



HARFORD MUTUAL

Committed to Mutual Success

Annual Statement 2016



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

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Harford Mutual Insurance, founded on the principles of mutuality, is committed to being meaningfully involved in the communities we serve. The Company's charitable giving focuses on health & human services as well as organizations that support a vibrant community.



2016 AT-A-GLANCE



92.6% INCREASE
IN POLICYHOLDERS'
SURPLUS SINCE 2006

\$184.9 million Direct Written Premium

\$26.4 million In New Business Premium Written

8.4% Growth over 2015

92.9% Premium Retention

86.3% Policy Retention

\$208.6 million Policyholders' Surplus

28,995 Policies In Force

295 years of service from **19** employees
with milestone anniversaries

17 insurance designations earned
by employees

PRESIDENT'S MESSAGE

"Success through the united efforts of many."



Steven D. Linkous
President and Chief Executive Officer

Almost 20 years before the first shot of the Civil War rang out, a group of local business owners, farmers, and home owners came together to form *The Mutual Fire Insurance Company in Harford County*. Understanding the importance of protecting the financial well-being and livelihood of their neighbors and fellow citizens, these Harford County visionaries established our company on the same foundation and principles of mutuality set forth by Benjamin Franklin in forming The Philadelphia Contributionship in 1752, the oldest insurance company in America. Like Franklin, their altruistic motives afforded individual and communal security during our nation's infancy and embarked upon a legacy that continues into our 175th year.

The Maryland Legislature granted our charter in November 1842. From the very beginning, our reliance on the steadfast principles of conservatism, long-range vision, and community for the protection of

our policyholders would sustain our newly formed company, not only through the impending Civil War, but through the Great Depression, World Wars I and II, natural catastrophes and the growing pains of an evolving country. In April 1947, we changed our name to *The Harford Mutual Insurance Company* to better reflect our broadening business scope. While always firmly planted in the Town of Bel Air, we moved up and down Main Street several times over the years due to growth before breaking ground at our current location in 1952.

Over the past decade, the company has enjoyed tremendous success as we have evolved and expanded to meet the needs of our policyholders and agency partners in an ever-changing economy. This momentum has coupled with our focused initiatives, resulting in our 10th underwriting profit in the past 12 years. And while revenue has increased \$14 million, 8.4% in 2016 and \$72 million, 64% over the past five years, it is the steady and significant escalation of the policyholders' surplus that we are most proud of accomplishing. Fueled by a 95.0 net combined ratio for 2016, surplus grew by \$15 million, 7.8% to eclipse the \$200 million mark for the first time in our history. The year-ending \$208.6 million of surplus represents a \$100 million, 93% increase over the past 10 years.

As with all years, 2016 was not without its own set of unique challenges that must be met with fortitude and resolve. Our risk mitigation and position of strength brought us through instances of claim severity throughout the year, including \$20 million in direct losses as a result of the devastating wildfire in the Gatlinburg area of Tennessee in late November. While our impact was a small percentage of the near \$1 billion in insured losses, it represented the largest catastrophe in the company's history. Our commitment to the success of the impacted families, businesses, and community extended beyond insurance payments. I was proud to represent Harford Mutual as we presented \$20,000 to the East Tennessee Chapter of the American



* Photo is a family representation. Actual image unavailable.

175 years of Harford Mutual Presidents

Red Cross, who provided care and shelter to thousands during and after the tragedy.

While lasting legacies have been initiated by a single individual, the success that makes it a reality and propels it forward comes from the united effort of many. Guided by a dedicated management team and the wisdom of our board of directors, Harford Mutual's recent and future achievements are truly made possible by our phenomenal and talented employees who uphold our

core principles and values as they affiliate with our valued agents in serving our policyholders. I thank you for your steadfast support and the crucial role you play in our success.

Since I opened by referencing Benjamin Franklin and his influence on the company's formation, I thought it only appropriate to quote him as we celebrate our history and look forward to continuing this astonishing mission and legacy...

Without continual growth and progress, such words as improvement, achievement, and success have no meaning.

