financial position and our goal to always be an employer of choice.

I’d like to thank our board of directors and our incredible team for their individual and collective contributions to our commitment to mutual success.

STEVEN D. LINKOUS  
President and Chief Executive Officer

employee recognition

and achievements



Vice President and Treasurer June Poole was named to the Top 100 Women by The Daily Record Maryland. The award recognizes outstanding achievements by women demonstrated through professional accomplishments, community leadership and mentoring.



June Poole was a finalist for the 2017 ATHENA Award for Harford County.



Caty Hartley and CJ D'Alessio hosted the Maryland CPCU Leadership Summit.



Frank Kellner named one of Harford's Most Beautiful People for his work in the community.



Steve Linkous speaks to students at Temple University.



Employee survey names Harford Mutual as a Top Workplace 2017.



Accepting the award for Top Workplace 2017 at the reception at the Baltimore Museum of Industry.

Our growth in 2017 tested our employees with increased workload, but also with new roles and responsibilities. Not only did they rise to meet the challenge within the company, but many surpassed it by proudly representing Harford Mutual in the community and in the industry.

The year started with our CIO Tim Baum featured on a live stream CXOTalk speaking with 7Summits Chief Strategy Officer Dion Hinchcliffe about the digital transformation of insurance. Baum has been leading the aggressive project to replace our legacy infrastructure to enable Harford Mutual to keep pace with these changes.

June Poole, Vice President and Treasurer, was honored in February as an ATHENA Award finalist, and in March as one

of the Top 100 Women in Maryland by *The Daily Record*. Tia Timpson, Treasury Assistant, garnered some spotlight of her own as she was featured in an episode of Harford Cable Network's AbiliTV where she spoke of the challenges of recovering from a stroke and becoming independent.

In April, President and CEO Steve Linkous, who also served as Chair of the National Association of Mutual Insurance Companies through September of 2017, was an H. Wayne Snider Guest Lecturer for Gamma Iota Sigma – Sigma Chapter at Temple University where we participate in their internship program. Following the deadly Hurricanes Harvey, Irma, and Maria that caused over \$200 billion in damages, Linkous testified before the House Transportation and Infrastructure Subcommittee on

Economic Development in Washington, DC imploring the federal government to implement reforms that will shift reactive post disaster federal dollars to more proactive pre-disaster mitigation funding.

IT Project Manager Caty Hartley and Large Account Underwriting Supervisor Christopher (CJ) D'Alessio, President and Vice President of Maryland CPCU Society Chapter, Inc. respectively, hosted the 2017 Leadership Summit in April in Baltimore, MD.

Casualty Claims Supervisor Alison Barry and Senior Claims Examiner Matt Moreau served on a panel of insurance companies discussing property and casualty claims concerns at the Claims Symposium hosted by the defense

law firm Thomas, Thomas & Hafer in Harrisburg, PA in June. And, in October, Vice President, Claims Frank Kellner was honored as one of Harford County's Most Beautiful People for his commitment to philanthropy and was featured as a Maryland member of the United Way Tocqueville Society in their annual magazine showcasing extraordinary gifts, volunteerism, and advocacy.

The anniversary year ended with Harford Mutual being named as a Top Workplace by The Baltimore Sun Media Group. Our employees participated in a private survey conducted by the media group and based on their responses and the tallied results, Harford Mutual was awarded with the incredible honor.

YEARS OF SERVICE AWARDS

5 YEARS  
Mike Borzatti  
CJ D'Alessio  
Kristyn Gray  
Jeff Okeson  
Stacey Pacoe

10 YEARS  
Joe Dumas  
Dave Elliott  
Matt Huestis  
Randy Pugh  
Carrie Schoeb

20 YEARS  
Matt Stachowiak

25 YEARS  
Maureen Arnold  
Pat Gonzalez

30 YEARS  
Robin Raymond

35 YEARS  
Judy Lentz

DESIGNATIONS EARNED IN 2017

Alex Troutman AINS, CPCU  
Brigette Reed AIAF  
Cheryl Amberman CIC  
DJ Gargano AIC

Ian Magill ARM  
Jaclyn Selke AIC  
Katelyn Nordall AU  
Kelly Dougherty CPCU

Kym Horton ARM  
Lauren Paige AIC, AINS  
Peter Lyons AIC

Stacy Mentzer AINS  
Tia Timpson AIAF

giving back



Serving lunch to St. Margaret parishioners at their First Fridays Seniors Program.



