



HARFORD MUTUAL

# COMMITTED TO MUTUAL SUCCESS

2013 ANNUAL STATEMENT

---

## OUR VALUES

DELIVERING FINANCIAL STRENGTH

COMMITMENT TO INTEGRITY

SUPERIOR CUSTOMER SERVICE

CONTINUED LEARNING AND IMPROVEMENT

CORPORATE AND SOCIAL RESPONSIBILITY



HARFORD MUTUAL

## OUR MISSION

PROVIDE INSURANCE PRODUCTS AND SERVICES 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  
A COMMITMENT TO INDIVIDUALIZED CUSTOMER SERVICE AND BY PROVIDING THE  
INDEPENDENT AGENT WITH A STABLE MARKET FOR QUALITY INSURANCE PRODUCTS.

# PRESIDENT'S MESSAGE

STEVEN D. LINKOUS  
President and Chief Executive Officer



Harford Mutual's mission has remained the same for 171 years—protect the financial wellbeing of our policyholders through fiscal conservatism and a long-term view of profitability. This approach is a hallmark of our mutuality, guiding us to fortify our policyholders' surplus and stand ready for them when needed.

The insurance marketplace, and the economy we and our insureds operate within, is constantly changing, so we continue to evolve the company to keep performance at appropriate levels. Strategic and operational pursuits are executed while strengthening both our revenue and policyholders' surplus, ensuring we remain well capitalized through profitable growth.

## TRADITIONAL APPROACH

With very little severe weather, our overall loss activity in 2013 was lower than projected, boosting our profitability

and capitalization. The company's commitment to maintaining a conservative leverage position and a long-term approach prevents seasonal or annual losses from diverting our attention from the strategic initiatives that move us forward and provide benefits to our customers.

Over the past two years, Underwriting and Business Development maximized opportunities for controlled growth by working closely with our agency partners, resulting in a 24.4%, \$27.5 million increase in the direct written premium. As a result of our combined efforts, new business increased by \$7.7 million to \$27.0 million in 2013. Aided by our insureds' stabilization and growth of their own businesses, the existing renewal book grew by \$9.0 million, representing 54% of the overall change for the year.

The combination of solid performances from our new and existing books of business, and the absence of

catastrophic events across our territories during the year, resulted in a combined ratio well below projections at 92.3%. Thanks to strong underwriting profitability and a healthy equity market, policyholders' surplus has kept pace with premium growth, increasing \$16.8 million in 2012 and \$24.9 million in 2013, bringing the company's leverage position to the strongest point in recent history, with a total surplus of \$187.5 million. The company's excellent capital and reserve position are particularly important to policyholders, as they reinforce our financial stability, ensuring them that the company is well prepared to handle losses when they occur.

This confirmation of strength and stability was made evident in our most noteworthy achievement of 2013, the culmination of a five-year, company-wide initiative that earned Harford Mutual a rating upgrade of A (Excellent) from A.M. Best, bearing testimony to the financial strength and stability of the company and the dedication of our staff.



## TECHNOLOGY PLAN

The technological improvements we initiated in 2012 represent a major investment that will enable us to expand services for our agents and policyholders, ultimately providing the infrastructure required to advance the company. With an increased demand on resources, initiatives like this test the mettle of an organization. Stakeholders from every discipline are committed to the company's multi-year technology initiative, with employees focusing not only on their own goals, but also on supporting one another. I am proud to report that the culture of learning and support we have nurtured at Harford Mutual and our employees' commitment to mutual success are providing the compass that keeps the project and our staff moving in the right direction.

## TEAMWORK AND TALENT

Much of the company's success is derived from the concerted effort of the talented and dedicated people we employ. New hires with fresh perspectives in Underwriting, Claims, and Business Development were met by tenured team members who fostered their counterparts and generously contributed wisdom and knowledge to aid in their development. Such teamwork adds balance in years characterized by major initiatives

and significant growth, as newcomers offer suggestions and seasoned employees keep the organization focused on what's important. As an example, I recently had the opportunity to thank a new employee, who, after only six months with the company, proposed a new approach to a longstanding issue. He conveyed how pleased he was that his experienced co-workers encouraged him to run with the idea and how thankful he was for being given the opportunity to be heard and make an impact.