This clearly and succinctly defines our vision as we close another very profitable and accomplished year, never resting as we continue to execute the strategies of mutual success that expand and strengthen Harford Mutual's legacy for the next 175 years.

STEVEN D. LINKOUS
President and Chief Executive Officer



Steven Linkous (r) presenting a \$20,000 donation to East Tennessee Red Cross Chair Steve Herzog (l) and joined by our agency partner Dennis Koontz of Consolidated Insurance Services in Knoxville.

EMPLOYEES

"Employees are a company's greatest asset. They're your competitive advantage."

~Anne M. Mulcahy, Former CEO and Chairwoman of Xerox Corporation



2016 Annual Employee Photo

Harford Mutual Insurance plans for steady and deliberate growth of our business through careful consideration of state expansion and deeper segmentation of our business. To accomplish this, we emphasize our efforts to aggressively recruit new staff and to support the continued development of our existing staff.

Anticipating the retirement of our CIO, we welcomed Tim Baum to our team in August as Director of IT, promoting him to Vice President and CIO in October. Baum's extensive technology project management experience has allowed him



Accepting the 2016 "Employer of the Year" award from the Maryland Chapter of the CPCU Society: Vice President, Claims Frank Kellner; Vice President, Marketing & Business Development Jeff Rink; IT Project Leader, and current chapter president, Caty Hartley; and Underwriting Supervisor, and current chapter vice president, CJ D'Alessio.



Harford Mutual's General Counsel and Director of Corporate Compliance Geneau Thames, Esq. was appointed to the State Ethics Commission by Governor Hogan. Senator Robert G. Cassilly (l) presented Geneau with the prestigious honor.

to seamlessly take the helm of the IT Project Team and reenergize the Legacy System Replacement Project. Additionally, through active partnerships at St. Joseph's, Temple and Towson Universities, we were able to keep our pipeline full for underwriting and claims talent and quickly fill several positions during the year.

Our support and commitment to continuing education for our staff resulted in 12 employees receiving 17 separate insurance designations from The Institutes, many achieving the prestigious merit of Chartered Property Casualty Underwriter (CPCU). We also partnered with a recognized training provider and hosted coaching sessions with a core group of employees giving them the tools to enrich the experience of their internal and external customers.

DESIGNATIONS EARNED IN 2016

CJ D'Alessio , CPCU	Stacey Pacoe , AU
Joe Dumas , AINS	Ryan Pagels , AIC, AINS
Joe Hoffman , AINS, AU	Kay Sheldon-Dyches , AIC
Zach Koslowsky , AIC	Jennilee Sobczak , AU-M, CIC
Steffanie Maricle , AIC, AINS	Mike Surell , AINS, CPCU
Ian McGill , AINS	Ed Yingling , CPCU

YEARS OF SERVICE AWARDS

5

Bryan Yekstat
Jennilee Sobczak
Laura Kurrle
Stasia Lozinak

15

Cheryl Amberman
Chris Moxey
Donna Stein
Jeneen Taylor
Randy Sprouse
Tracey Clark
Vikki Eacho

20

Debbie Brown
Jenni Berger

30

Brenda Zellman
Gail Bianco

10

Jerod Kuhlmann
Karen Kinney
Norma Evans

40

Pat Stifler

We ended the year being recognized by the Maryland CPCU Society for our commitment to educational excellence, receiving the "Employer of the Year" award at their annual dinner in December.



Business Development Manager Pat Stifler (l) is joined by her supervisor Vice President, Marketing & Business Development Jeff Rink. Pat celebrated 40 years of service with the company in 2016.



Accounting Assistant Tia Timpson was named "Employee of the Year" by the Harford County Government Disability Commission. This award is given to an individual with a disability who is a resident of and/or employed in Harford County and has exhibited exceptional ability and determination in entering or re-entering the workforce.

OUR HISTORY

Celebrating 175 Years of Mutual Success

James Moores (1788–1853) who became president on April 24, 1843, after James Pannell was chosen but declined. Moores served on the board until November 9, 1850.

American Civil War
1861–1865

Fire engine rushing to fire in Bel Air area in late 1920s.