Ringin the bell during the holiday season for The Salvation Army.



Cleaning donated purses for the Harford Family House purse sale.



Leadership Team (l to r): Senior Vice President Glenn Burcham, CIC, CRM; Vice President Mark Sammarone, CIC, CISR; President James Denham, CPCU, CIC; Vice President, Nicole Grebloskie, CAPI, CIC, CISR; Operations Manager Karen Leary, CIC, CISR; Vice President Joshua Isler, CIC

flagship agent

A hallmark of our company, our Corporate Social Responsibility mission was never more meaningful than in our 175th Anniversary year. We provided and served dinner to the 11 fire stations in Harford County commemorating our beginnings as a fire mutual company and thanking the first responders for their dedicated volunteer service to our community. Bringing our total donated funds for 2017 to \$271,600, we allocated an additional \$26,000 to our giving back budget so that each employee could donate \$175 to the charity of their choice. We touched 127 different charitable organizations—some familiar—but many new to us and to our staff helping to increase awareness to the needs of the vulnerable and the resources available. We actively sought out opportunities to lend a hand with new volunteer activities and sponsored events and will be adding many of them to our annual volunteer

calendar. And, we are still the number one employee giving campaign for The United Way in Harford County with nearly \$42,000 in annual employee allocations. Running



\$271,600 TO  
127 CHARITIES

bake sales and raffles; joining walk teams or no-shaving teams; collecting plastic bags or school supplies; serving as board members or just helping out for a single project—our employees give of their time, their talent, and their treasure all year long.

Agencies designated as FLAGSHIP only number 15, just 3% of our agency plant, but they contribute \$84.6M Direct Written Premium, 42% of our overall premium. To reach Flagship status and enjoy its accompanying benefits, agencies must meet our DWP threshold and maintain a low loss ratio; but most importantly, they must be a committed agency partner to Harford Mutual working closely with us to build a profitable book of business.

In 2017, after a 300% five-year growth trajectory, we added Arthur Hall Insurance to our list of dedicated Flagship agencies. We asked the principals at Arthur Hall Insurance for their perspective on our partnership.

YOUR AGENCY WAS APPOINTED IN 2008. WHAT MADE YOU SEEK AN APPOINTMENT WITH HARFORD MUTUAL?

Harford Mutual has a fantastic reputation for partnering with their agents and dedicating the necessary resources to form a long-term relationship that supports premium and revenue growth. They’ve always been that company you want on your side as an independent agency.

WHAT DIFFERENTIATES HARFORD MUTUAL FROM OTHER CARRIERS YOU WORK WITH?

The transparency and mutual trust allows for candid conversations about risk factors that affect each individual client. The ability and flexibility to have a discussion and create a risk management strategy that focuses on weak areas while promoting strengths has proven to be a winning conversation for our clients.

YOU MADE FLAGSHIP THIS YEAR—TO WHAT DO YOU ATTRIBUTE YOUR GROWTH?

Our growth is a direct result of our ability to engage the Harford Mutual underwriters to discuss the specific characteristics of each risk and to develop terms that will address the insured’s exposures. Harford Mutual empowers their underwriters to own the relationship with the agent and the insured resulting in an entirely synergized partnership. Combined with coverage expertise and products, the results are a powerful dynamic. This level of trust and mutual ambition for the greater good of the client has produced some major wins, and we anticipate this continuing for years to come.

WHAT ARE YOUR FAVORITE THINGS ABOUT WORKING WITH HARFORD MUTUAL?