The company will face challenges in the coming months and years as the fragile economy continues to exert pressure on premium and policy retentions. Harford Mutual will diligently exercise underwriting discipline, writing business when the exposure-to-premium is well-balanced and where we can build a relationship with the policyholder to support their insurance needs. We will continue to rely on our agency relationships to convey to our insureds our conservative, long-term value, and customer-centered position that ultimately creates and maintains a fair and stable market for all.

Credit for our success is shared widely among a remarkable group of individuals dedicated to Harford Mutual, and we thank them all: our Board of Directors, who guide the organization with wisdom and counsel; our hard-working employees, who bring improvements to all aspects of the company; and our loyal agents, who partner with us to ensure our policyholders' needs are addressed.

Thankful for both our long-term and recent success, we enter 2014 financially strong. While we recognize that providence plays a role in each of our lives, we stand secure in the knowledge that the company is prepared to provide for our policyholders for many years to come. Thus, we remain—*Committed to Mutual Success*.

STEVEN D. LINKOUS  
*President and Chief Executive Officer*

# A RICH HISTORY: A FIRM FOUNDATION

For over 170 years, Harford Mutual has stood firm on a commitment to mutual success, focusing on meeting the needs of policyholders and agents as a mutual insurance carrier. From humble beginnings in 1842, when a small group of business owners and farmers banded together to aggregate their resources and mitigate their individual risks, Harford Mutual has stayed true to its purpose of helping policyholders in times of loss and providing them peace of mind. This is a value we share with our agency partners, who tell us they feel more confident placing business with a company whose primary mission is to protect

the policyholder. And, as we grow, we uncover more opportunities to protect and safeguard the wellbeing of those we serve.

A strong commitment to our communities, both local and national, is a natural extension of who we are. It is a core value of our company and our employees, who understand they work for an organization that is dedicated to giving back. We express this responsibility through corporate sponsorship of charities, such as United Way, Habitat for Humanity, SARC, and Boys & Girls Clubs, as well as employee support of organizations



## COMMUNITY INVOLVEMENT

*Each year, Harford Mutual and dozens of our employees sponsor or participate in community involvement projects for worthy organizations. Community involvement is a core value of our company, and that value is shared by our employees. Five-year-old Colton and his family were beneficiaries of a company-sponsored Habitat for Humanity house.*





## TENURED, KNOWLEDGEABLE PROFESSIONALS

*What motivates a team of tenured, knowledgeable and dedicated professionals? For Carolyn Tabor (Claims Assistant, left, 34 years), the compassion of coworkers: “people are what make the company.” For Allen Poole (Facilities Coordinator, center, 25 years), the pride of working 20 years without a sick day. For Nicole Lembach (Commercial Underwriter, on right, 25 years), team-work and common goals.*

like the American Cancer Society’s Relay for Life and Mason-Dixon Community Services.

Our commitment to policyholders is evident in the long-term relationships we have built and maintained. At Harford Mutual, we strive to be a consistent market, resulting in customer retention rates that outperform the industry average year after year. We work closely with our policyholders to help them reduce claim frequency and severity, and we stand ready to settle their losses quickly and fairly when unfortunate events do occur.

The quality independent agents representing Harford Mutual know we are committed to them and their own success. We believe in protecting the franchise value for our agents, so we take a conservative approach to agency management, partnering with those agencies who are truly interested in building a meaningful and successful relationship. While we have grown the company significantly in recent years, the number of agents representing Harford Mutual has not increased. The average premium volume per agency, however, has increased considerably and is just another illustration of the commitment they have made to us, and we to them. Building those deep agency relationships has always been a key strategy for the company, and it will continue to be moving forward. We do not take our responsibility to our agents lightly. We provide the required resources to help them grow, and we work together to ensure we are writing profitable business. This is what agency partnership is all about—working together to achieve mutual success.