Copy of the Harford Mutual constitution and bylaws 1922

33 Courtland Street: Corporate office from 1906–1921 in what was formerly Mrs. Dunnigan's Hotel.

18 Office Street: Corporate office from 1921–1953. Two original structures (one frame, one brick) acquired from Smith, Webster, Inc., a banking and canning brokerage firm. Harford Mutual used as is until 1929 when it was decided to tear down the frame building, build a replacement brick building, and update the façade to unify the two properties.

An example of a claim submission for property damage.



World War I
1914–1918

A recorded business loss—the Roe and Tucker General Store and railroad depot in Forest Hill.

World War II
1939–1945

The remodeled 18 Office Street building.

An early version of our agent's plaque with our original name The Mutual Fire Insurance Company in Harford County.

Main Street in Bel Air circa 1957.

Bay View Farm dwelling owned by Cheyney Hoskins, an original founder of The Mutual Insurance Company in Harford County, on which Policy No. 1 was issued on June 19, 1843.

Commissioned after a recent building renovation and in preparation of our 175th Anniversary, the 4 ft. x 15 ft. painted mural of Harford Mutual history below hangs in our board room. Local artist Jim Butcher invested over 1,200 hours of research, canvas preparation and painting to complete this beautiful work of art. Depicting our connection to our home state and resident county, momentous world events that the company survived, and significant company milestones and locations, the mural has become a pictorial time capsule that our employees, board, and visitors to our building can enjoy for years to come.

In January 1953, company officials surrounded by local dignitaries, employees, and business partners, lay the cornerstone of the current building. Then President Walter Welch watches Maryland Insurance Commissioner Charles Jackson wield the mason's trowel. When the building was completed, it was the largest and most expensive building in Bel Air.

An early Harford Mutual safe, now located in our lobby.

Bel Air Courthouse built in 1858 after original structure was lost to fire. Courthouse still in use today.

Older version of our logo and emblem.

Filing Department 1951 including Katherine Atkinson, Thelma Roope, Priscilla Lynch, Frances Jones, Lida Peterson, Mae Chilcoat, Lois Wenzel, Helen Wilson, Shirley Bees, and Rose Ann Pugh.



Groundbreaking for the wings of the building. Pictured (l to r) Paul Albright, Frederick Ward Associates (architects); William A. Humbert, VP and Corporate Secretary, Harford Mutual; William H. Marguess III, Chairman of the Board, Harford Mutual; Thomas A. Burke, President, Harford Mutual, and C.W. Jackson, President, CW Jackson Construction Company.

The current Harford Mutual corporate offices—55,000 sq.ft. consisting of a main building built in 1952 and two wings that were added in 1989.

The Yew Tree Inn at 212 N. Main Street in Bel Air, named after the large Yew tree growing on the front lawn. Harford Mutual purchased the property in 1950 and started construction of the stone foundation in 1952 of what is our current headquarters.

Our current logo mark.

Insurance policy written for John Sipple for his property in Baltimore County in 1861 in the amount of \$1,390.

MEANINGFULLY INVOLVED

Poverty, Youth Development, and Health & Safety

Harford Mutual has a proud history of generosity and commitment to our community. In 2016, we invested over \$260,000 in programs that support our Corporate Social Responsibility mission by aiding our neighbors, and those individuals with differing abilities, with food, housing alternatives, youth programming, and health initiatives.

As the business grows, so does our ability to give with intent and purpose. With the addition of Season Voelker as our Corporate & Community Engagement Coordinator last year, we focused on measuring impact and expanding our service footprint, not only in dollars, but with our employee engagement. Our staff lives our mission to be meaningfully involved as demonstrated by their enthusiastic response to our calls for volunteers for the programs and organizations we support. Using company-provided volunteer PTO, personal PTO, and personal after-hours time, our staff has served lunch to seniors at St. Margaret's Parish in Bel Air; acted as advocates for clients at United Way of Central Maryland's Project Homeless Connect; taught the importance of health and wellness at the Boys & Girls Clubs of Harford County's Fitness Challenge; and shopped for, collected, and delivered meals for Mason Dixon Community Services' Holiday Adopt-a-Family Program to name a few of the many projects throughout the year.