Having access to senior management at all levels is tremendously rewarding and allows for a sense of peace. Business is often complicated and the opportunity to work through challenges when they arise is reassuring while at the same time absolutely mandatory if we are going to grow together and provide the most comprehensive risk management programs to our mutual insureds. And, while this flexibility and access is indicative of a smaller, regional carrier, Harford Mutual has the capacity and expertise to match coverage requirements that are more common with our larger carrier relationships.

TEAMS	COLLECTIONS	FUNDRAISING ACTIVITIES	VOLUNTEER EVENTS
<ul style="list-style-type: none"><li>• Muscular Dystrophy Muscle Walk</li><li>• Relay for Life-American Cancer Society</li><li>• SARC Pumped Up!</li><li>• Komen Race for the Cure</li><li>• March of Dimes March for Babies</li><li>• No Shave November</li><li>• Homeruns for the Homeless</li></ul>	<ul style="list-style-type: none"><li>• Purses for Harford Family House</li><li>• PBJ and Mac &amp; Cheese</li><li>• Coats for Kids</li><li>• Toys and Christmas Presents</li><li>• Camp supplies for MDA</li><li>• School supplies</li><li>• Plastic bags to make homeless mats</li></ul>	<ul style="list-style-type: none"><li>• Raffles for Ravens tickets</li><li>• Bake sales</li><li>• Football pools</li><li>• March Madness</li><li>• Bocce ball tournament</li><li>• Hot dog lunches</li><li>• Jeans on casual Fridays</li></ul>	<ul style="list-style-type: none"><li>• Project Homeless Connect for United Way</li><li>• Toys for Tots Warehouse</li><li>• Salvation Army Ring the Bell</li><li>• Food drive packing &amp; deliveries</li><li>• Serving lunch at St. Margaret’s Parish</li><li>• Serving dinner to Harford County fire stations</li><li>• Golf and mini-golf tournaments</li></ul>

# successful segmentation



In 2016, we started the process of analyzing our book of business with the intention of increasing profitability and more appropriately aligning our service levels. We rolled out our segmentation plans in March 2017 identifying accounts as Foundation, Middle Market, and Large. Our year-end results reveal the strategy has proven itself a success.

## FOUNDATION

Jennifer Berger (pictured center) led the Foundation unit in 2017 before being named Director of Underwriting Operations in March 2018. As part of our segmentation efforts, Foundation underwriters now have complete ownership of their entire agent relationships, writing new business and processing renewals. They have the time and tools to examine the opportunities and find ways to write the business while maintaining high renewal retention levels.

**2017 RESULTS**

- New Business increased by 15.3%
- Premium Retention 89%
- \$102M Direct Written Premium

Supervisors Donna Stein and Jennifer Brennen made changes to the workflow which improved efficiencies and increased speed and service for a more timely response from the underwriters. Berger says that by spending more time with the agent and the insured, the Foundation underwriters can identify those agents that are most committed to partnering with Harford Mutual.

## MIDDLE MARKET

Colin Brandt (pictured right) leads the Middle Market Unit where accounts have premium levels ranging from \$50,000 to \$250,000. This diversity in account size and exposures required Brandt to re-organize the underwriters to match their strengths within their new roles. They now have the resources to build deeper relationships with their assigned agents and have increased their agency visits fourfold in 2017.

**2017 RESULTS**

- Direct Written Premium increased by 18%
- New Business increased by 88%

Brandt conducts frequent sales meetings to explore opportunities and celebrate team members' successes. The underwriters present new business proposals and brainstorm creative ways to write the business while adhering to our underwriting principles. Looking ahead to 2018, Brandt has identified light manufacturing, specifically food processing, metal and wood, and mechanical and general contractors as profitable growth classes.

## LARGE ACCOUNTS

Led by Christopher (CJ) D'Alessio (pictured left), the Large Account Unit manages accounts with premium in excess of \$250,000 and that present a more complex exposure scenario requiring increased consideration, class expertise, flexibility, and creativity during the underwriting process.

