

HARFORD MUTUAL

INSURING OPPORTUNITY®

2019

insuring
opportunity
through
mutual
success®

purpose

Insuring opportunity through a commitment to mutual success

mission

Protecting the financial well-being of our policyholders through mutuality, financial strength, quality insurance products and services, and meaningful partnerships

vision

We are a regional carrier of choice and a preferred employer with the resources and agility to best serve the expanding needs of our team, our policyholders, and our agency partners

values

- Financial Strength & Stability
- Integrity
- Customer Service & Relationships
- Collaboration
- Performance Accountability & Self-Improvement
- Corporate & Social Responsibility



2019

at-a-glance



\$230.9 MILLION DIRECT WRITTEN PREMIUM

\$41.9 MILLION NEW BUSINESS

8.8% REVENUE GROWTH OVER 2018

89% PREMIUM RETENTION

11 TEAM MEMBERS EARNED A PROFESSIONAL OR INSURANCE DESIGNATION

295 YEARS OF SERVICE FROM 24 TEAM MEMBERS WITH MILESTONE ANNIVERSARIES

24,930 POLICIES IN EFFECT

\$275 MILLION POLICYHOLDERS' SURPLUS

86.0 NET COMBINED RATIO

Insuring Opportunity

PRESIDENT'S MESSAGE

"If you can't fly, then run. If you can't run, then walk. If you can't walk, then crawl. But whatever you do,

...you have to keep moving forward."

Dr. Martin Luther King, Jr.

Addressing hundreds of high school students in 1967, Dr. King spoke those words to inspire perseverance and staying the course during a tumultuous year. As we reflect on the financial gains and accomplishments of 2019, his words perfectly illustrate how Harford Mutual did not let the challenges of 2018 thwart our resolve or commitment to long-term performance, but instead had us rally to deliver the best results in the company's 178-year history.

The contrast between the financial results of 2018 and 2019 is staggering, and our commitment to "move forward" was rewarded in 2019 as we turned all our financial metrics in the right direction. Strong premium retention and robust new business revenues of nearly \$42 million fueled our top-line expansion. Overall growth exceeded plan by 5.2 points, ending the year up 8.8% with total year-end direct premium revenue of \$230.9 million. Harford Mutual's growth once again outpaced the latest 2019 industry projection of 3.5% for the commercial segment. Our growth, along with extremely favorable loss experience, ushered the company through the year to end with a noteworthy net combined of 86.0, outperforming plan by 12.5 points.

As you may recall, December of 2018 wreaked havoc on the investment market; and, in turn, led to a 4.3% decline in the Policyholders' Surplus for the year. The volatility was short-lived, and we were able to recover the unrealized investment losses by February 2019. An extremely favorable investment market, coupled with net income that far exceeded plan, brought Policyholders' Surplus to a balance of \$275 million, a \$53 million, 24% increase over 2018. Firmly surpassing the \$250 million threshold at year-end, A.M. Best upgraded the company to a Financial Size IX (>\$250M) furthering our ability to write more sophisticated policies and accounts for our agents and policyholders by meeting the growing financial requirements of lending institutions. Additionally, our five-year surplus growth at 41% and 10-year at 93% continues to dramatically outperform the industry.

In March 2019, we welcomed David Curtin as the Assistant Vice President of Underwriting. With more than 30 years of experience in the insurance industry with both mutual and stock carriers, David saw opportunity in restructuring our Foundation Unit (accounts less than \$50,000 in premium) with a new team approach to underwriting as well as identifying new

supervisors for our territories. Coinciding with David's arrival, we opened our new office in Fort Mill, South Carolina. Dedicating business development, underwriting, and loss control staff to that office paved the way for tremendous success throughout our Southern Territory in 2019. With plans to add claims staff in Fort Mill, the ramp up of our new Product Development team, and making the final preparations to roll out our new online rating system and agent portal by late-summer, we expect to see a continued positive response from our agents and insureds as we deploy these corporate strategies throughout 2020. Even with the good fortune of favorable loss experience, mild weather, and a robust stock market, no company could post the financial results we did for 2019 without the benefit of talented leadership. In May, we announced the promotion of our CFO Karen Mashinski to Senior Vice President and Treasurer; the promotion of our General Counsel and Director of Compliance Geneau M. Thames, Esq. to Assistant Vice President and the officer position of Corporate Secretary; and announced the newly formed division of Administrative Operations to be led by Vice President Frank Kellner. In September, we welcomed Wayne Gearhart as Assistant Vice President, Claims. Wayne will lean on his 24 years of claims leadership as he aligns our claim staff and operations with our long-term strategic plans.