One way that we ensure we are satisfying the needs of our agents and policyholders is through our Agency Council meetings. As a company, we have to be open and willing to listen to our agents’ observations and critiques. For more than three decades, we have brought agents together, giving them a forum to express their thoughts and offer suggestions aimed at improving the products and services we offer. This constructive feedback has resulted in numerous improvements to the company over the years. We need to understand the challenges our agents face and respond with strategies that help them be successful in an increasingly competitive industry. Agents tell us that a consistent willingness to listen is one of the most important attributes of our company.

---

AS WE GROW, WE UNCOVER MORE  
OPPORTUNITIES TO PROTECT AND SAFEGUARD  
THE WELLBEING OF THOSE WE SERVE

---

For Harford Mutual, established 20 years before the Civil War, maintaining long-term commitments is a core value and fundamental for success—commitment to our policyholders, to our agency partners, to our employees, and to the communities we serve. We continue to build upon a firm foundation as we stay true to our fiscally-sound and secure principles of the policyholders’ company, a *mutual* company, with long-term profitability and conservative growth.

# STRONG FUNDAMENTALS AND SUSTAINABLE PRACTICES

Profitability continues to be a focal point for the company, as evidenced by the increase in policyholders' surplus over the last 10 years, from \$68 million in 2003 to over \$187 million, as of year-end 2013. The improvement in the financial position, underwriting, and operations of the company led to this year's A.M. Best Financial Strength Rating upgrade to A (Excellent). This is one of the most significant financial ratings in the property and casualty insurance industry. A strong carrier rating offers our agents, policyholders, and prospective insurance customers confidence that their business' assets are well protected with Harford Mutual.

For policyholders, our financial strength provides peace of mind that their financial wellbeing is protected, and we stand ready to bring them through losses securely. For our agents, it means they can feel confident in recommending Harford Mutual to their customers. The insurance industry increases in complexity and competitiveness every year. Only those carriers who remain committed to their core competencies and sound business practices will survive and, in fact, thrive through all market cycles.

Supporting our customers by helping them avoid or mitigate losses is a key focus, as we continue to expand our loss



## LOSS CONTROL

*When Brandon Baffone of Clark, Baffone, & Matthews was looking for assistance in helping a customer, DiSabatino Landscaping, make improvements to their loss control program, Harford Mutual responded with customized employee safety training programs on lifting, safe driving, blood-borne pathogens, first aid, and more. (Bill Wynne, Harford Mutual's Underwriting Specialist, with Vince Esposito and Chris DiSabatino).*





## EMPLOYEE EDUCATION

*Harford Mutual's commitment to employee education is evident at all levels of the organization, regardless of employee tenure. (L to R) Chartered Property Casualty Underwriter (CPCU) designees Caty Hartley (Claims Examiner, 4 years) and Gail Mandel, JD, (Litigation Specialist, 4 years), Professional in Human Resources (PHR) designee Karen Davis (HR Assistant, 5 years) and CPCU designee Tara Turner (Casualty Claims Supervisor, 13 years).*

control services and expertise. If we can help our policyholders reduce the frequency and severity of losses, it ultimately prevents disruption to their business operations and may possibly reduce their insurance costs. Harford Mutual employs a staff of full-time loss control professionals who add value for customers by helping them evaluate and manage loss exposures. We offer sessions to our customers and agents on various topics, including safe lifting, facility management, alcohol awareness, fire suppression system maintenance, and many other areas associated with the lines of business we provide. The majority of our customers are not in a position to have their own risk manager on staff, so these services, provided by their insurance carrier, are extremely important to them. Our team is highly flexible and will work around the customer's schedule, as we did conducting a training session for an insured's staff at 5:00 a.m., the only time that was feasible for them. In addition to our in-person services, we offer a variety of safety materials, inclusive of an online video training library.

Another core value of the company is our longstanding commitment to staff development. A well-trained and experienced staff is a critical component to our success, and supports the high level of service our customers require and deserve. We look very selectively for people who match the company's culture, giving preference to employees who demonstrate empathy, courtesy, and a true desire to deliver an exemplary customer experience. Coupled with effective training, in support of employee growth and development, our approach contributes to low employee turnover and high overall employee satisfaction. This translates into a better experience for our agents

and policyholders when dealing with an underwriter on a renewal or piece of new business, when working with an adjuster on a claim, or when speaking with one of our accounting specialists on a billing question. By investing in the right people, we have developed the most skilled and talented staff in the history of the company.