Employees volunteer to serve at the monthly First Fridays Senior Luncheon at St. Margaret's Parish in Bel Air.



With support from the company, employees raised and presented a check for \$2,500 to the ALS Association in memory of former colleague and friend Richard Crisco.



20% increase in employee payroll deductions to United Way Giving Campaign



Over **40** people added to the bone marrow registry through our "Be the Match" Bone Marrow Drive



60 new winter coats provided to kids in the local Head Start and afterschool programs

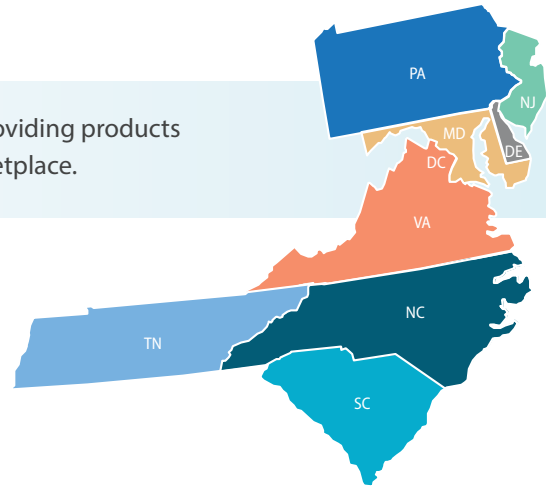


80 organizations and programs received financial support

REGIONAL CARRIER

State Overview

Harford Mutual strives to be the carrier of choice in each state by providing products and pricing that are competitive within the state and regional marketplace.



DELAWARE

Delaware is our **third largest state** with 2016 direct written premium of \$19.5M, an increase of 14% over prior year. This increase was driven by strong premium retention and **over \$3M in new business production**. We are represented by 13 agencies in the state with average written premium per agency of \$1.4M.

MARYLAND

Maryland is our **largest state** ending 2016 at \$60.4M representing 32.7% of our total direct written premium. Strong premium retention and \$6.7M in new business led to **7.8% growth for the year**. Our Maryland domiciled agencies wrote over \$5M in Middle Market business (\$50,000 - \$250,000) and Large Accounts (> \$250,000). While small business continues to represent the largest portion of our book, our growth has been driven by writing these larger premium accounts.

NEW JERSEY

New Jersey experienced significant growth moving up one position to become our **fifth largest state** with year-end direct written premium of \$17.0M and a growth rate of 20.4%. **New business was strong with \$4.1M written**. We see significant potential to increase our writings of larger accounts in 2017.

NORTH CAROLINA

North Carolina is our **seventh largest state**, ending 2016 at \$13.8M in direct written premium and including **\$1.9M in new business**. The market remains extremely competitive in the state; and, in response, we introduced our preferred company, Firstline National, for all lines of business. Continued growth is expected in 2017.

PENNSYLVANIA

Pennsylvania is our **second largest state** with year-end 2016 direct written premium of \$33.3M including **\$4.3M in new business**. 2016 was a profitable year, but we continue to see our BOP and Commercial Automobile results deteriorate. We will continue to underwrite and price these lines of business conservatively.

TENNESSEE

Tennessee remains our **smallest state** with year-end 2016 direct written premium of \$7.3M. We had one of our best new

business years writing over \$2.2M, an **increase of \$1.1M over prior year**. The loss ratio was higher than expected, but this was driven by the wildfires that occurred in the Gatlinburg/Pigeon Forge area of the state. Excluding this catastrophic event, the direct case loss ratio for the state would have been 30.4%, an indication that our core book is sound.

VIRGINIA

Virginia is our **fourth largest state** ending 2016 with \$17.9M in written premium, **\$3.0M in new business, resulting in 6.6% growth**. It continues to be one of our most profitable states, as it is for most carriers, so the competition remains fierce; however, we still achieved an outstanding premium retention ratio of 88.8%. We will continue to focus on renewal retention while striving to increase submission flow of Middle Market and Large Accounts.