"Without strategy, execution is aimless.

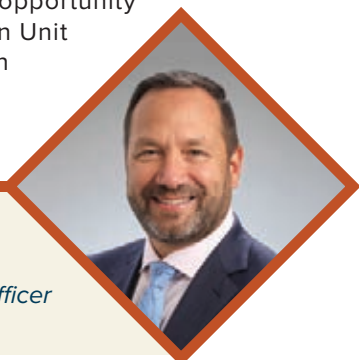
Without execution, strategy is useless."

- Morris Chang

Controlled but ambitious profitable growth. Underwriting optimization. State expansion. Extensive employee investment. Technology integration and legacy conversion. These are just some of the initiatives we unveiled to all employees in June as part of our VISION 2027 outlining our strategic plans for the next eight years. This blueprint maps out the steps and initiatives necessary over the next three years to prepare us for scalable growth and expansion over the subsequent five. Our vision was enthusiastically received by our board of directors and employees as we introduced our new taglines "Insuring Opportunity®" and "Insuring Opportunity through Mutual Success®" and launched our

STEVEN D. LINKOUS

President and Chief Executive Officer





Our employees can focus on our future clearly with our VISION 2027 strategic plan.

refreshed purpose, mission, and vision statements and corporate values. Energized by our employees' response to the plans and with everyone on board and in sync, we finished the second half of the year by completing one strategic initiative after another: enhanced employee engagement and communication; telecommuting capabilities; new onsite fitness center; rebranding plan; product development team; expansion of the special investigative unit; just to name a few.

Hand in hand with planned growth is the responsibility to not lose our culture in the process. We embarked on an employee engagement strategy as part of our VISION 2027 and already completed several elements including an all employee survey, Lunch-N-Learn workshops to deep dive into topics selected by employees, increased employee communications through our newsletter and internal messaging monitors, and the formation of our Innovation Chamber to foster new ideas from the ground up. During 2019, we hired 25 new team members to join us in achieving our mission. Of those, four were intern conversions, eight were referred by existing employees, and one was a former employee—more than half as a result of a consistent and positive experience with Harford Mutual. In tandem with those engagement efforts to create and sustain a great company culture, we are also working to improve the space and tools we use every day. In the third quarter, we added "Workspace" as a strategic initiative demonstrating not only the fluid and adaptable nature of any strategic plan, but also our commitment to making investments that will enrich our meeting spaces, better support our workforce and partners who are geographically-diverse, and take advantage of the economic and operational benefits that come with upgrading our aging infrastructure.

While an official announcement will not come until after the policyholders vote in May at their Annual Meeting, our planned reorganization to evolve Harford Mutual into a mutual holding company remains on track. Over the years, our board of directors has explored opportunities that align with our commitment to excellent customer service, maintain our financial strength, and support our independent agents. Based on those principles, they unanimously voted in November to take steps to reorganize Harford Mutual into a mutual insurance holding company to be called **Harford Mutual Insurance Group** effective October 1, 2020. This organizational structural opportunity will expand Harford Mutual's capabilities for innovation and growth while preserving and fostering the concept of policyholder membership and the principles of mutuality that have been the heart of our business for nearly 178 years.

From our mission, vision statements, and strategies, to rebranding, paint and new carpet, and everything in between, these are the realities of an organization "moving forward." While we could easily become overwhelmed with the idea of change, we choose instead to embrace it as an environment and condition of continual improvement—and success. As stewards of the company, we have a duty to ensure that Harford Mutual lives on for another 178 years by *Insuring Opportunity®*.

STEVEN D. LINKOUS
President and Chief Executive Officer

Cultivating Success

WOMEN IN LEADERSHIP



While Harford Mutual has remained a successful company for nearly 178 years, we renewed our values and vision in 2019 to define our company culture. With a goal to always cultivate success for all employees, we emphasized cultural elements such as valuing collaboration, fostering community involvement, and emphasizing integrity – all of which are especially important in affording women opportunity.

Our female leaders, Jennifer Berger, Karen Mashinski, June Poole, Stacey Rebbert, Geneau Thames, and Abigail Smith, are establishing a legacy for future generations at Harford Mutual. They not only exhibit a professional capacity of quality work and leadership in their respective areas, but in giving representation for women new to their careers or to the industry, they demonstrate that there is opportunity for success and fulfillment in insurance and at Harford Mutual.