**2017 RESULTS**

- \$52M Direct Written Premium
- \$7.7M in New Business
- 44.3% Direct Case Loss Ratio

D'Alessio and his team take a holistic approach beginning with an interview of the agent and insured to define expectations and culminating with a multi-discipline committee review for approval.

The Large Account team is helping agencies expand their own books by identifying new growing classes they can write, such as contractors, food distributors and restaurants. Since its inception in 2015, and refining the program in 2017, the Large Account Unit has grown by 73%.

# southern territory

## OUR NEW SOUTHERN TERRITORY

GEORGIA, NORTH CAROLINA, SOUTH CAROLINA, TENNESSEE, AND VIRGINIA

Our growth and success over the past 10 years have presented challenges and opportunities. As a small, regional carrier, we were aware of our strengths, but we also realized we needed to segment and specialize if we wanted to sustain our current profitable growth trajectory and meet the needs of our agency partners.

Our expansion into South Carolina in September 2017 and Georgia in February 2018 marked the first time in 30 years that we have enlarged our service footprint. This was a direct result of agent input and our analysis that with the right combination of underwriting principles and the presence of talent on the ground, we could be successful and competitive for our agencies and their insureds.

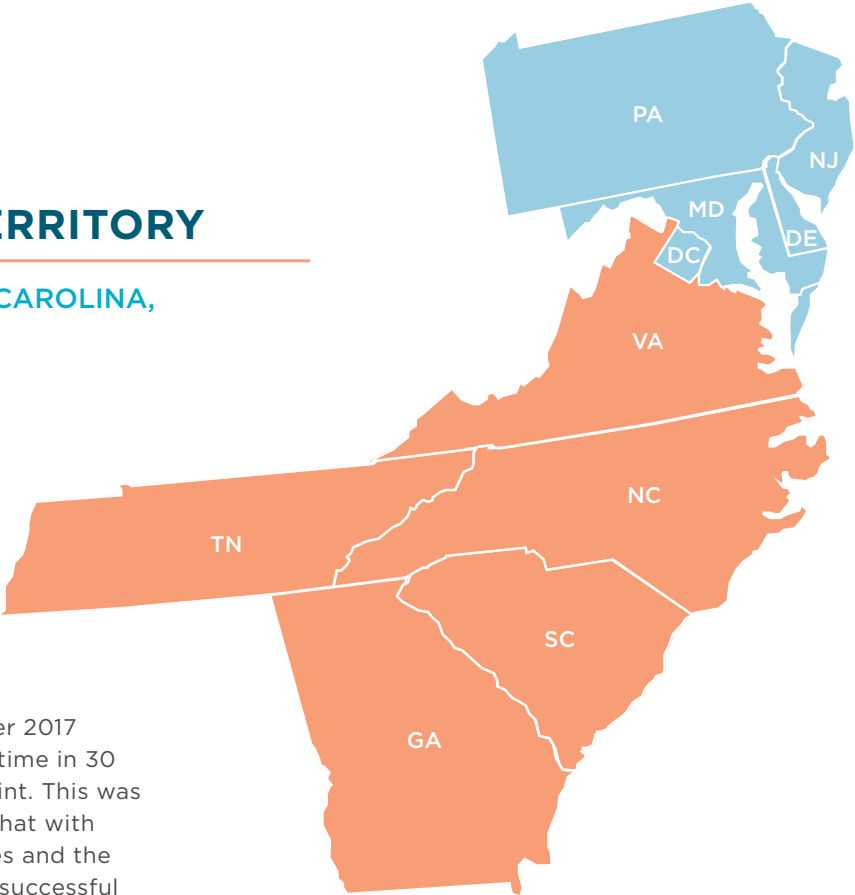
With the successful implementation of business unit segmentation, we then set out to build a team dedicated to the Southern states.

Matt Summerell, Business Development Manager, will lead our Production Underwriters: Bill Langston in Virginia; Cindy Presnell in North Carolina; Sandra Antonicello in Tennessee; and Sheila Tucker in South Carolina and Georgia.