## A WELL-TRAINED AND EXPERIENCED STAFF IS A CRITICAL COMPONENT TO OUR SUCCESS

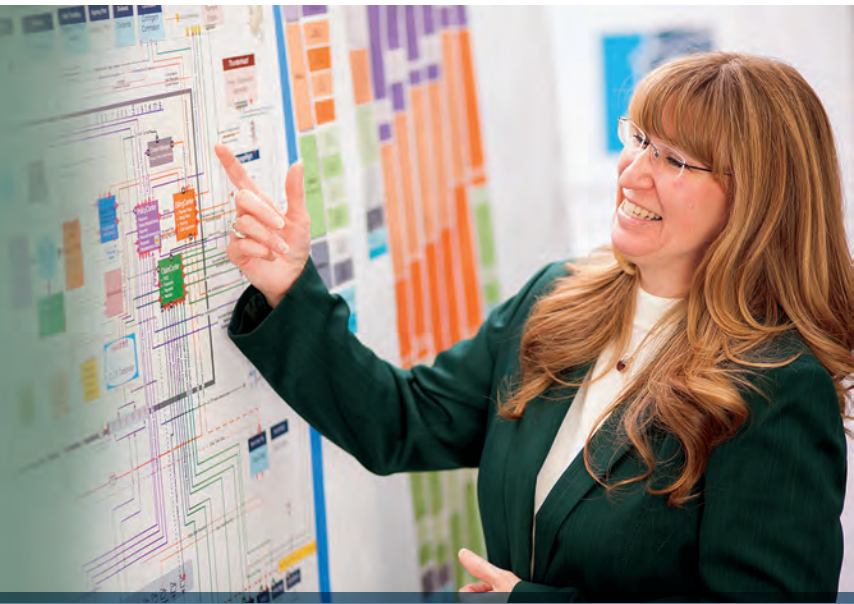
Throughout the organization, we have developed a culture of learning—one where employees challenge themselves to go above and beyond what is expected. This commitment to educational priorities permeates all levels of the organization. This year's CPCU aspirants range from industry novices to employees with 30 years of experience. Additionally, we initiated a partnership with Temple University (one of only a handful of colleges offering a formal Risk Management Program), creating a paid intern position that integrates academic learning with real-world experience. This year, our college intern accepted a full-time position with the company that will begin after graduation this spring.

Together, these are the fundamentals of our business model: hire the right people, invest in their training and education, commit to our agents and policyholders, and act with fiscal responsibility.

# A CLEAR VISION FOR THE FUTURE

## INFRASTRUCTURE UPGRADE

*Gail Bianco leverages 28 years' experience in underwriting, IT, compliance and billing, as program manager on Harford Mutual's multi-million dollar infrastructure upgrade. Working in a full open environment, with a multidisciplinary team including two employees from each department, multiple vendors, and systems integrators from PricewaterhouseCoopers, Gail is focused on providing enhanced system capabilities that will improve efficiencies, streamline processes, and ultimately result in improved service levels to both internal and external customers.*



We look to the future from a position of strength—a healthy surplus, a history of consistent performance, a record of investment in people and training programs, a commitment to product development, and a focus on service. All of this ensures that we are well positioned to support our agents and policyholders. And, again, our agents feel confident placing more business with Harford Mutual, knowing we are customer-centric and financially secure to remain competitive.

In the coming years, we will begin to roll out new technology and enhanced systems for billing, underwriting, and claims. These technology upgrades reflect a major capital commitment, but we believe they are necessary

to allow us to better respond to the evolving needs of our agents and policyholders. The new systems will be more agile than our current systems, enabling us to bring new products to market more quickly. They will also allow us to work more efficiently, by supporting improved customer service and communication.

In the near future, this same technology will allow us to update our online agency portal with improved navigation, making it easier for agents to do their jobs, and ultimately helping them grow their business and provide the best possible service to their customers. Our public website will also advance in parallel, with an improved user experience, supporting agents by providing the information

prospective insureds need to make their policy decisions with confidence.