“As Harford Mutual’s first female board member and now chair, I’ve witnessed first-hand as they’ve deliberately developed a

culture of inclusiveness and opportunity

for their employees.”

- Abigail Smith

June Poole



Serving as Treasurer for 22 of her 31 years with Harford Mutual, Vice President **June Poole** is an Accredited Pension Administrator and oversees the company’s retirement savings plan. She encourages and educates employees to the benefits of the 401(k) plan and its generous company match. *“With a clear vision for its future and its employees, Harford Mutual offers a robust employee benefits program with professional development, the opportunity to work from home, and generous contributions to healthcare creating a stable and attractive and supportive work environment for women.”*

Geneau Thames



The first African-American woman in a management role at Harford Mutual, AVP, General Counsel and Corporate Secretary **Geneau Thames, Esq.** is forging a path for women in law, in insurance, and at Harford Mutual. She was appointed to the Maryland State Ethics Commission in 2019 and considers her promotion to officer at Harford Mutual as her proudest professional achievement. *“Supported by an atmosphere that is both family-friendly and flexible, women at Harford Mutual are truly empowered to perform their best work and are rewarded accordingly.”*

Proud & Honored

TEAM MEMBER RECOGNITION

Harford Mutual recognizes that people have a choice in where they work and in how they pursue their career goals. We are especially proud and honored that the following team members have chosen to not only start or maintain their careers here with us, but also that they choose to live our company value of Performance Accountability & Self-Improvement through continuing education. Their efforts make us a better company through experience, maturity, and industry knowledge that in turn allows us to provide our agents and insureds with the professional service they expect and deserve.



*Marketing Communications Specialist **Stacey Klima** graduates from Harford Leadership Academy.*



*Underwriters **Jenn Holbrook** and **Greg Colelli** are inducted into the CPCU Society.*



*AVP and General Counsel **Geneau Thames, ESQ.** is appointed and sworn into the Maryland State Ethics Commission.*

Professional Development

ACAS

Scott Macejak

AIC

Michele Crisco
Brett DeMille
DJ Gargano
Kelly Lozoskie

AINS

Zachary Koslowsky
Brittany Stein

CPCU

Greg Colelli
Jennifer Holbrook

MBA

Mike Borzatti

Service Milestone Anniversaries

5 YEARS

Kelly Dougherty
Ryan Erdman
Wayne Hammond
Jennifer Holbrook
Kimberly Horton
Zachary Koslowsky
Bridgett Sadler
Jaclyn Selke
Joshua Swimmer
Alexander Troutman

10 YEARS

Karen Davis
Debra Foose
Teri Mairose
Gail Mandell
Jeffrey Rink
Tara Williams

15 YEARS

Jan Orr
Kenneth Thompson

20 YEARS

Cynthia Presnell
Judith Scott
Ellen Waudby

25 YEARS

Brian Holloway

30 YEARS

Victoria Frederick

40 YEARS

Nancy Spencer

Volunteering & Giving

COMMUNITY SUPPORT

Corporate & Social Responsibility Statement

Harford Mutual Insurance, founded on the principles of mutuality, is committed to being meaningfully involved in the communities we serve. We encourage employee engagement through company coordinated events and provide paid time off for volunteering opportunities and personal participation. Our charitable giving supports organizations that are focused on Health & Human Services through poverty alleviation, youth development, and community health & safety, as well as organizations that support a Vibrant Community.



2019 was a record-setting year for Harford Mutual, not only from a financial perspective, but also through our efforts to embody our culture and reinforce our commitment to corporate and social responsibility.

Through direct program support, event sponsorships, and volunteer hours used, we donated more time and financial resources than any other year in our company's 178-year history. In 2020, we will continue supporting our employees' interest in volunteering, further extend our reach to our expanding Southern Territory, and explore additional outlets where we can Insure Opportunities within the communities we serve.



Valued Partner

AGENCY SPOTLIGHT



(L to R) President and COO John Wadsworth and CEO Rusty Strawn stand proudly in front of their office in McDonough, Georgia. The firetruck, an often-used symbol representing the beginnings of insurance, was built during WWII and is one of only a few made with actual steel because of the shortage during the war effort.