Gary Wilson is a Senior Loss Control Specialist exclusively servicing our Southern states.

All of these employees live in the territory and are familiar with the regional nuances of the Southern states and their distinctive risks. Their mission is to drive production, growth, and profit for our agents and Harford Mutual.

Our appetite for the territory will be consistent with our overall company strategy of being a generalist carrier, and we will stay true to our conservative underwriting with a limited capacity for property and coastal exposures. We will continue to maintain our franchise value for our currently appointed agents by making only deliberate new

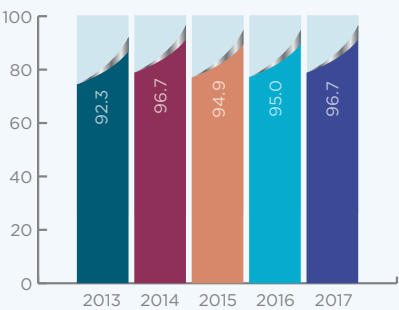


appointments in the area to encourage meaningful growth with a limited agency plant size. Our goal with only partnering with agencies who value our commitment to mutual success is to be a top carrier in those agencies to obtain and provide the best opportunities.

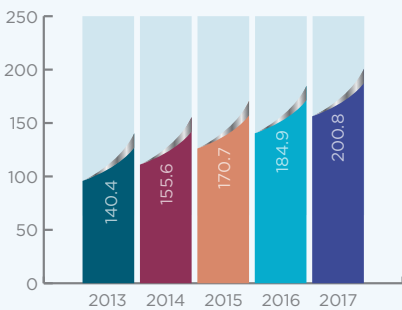
**SOUTHERN TERRITORY TEAM**

Matt Summerell, Business Development Manager  
Sandra Antonicello, Production Underwriter, TN  
Bill Langston, Production Underwriter, VA  
Cindy Presnell, Production Underwriter, NC  
Sheila Tucker, Production Underwriter, SC & GA  
Katie Daugherty, Senior Underwriter, Middle Market  
Gary Wilson, Senior Loss Control Specialist

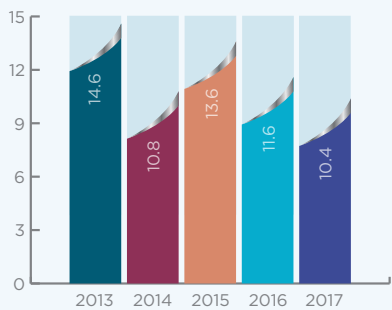
NET COMBINED RATIO (PERCENTAGE)



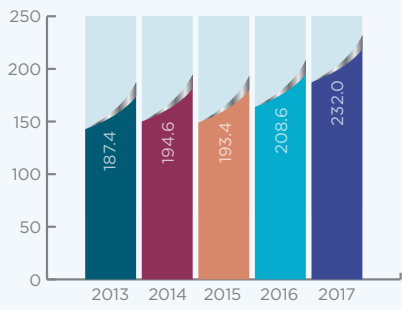
DIRECT WRITTEN PREMIUMS (IN MILLIONS)



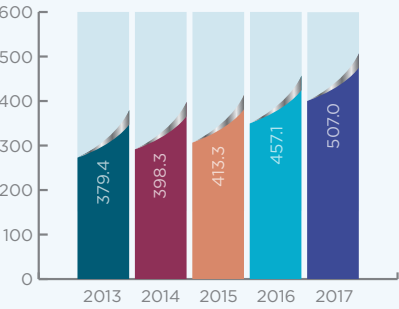
NET INCOME (IN MILLIONS)



POLICYHOLDERS' SURPLUS (IN MILLIONS)



TOTAL ADMITTED ASSETS (IN MILLIONS)



10-YEAR  
COMBINED RATIO OF  
97.3

CONDENSED CONSOLIDATED STATUTORY FINANCIAL REPORT (IN THOUSANDS)

STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS as of	12/31/2017	12/31/2016
Bonds	\$281,633	\$254,644
Common Stocks	129,992	111,959
Real Estate	4,807	4,424
Cash and Short-Term Investments	30,560	28,872
Premiums and Agents' Balances	52,336	46,423
Other Assets	7,694	10,827
<b>Total Admitted Assets</b>	<b>\$507,022</b>	<b>\$457,149</b>
Unpaid Losses and Loss Adjustment Expenses	\$154,401	\$132,883
Unearned Premiums	92,747	85,390
Other Liabilities	27,850	30,265
<b>Total Liabilities</b>	<b>274,998</b>	<b>248,538</b>
<b>Total Policyholders' Surplus</b>	<b>232,024</b>	<b>208,611</b>
<b>Total Liabilities and Surplus</b>	<b>\$507,022</b>	<b>\$457,149</b>
STATEMENTS OF INCOME for the years ended	12/31/2017	12/31/2016
Net Premiums Earned	\$169,501	\$156,066
Losses and Loss Adjustment Expenses	103,469	95,560
Other Underwriting Expenses	62,900	54,984
Net Underwriting Gain	3,132	5,522
Investment Income	10,456	10,146
Other Income	141	132
Income Tax (Expense)	(3,360)	(4,203)
<b>Net Income</b>	<b>\$10,369</b>	<b>\$11,597</b>

board of directors

officers



HARFORD MUTUAL BOARD OF DIRECTORS  
Left to right: Boyle Jr., Kennedy, Collins III, Scott, Linkous, Smith, Mezzanotte Jr., Roman, Fry, McDorman Jr.



HARFORD MUTUAL OFFICERS  
Left to right: Thompson, Rink, Mashinski, Linkous, Baum, Poole, Goodin, Kellner III

THE BOARD OF DIRECTORS

**CLARENCE C. BOYLE JR.**  
Retired President, Boyle Buick  
GMC Truck

**JAMES J. KENNEDY**  
Retired President and CEO,  
Ohio Mutual Insurance Group

**ATWOOD COLLINS III**  
Executive Vice President,  
M&T Bank Corporation

**STEPHEN T. SCOTT**  
Chairman  
Retired Principal, Investment  
Counselors of Maryland

**STEVEN D. LINKOUS**  
President and CEO,  
Harford Mutual Insurance Companies

**ABIGAIL E. SMITH**  
President, Abigail E. Smith,  
Associates, P.A.

**ALBERT J. MEZZANOTTE JR.**  
Partner, Whiteford, Taylor  
& Preston, LLP

**SPENCER M. ROMAN**  
Retired President and COO,  
AAA Mid-Atlantic Insurance Group

**DONALD C. FRY**  
President and CEO  
Greater Baltimore Committee

**ROBERT D. MCDORMAN JR.**  
Retired Principal, Investment  
Counselors of Maryland  
*(Term ended February 19, 2018)*

THE OFFICERS

**KENNETH G. THOMPSON**  
Assistant Vice President  
and Controller

**JEFFREY S. RINK**  
Senior Vice President, Marketing and  
Business Development

**KAREN L. MASHINSKI**  
Vice President and Chief  
Financial Officer

**NOT PICTURED:**  
**SUSAN DINNIEN**, Vice President And Chief Underwriting Officer

**STEVEN D. LINKOUS**  
President and  
Chief Executive Officer

**TIMOTHY F. BAUM**  
Vice President and  
Chief Information Officer

**JUNE A. POOLE**  
Vice President and Treasurer

**JOHN D. GOODIN**  
Senior Vice President,  
Commercial Business Services  
*(Retired March 26, 2018)*

**FRANK P. KELLNER III**  
Vice President,  
Claims and Corporate Secretary



## THE HARFORD MUTUAL INSURANCE COMPANIES

200 North Main Street  
Bel Air, Maryland 21014-3544  
800-638-3669

**HARFORDMUTUAL.COM**

The Harford Mutual Insurance Company, Founded 1842  
Firstline National Insurance Company, Founded 1988