Over the years, Harford Mutual has earned a reputation for leveraging the best practices from the industry and incorporating our own personal customer-centric approach. We understand that we must remain flexible and responsive to stay relevant to the market as it evolves. We must be able to provide the breadth of coverage that is available now, as well as the coverage options that will emerge as the insurance landscape changes over time.

From an agent's perspective, it means empowering them to respond to their clients in real time. Our new systems, for example, will allow agents to instantly make basic changes to existing policies for their customers. By offering these capabilities to the agents, they will have more control over policy maintenance, while our staff will be able to focus on critical underwriting issues.

From a market perspective, the new system equips us with the ability to not only expand geographically, but

effectively. It will also allow us to develop and introduce new coverage options more quickly. Our customers have a need for tailored coverage with the flexibility to offer various options to meet that customer's specific needs. Adding new product lines or coverage will be much easier, and the amount of time it takes to bring a new product offering to market will be reduced dramatically.

---

---

#### HELPING AGENTS GROW THEIR BUSINESS AND PROVIDE THE BEST POSSIBLE SERVICE TO THEIR CUSTOMERS

---

---

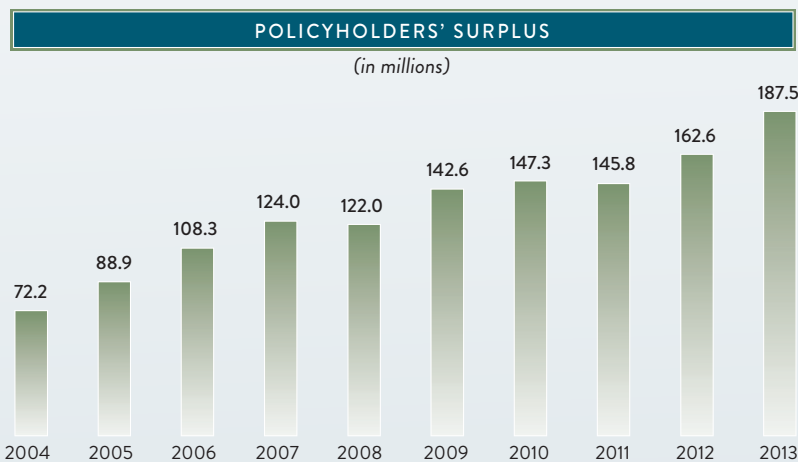
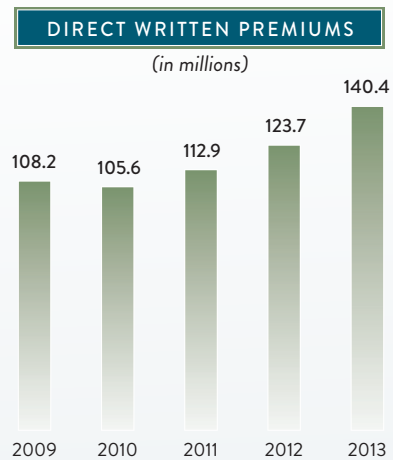
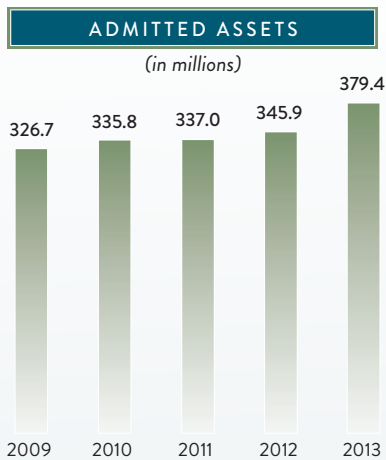
Many of the challenges we will face as we move the company forward are yet unknown. We must have the proper processes, technology, and staff required to meet them head-on; but, through it all, never forget that our primary purpose is to be there to protect our customers and ensure their security in times of loss. This has been our mission and a promise to those we serve since 1842.