WASHINGTON DC

The District of Columbia is our **sixth largest territory** with 2016 direct written premium of \$15.8M. With \$1.1M in new business production and a premium retention ratio of 98%, we **grew by 5.8%** in DC. We only have two agencies domiciled in the district with the majority of the production coming from our agents in the bordering states of Virginia and Maryland.

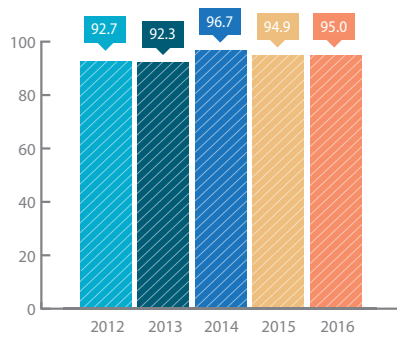
SOUTH CAROLINA

The licensing of Harford Mutual and Firstline National was completed and approved by the state in 2016. We will file rates and forms with an anticipated release date in the fourth quarter of 2017. This will support production of business for our North Carolina agents who frequently present us with accounts that have exposure in South Carolina. Our initial focus will be in those counties south of Charlotte, NC.

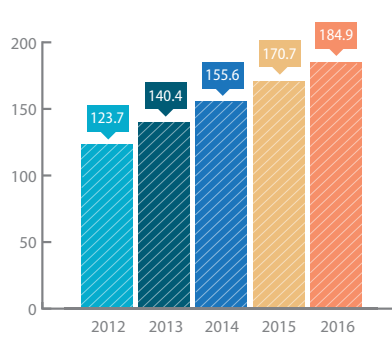
FINANCIAL HIGHLIGHTS

Condensed Consolidated Statutory Financial Report

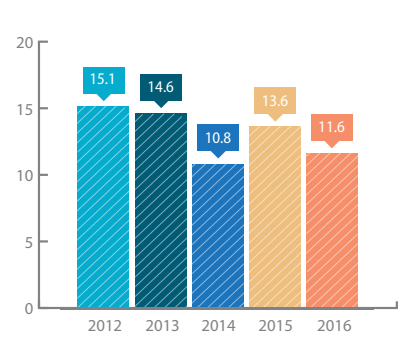
Combined Ratio (percentage)



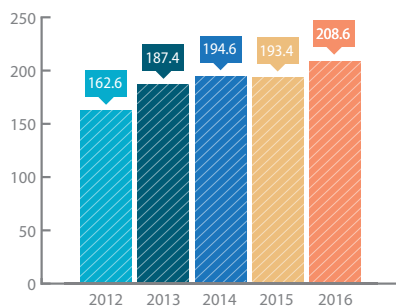
Direct Written Premiums (in millions)



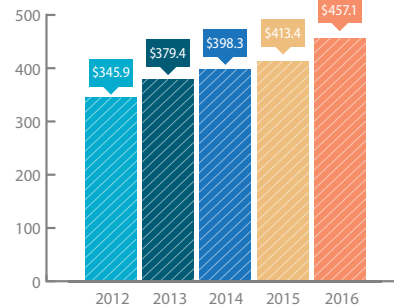
Net Income (in millions)



Policyholders' Surplus (in millions)



Total Admitted Assets (in millions)



THE FIVE-YEAR PREMIUM GROWTH IS AN INCREDIBLE \$72.1 MILLION, 63.8%, AVERAGING A 10.4% ANNUAL GROWTH RATE.



"OUR SUCCESS IS A TESTAMENT TO THE RESOLUTE FOUNDATION OF OUR VALUES AND PRINCIPLES, MANAGEMENT'S LEADERSHIP AND DEVOTION, INCREDIBLE TALENT AND COMMITMENT OF OUR STAFF, AND THE GUIDING HAND AND WISDOM OF OUR BOARD OF DIRECTORS."