 **Strawn & Co.,
Insurance**
AGENTS • BROKERS • RISK MANAGERS

Strawn & Co., Insurance is among Atlanta, Georgia's oldest and largest independent insurance agencies. Founded in 1972, W. Norman Strawn, Sr. and his wife Kaye were the sole proprietors until son Rusty joined in 1985. Rusty now serves as CEO; and, along with their entire staff, are committed to not only growing the business but partnering with Harford Mutual to offer their clients the best products and services on the market.



We asked President & COO John Wadsworth about their partnership with Harford Mutual:

Since partnering with Harford Mutual in 2018, you've grown to over \$500,000 in primarily small business. To what do you attribute your growth?

Our aggressive prospecting along with Harford Mutual's underwriting appetite and ability to process new business opportunities have allowed us to quickly build volume.

What differentiates Harford Mutual from other carriers you work with?

Harford Mutual understands the realities of how small businesses operate. Many carriers expect small businesses to have the same risk management practices as much larger middle market accounts. Harford Mutual works to guide insureds to best practices that make sense within the small business space.

With our team at Harford Mutual, we can put together an insurance program that provides the coverages a small business owner needs at a fair premium while helping the insured operate safely and profitably.

What are your favorite things about working with Harford Mutual?

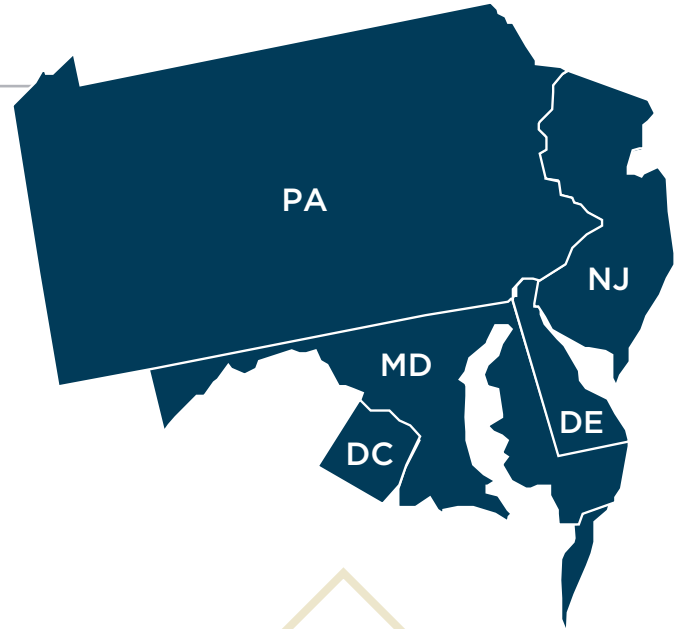
First and foremost, the people. Not only do we receive excellent service from our partners at Harford Mutual, but we have developed friendships that absolutely help drive business. Harford Mutual has the technology, underwriting expertise, and coverages that we need in a small business partner, but the employees of Harford Mutual absolutely put the company over the top.

Prospering NORTHERN TERRITORY

The Northern Territory has experienced solid growth over the last 10 years with an increase of 228% in Direct Written Premium since 2010. Much of this growth can be credited to our implemented strategies of investing in underwriting, loss control, and claims services necessary to attract larger insureds. Average policy premium has risen from just over \$3,300 in 2010 to \$8,800 in 2019, and accounts greater than \$50,000 in premium (Middle-Market and Large Accounts) have increased from 22% to over 50%. In 2020, we will renew our focus on Foundation Accounts (account premium less than \$50,000), specifically those that are eligible to be quoted in our online rating program, RapidWrite. Our Agency Automation Specialist will be providing enhanced online RapidWrite training through personal visits to the agents' office and webinars, and the new Product Development Team will be addressing the coverage needs necessary to attract and retain more small business.

We will also be focused on class diversification ensuring we have the products and pricing to drive profitable growth in other segments of business including office, mercantile, building lessor's risk only, restaurants, and distributors. With over 70% of the current Direct Written Premium in our Northern Territory in habitational risks and contractors, we recognize the importance to provide a strong market for a wider array of customers.

Comprised of our oldest states, the Northern Territory includes 228 active agents, 40% appointed with Harford Mutual for over 20 years. To honor these deep and enduring relationships with our agency partners, our plan moving forward is to facilitate steady, strategic growth within those active agencies and to limit agency appointments to currently underserved areas such as Western Maryland and Central and Western Pennsylvania.