#### AGENT SUPPORT

*Strong agency partnerships are the driving force behind the success of our company. The mutual trust and shared commitment to profitable growth we experience with agents like Bramhall + Hitchen is critical to the achievement of our long-term financial objectives. Agents with a proven track record of success may qualify for our highest agency honor, the Flagship Agency Program. Agency owners Marty Bramhall, Denise Kozel, and John Boykin receive their 2014 Flagship award from our President and CEO, Steve Linkous.*

# FINANCIAL HIGHLIGHTS



# CONDENSED CONSOLIDATED STATUTORY FINANCIAL REPORT *(in thousands)*

STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS as of	12/31/2013	12/31/2012
Bonds	\$190,020	\$ 198,364
Common Stocks	112,669	92,260
Real Estate	2,855	2,919
Cash and Short-Term Investments	34,006	15,606
Premiums and Agents' Balances	35,714	32,643
Other Assets	4,150	4,128
<b>Total Admitted Assets</b>	<b>\$379,414</b>	<b>\$345,920</b>
Unpaid Losses and Loss Adjustment Expenses	\$98,918	\$ 104,756
Unearned Premiums	65,928	58,797
Other Liabilities	27,087	19,766
<b>Total Liabilities</b>	<b>191,933</b>	<b>183,319</b>
<b>Total Policyholders' Surplus</b>	<b>187,481</b>	<b>162,601</b>
<b>Total Liabilities and Surplus</b>	<b>\$379,414</b>	<b>\$345,920</b>
STATEMENTS OF INCOME for the years ended	12/31/2013	12/31/2012
Net Premiums Earned	\$ 117,329	\$ 104,570
Losses and Loss Adjustment Expenses	65,198	58,304
Other Underwriting Expenses	45,778	39,797
Net Underwriting Gain	6,353	6,469
Investment Income	13,829	13,888
Other Expenses	(153)	(247)
Income Tax Expense	(5,404)	(4,970)
<b>Net Income</b>	<b>\$ 14,625</b>	<b>\$ 15,140</b>



# BOARD OF DIRECTORS



## BACK ROW LEFT TO RIGHT

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

ATWOOD COLLINS, III  
*Executive Vice President  
M&T Bank Corporation  
Wilmington Trust N.A.*

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

ALBERT J. MEZZANOTTE, JR.  
*Partner, Whiteford, Taylor, and  
Preston*

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

## FRONT ROW LEFT TO RIGHT

ABIGAIL E. SMITH  
*Owner, Abigail E. Smith,  
Assoc., P.A.*

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

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

JAMES D. HARDESTY  
*(Vice Chairman)  
President, Hardesty Capital  
Management Corporation*