–Steven D. Linkous



Condensed Consolidated Statutory Financial Report *(in thousands)*

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

	12/31/2016	12/31/2015
Bonds	\$254,644	\$207,818
Common Stocks	111,959	117,096
Real Estate	4,424	4,551
Cash and Short-Term Investments	28,872	35,075
Premiums and Agents' Balances	46,423	42,537
Other Assets	10,827	6,214
Total Admitted Assets	\$457,149	\$413,291
Unpaid Losses and Loss Adjustment Expenses	\$132,883	\$114,982
Unearned Premiums	85,390	78,631
Other Liabilities	30,265	26,235
Total Liabilities	248,538	219,848
Total Policyholders' Surplus	208,611	193,443
Total Liabilities and Surplus	\$457,149	\$413,291

STATEMENTS OF INCOME *for the years ended*

	12/31/2016	12/31/2015
Net Premiums Earned	\$156,066	\$143,853
Losses and Loss Adjustment Expenses	95,560	87,631
Other Underwriting Expenses	54,984	51,007
Net Underwriting Gain	5,522	5,215
Investment Income	10,146	9,496
Other Income	132	42
Income Tax (Expense)	(4,203)	(1,171)
Net Income	\$11,597	\$13,582

BOARD OF DIRECTORS

James J. Kennedy

On January 1, 2016, Jim Kennedy joined our Board of Directors after retiring as President and CEO from Ohio Mutual Insurance Group in December 2015. An experienced property-casualty insurance executive with over 40 years of proven leadership and success, Kennedy also served as President and Chief Operating Officer (COO) of GRE Insurance Group/Liberty Mutual and as Executive Vice President and COO of Shelby Insurance Group. He served on the board of the National Association of Mutual Insurance Companies (NAMIC) for eight years, most recently as Board Chair in 2012, and received the prestigious Chairman's Award at the 2016 Annual Convention. Kennedy was the recipient of the Lifetime Achievement Award from the Griffith Insurance Education Foundation in 2015 and currently serves on their Leadership Council. He serves on the Board of Trustees of the American Institute for Chartered Property and Casualty Underwriters (CPCU Institute) and earned his own CPCU in 1980. He was recognized as the Ohio Industry Person of the Year in 2006 and the Ernst & Young Entrepreneur of the Year in 2010.



James J. Kennedy

Retired President and CEO, Ohio Mutual Insurance Group



Harford Mutual Board of Directors

Standing from left to right: McDorman, Jr., Boyle, Jr., Roman, Smith, Linkous, Scott, Fry, Mezzanotte, Jr., Collins, III, Kennedy

ROBERT D. MCDORMAN, JR.
Retired Principal, Investment
Counselors of Maryland

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

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

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

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

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

DONALD C. FRY
President and CEO
Greater Baltimore
Committee

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

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

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

OFFICERS

Steven D. Linkous

Warren Bennis, founding Chairman of The Leadership Institute at the University of Southern California once said that *"Leadership is the capacity to translate vision into reality."* When Steve Linkous took the helm of Harford Mutual as President and CEO in 2006, his vision was to steer the company on a steady path of surplus growth, premium growth, community support, and employee development. In 2016, Steve led the company to surpass the \$200 million mark in policyholder surplus for the first time in our company's 175-year history and realize premium growth of 8.4%. He approved over \$260,000 in charitable donations and honored 12 employees with 17 insurance designations at our annual educational luncheon. His vision has become reality.

Additionally, 2016 saw Steve named as the Chair of the National Association of Mutual Insurance Companies (NAMIC) Board of Directors, honored with the Good Scout Award from the Boy Scouts of Central Maryland, and celebrated his 10th anniversary as our President & CEO.



Steven D. Linkous
President and Chief Executive Officer



Harford Mutual Officers

Standing from left to right: Thompson, Baum, Goodin, Linkous, Mashinski, Kellner, Rink, Poole

KENNETH G. THOMPSON
Assistant Vice President
and Controller

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

TIMOTHY F. BAUM
Vice President and
Chief Information Officer

JEFFREY S. RINK
Vice President, Marketing and
Business Development

JOHN D. GOODIN
Senior Vice President,
Commercial Business Services

JUNE A. POOLE
Vice President and Treasurer

STEVEN D. LINKOUS
President and
Chief Executive Officer

KAREN L. MASHINSKI
Vice President and
Chief Financial Officer



THE HARFORD MUTUAL INSURANCE COMPANIES

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HARFORDMUTUAL.COM

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