228%

INCREASE
IN DWP
SINCE 2010

267%

INCREASE IN
AVERAGE PREMIUM
SIZE SINCE 2010

40%

OF TERRITORY
AGENTS APPOINTED
20+ YEARS

PENNSYLVANIA NEW JERSEY
DELAWARE MARYLAND
DISTRICT OF COLUMBIA

Growing **SOUTHERN TERRITORY**

Since 2010, the states in our now defined Southern Territory have experienced consistent growth year-over-year. After expanding into Georgia and South Carolina, and opening our Southern office in Fort Mill, South Carolina in 2019, we have benefited from having underwriting, loss control, and management resources closer to the agents and the policyholders we serve. This renewed focus and resource commitment resulted in 17% growth in 2019 and 66% over the last five years. 2019 was by far our best new business year in the Southern Territory writing \$14M in new premium, exceeding \$10M for the first time in our company's long history.



Our Southern Territory book of business has historically been dominated by Foundation Accounts (account premium <\$50,000) and this has served us well for many years. However, we have experienced steady growth in our production of accounts over \$50,000 in Direct Written Premium (Middle Market and Large Accounts) with this business increasing from 14% of our book in 2010 to over 44% as of year-end 2019. We will continue to focus on growing our market share in Middle-Market and Large Accounts while maintaining our success in the Foundation space. Like our Northern Territory, we will look to write commercial accounts of all sizes; but, with regard to small business, we will stress the importance of agency utilization of our online quoting and issuance system, RapidWrite. An updated and enhanced version of RapidWrite will be delivered to agents later in 2020. Our Agency Automation Specialist will be reaching out to agents over the next few months to schedule in-person and internet-based RapidWrite training as we look to increase the flow of online applications and quotes.

The Southern Territory includes 192 active agents, 55% appointed with Harford Mutual in the last 5 years. We have actively sought out new agency partnerships in Georgia and South Carolina and are making strategic appointments in underrepresented areas of Virginia and North Carolina. We will only make a few appointments in Tennessee as we continue our work to grow our book with existing agencies who are committed to strengthening our partnership. As we look to expand our representation in all our states, we will always prioritize protecting the franchise value of our agents.

VIRGINIA **NORTH CAROLINA**
TENNESSEE **GEORGIA**
SOUTH CAROLINA

95%

**INCREASE
IN DWP
SINCE 2010**

125%

**INCREASE IN
AVERAGE PREMIUM
SIZE SINCE 2010**

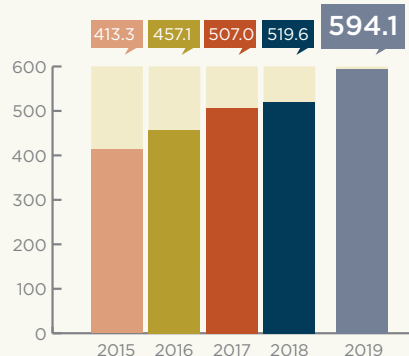
55%

**OF TERRITORY
AGENTS APPOINTED
IN THE LAST
5 YEARS**

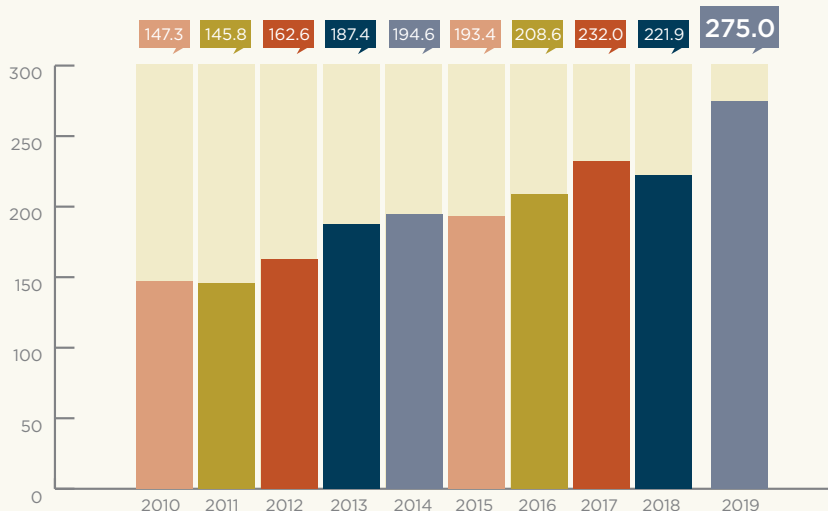
Harford Mutual

FINANCIAL HIGHLIGHTS

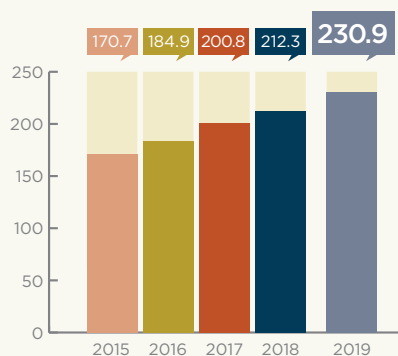
Total Admitted Assets
(in millions)