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

# OFFICERS



## BACK ROW LEFT TO RIGHT

MARK D. KING  
*Vice President and Chief  
Financial Officer*

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

KENNETH G. THOMPSON  
*Assistant Vice President and  
Controller*

JOHN D. GOODIN  
*Assistant Vice President,  
Underwriting*

JUNE A. POOLE  
*Vice President and Treasurer*

## FRONT ROW LEFT TO RIGHT

ELLEN S. TRUANT  
*Vice President,  
Human Resources*

ROBERT F. OHLER  
*Senior Vice President,  
Commercial Business  
Services*

STEVEN D. LINKOUS  
*President and  
Chief Executive Officer*

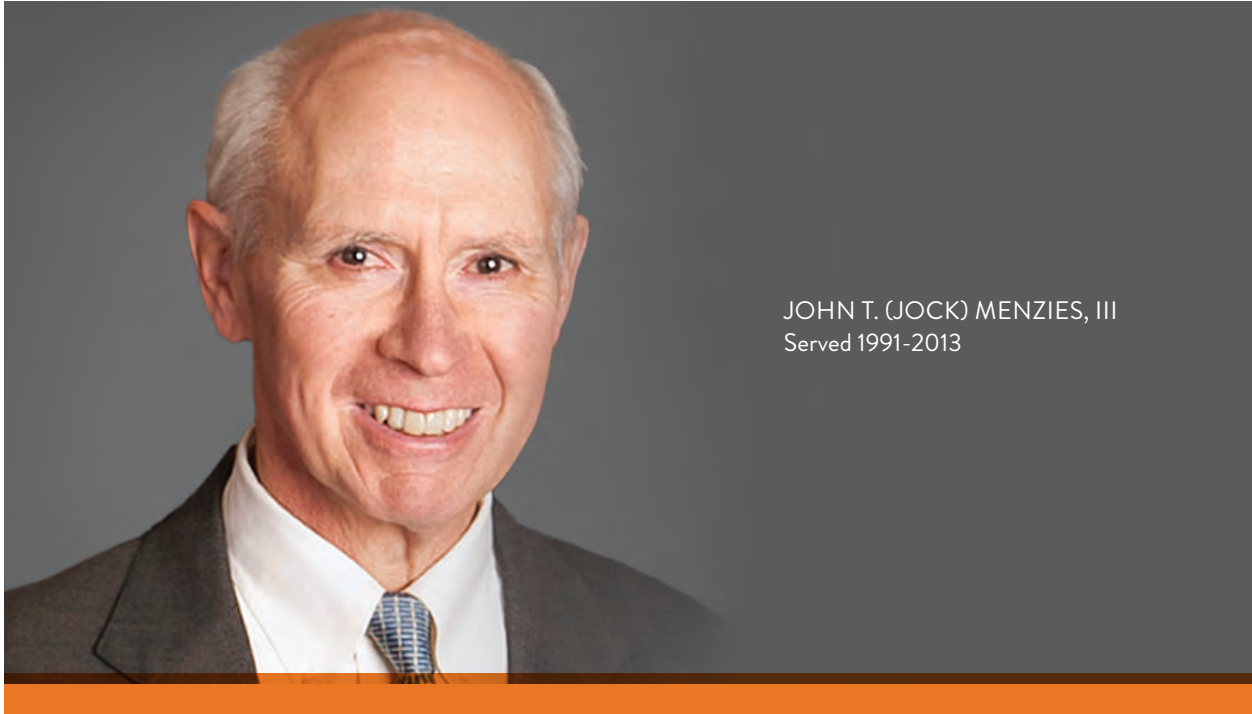
JOHN R. SPIELBERGER  
*Executive Vice President and  
General Counsel*

STEPHEN M. FABIAN  
*Vice President and Chief  
Information Officer*

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



# IN MEMORIAM



JOHN T. (JOCK) MENZIES, III  
Served 1991-2013

Harford Mutual lost a dear friend and respected Director with the passing of Jock (John T.) Menzies on August 17, 2013. Jock served as a Director on our board for 22 years, including roles as Chair of the Audit Committee and a member of the Search and Compensation Committees.

Born and raised in Baltimore, Jock graduated in 1968 with a degree in economics from St. Lawrence University in Canton, N.Y. He returned to his hometown to work for The Terminal Corporation, a company specializing in logistics, warehousing, and distribution services, and one of the first companies in the industry to install a computerized warehouse management and inventory system. Jock and his brother, Scott, purchased the company in 1981, and he served as its chairman for the last 32 years.

In the wake of Hurricane Katrina in 2005, Jock put his extensive knowledge of logistics to work finding a better way to mobilize disaster relief for victims. He founded American Logistics Aid Network (ALAN), a network of professional supply-chain businesses, to locate and move goods from suppliers to affected communities. A visionary and inspirational leader, he served as its president and chairman.

The Board of Directors at Harford Mutual will miss his valued guidance and friendship, and we are grateful for his contributions.

“JOCK IS REMEMBERED FOR HIS UNQUESTIONED INTEGRITY, HIS CIVILITY, A COMMITMENT TO  
BEST BUSINESS PRACTICE TOGETHER WITH AN EXCELLENT, SUBTLE SENSE OF HUMOR.”

STEPHEN T. SCOTT, CHAIRMAN OF THE BOARD



HARFORD MUTUAL

**THE HARFORD MUTUAL INSURANCE COMPANIES**

200 NORTH MAIN STREET  
BEL AIR, MARYLAND 21014-3544  
(800) 638-3669

[HARFORDMUTUAL.COM](http://HARFORDMUTUAL.COM)

---

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