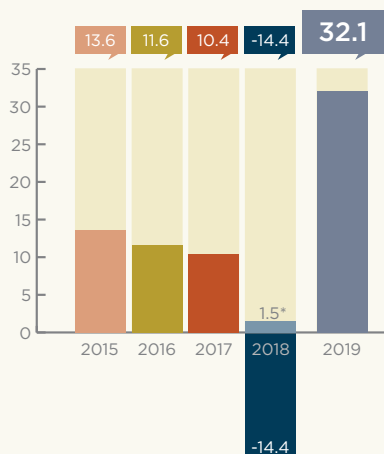
Policyholders' Surplus
(in millions)



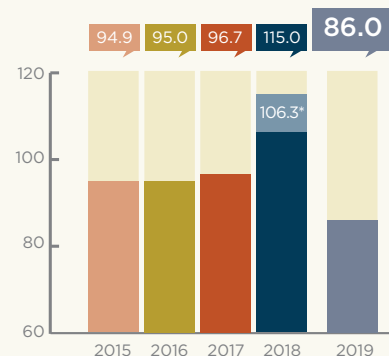
Direct Written Premiums
(in millions)



Net Income
(in millions)



Net Combined Ratio
(percentage)



*Result excluding accelerated depreciation of future information technology project expenses into calendar year 2018.



Financial Size IX (Surplus greater than \$250 million)

CONDENSED CONSOLIDATED STATUTORY FINANCIAL REPORT (in thousands)

STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS *as of*

	12/31/2019	12/31/2018
Bonds	\$326,463	\$289,496
Common Stocks	147,624	117,162
Preferred Stocks	7,506	5,064
Real Estate	5,369	4,691
Cash and Short-Term Investments	34,279	43,214
Premiums and Agents' Balances	64,882	55,368
Other Assets	7,975	4,627
Total Admitted Assets	\$594,098	\$519,622
Unpaid Losses and Loss Adjustment Expenses	\$179,146	\$177,681
Unearned Premiums	107,680	97,857
Other Liabilities	32,306	22,138
Total Liabilities	319,132	297,676
Total Policyholders' Surplus	274,966	221,946
Total Liabilities and Surplus	\$594,098	\$519,622

STATEMENTS OF INCOME *for the years ended*

	12/31/2019	12/31/2018
Net Premiums Earned	\$192,186	\$181,255
Losses and Loss Adjustment Expenses	96,620	137,932
Other Underwriting Expenses	72,026	72,346
Net Underwriting Gain [2018 - (\$13,114) excluding IT system write-down]	23,540	(29,023)
Investment Income	17,214	15,384
Other Income	255	42
Income Tax (Expense)	(8,914)	(783)
Net Income [2018 - \$1,529 excluding IT system write-down]	\$32,095	\$(14,380)

insuring
opportunity
 through
mutual
 success®

2019 BOARD OF DIRECTORS



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



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



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



DONALD C. FRY
President and CEO,
Greater Baltimore
Committee



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



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



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



VERNON A. REID JR.
Retired Bond Trader,
T. Rowe Price



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



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

2019 OFFICERS



STEVEN D. LINKOUS
President and CEO



JEFFREY S. RINK
Senior Vice President



KAREN L. MASHINSKI
Senior Vice President,
Chief Financial Officer
& Treasurer



TIMOTHY F. BAUM
Vice President, Chief
Information Officer



FRANK P. KELLNER III
Vice President,
Administrative
Operations



JUNE A. POOLE
Vice President



DAVID R. CURTIN
Assistant Vice President,
Underwriting



F. WAYNE GEARHART
Assistant Vice President,
Claims



GENEAU M. THAMES, ESQ.
Assistant Vice President,
General Counsel,
Corporate Secretary



insuring
opportunity
through
mutual
success®

HARFORD MUTUAL

INSURING OPPORTUNITY®

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