

2018
ANNUAL
STATEMENT



HARFORD MUTUAL

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

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



2018
AT-A-GLANCE



\$107 Million
10-YEAR REVENUE GROWTH

212.3 MILLION DIRECT WRITTEN PREMIUM

5.7% REVENUE GROWTH OVER 2017

90.6% PREMIUM RETENTION

28,015 POLICIES IN EFFECT

340 YEARS OF SERVICE FROM 18 EMPLOYEES
WITH MILESTONE ANNIVERSARIES

21 PROFESSIONAL AND INSURANCE
DESIGNATIONS EARNED

\$30.3 MILLION NEW BUSINESS

\$221.9 MILLION POLICYHOLDERS' SURPLUS

PRESIDENT'S MESSAGE

COMMITTED TO MUTUAL SUCCESS



We can take pride in fulfilling our mission to protect the financial well-being of those we serve.

Full of optimism and nostalgia from our 175th anniversary in 2017 and six consecutive years of profitability and growth, our storied company stood poised to take on 2018 with the same momentum and success. The severe and catastrophic weather that befell our policyholders in the first six months of the year, however, would impede our plans and prevent us from reaching our desired profitability objectives.

Losses incurred during January's regional ice and freezing temperatures, the coldest start to any year in Maryland in at least 146 years according to the National Weather Service, and the windstorms in March proved to be insurmountable as the year moved forward. Even with the second half of 2018 outperforming profitability targets, the early and sizable losses from the first two quarters led to a very disappointing net combined ratio of 115.0. Heavily impacting the ultimate results was the write-down of our IT legacy system replacement project, contributing 8.7 points to the combined. As statutory accounting considers IT systems non-admitted assets, this write-down had no impact on the policyholders' surplus. As 2018 came to a close, it reached out with one final "financial punch" as trade and political wars wreaked havoc on investment markets and drove major unrealized losses. While we must close the books on 2018 "as-is," it is worth noting that markets rebounded in early-2019 to offset the losses by mid-February.

But if our long history has taught us anything, it is that the anomalies that are inherent in this industry and for a regional carrier do not define us and will not deter us from our long-term view of protecting our policyholders through strength. In expanding our regional footprint and market position, we achieved success through strong premium retention, robust new business revenue, and growth that exceeded our projections by 24%, coming in at 5.7% against a plan of 4.6%. Our five-year growth at 18% and our 10-year at 82% has outperformed the industry, allowing us to expand our team, products, and services.

Our mutual success can be attributed to the execution of key operational plans and our ability to serve new territories and grow our current partnerships through our segmentation efforts, writing everything from small retail to multi-building habitation. We expanded into South Carolina and Georgia, with these two states adding \$1.5 million in new direct written premium. Signaling our commitment to profitable growth and to our agency partners and policyholders in our Southern Territory, we opened and celebrated our new office in Fort Mill, South Carolina on March 21, 2019 (see page 8).

Burgeoning relationships with our Flagship agents like L & W Insurance (featured on page 4) and the addition of two new Flagship agencies as we entered 2019, S.T. Good Insurance, Inc. and Maury, Donnelly, & Parr, Inc., are also part of this proven recipe. These critical and meaningful connections and partnerships with our independent agencies demonstrate our mutual philosophy and ensure increased opportunities for all.

Our company's consistent and significant growth for the last eight years has us surpassing our goal of **\$240M by 2024** well ahead of plan. Buoyed by that accomplishment, our leadership has embarked on an aggressive strategic vision that will have us fortifying our infrastructure for the next three years in preparation of our subsequent five-year plan for substantial profitable growth. We are spending significant time and energy examining our team resources,

adding personnel to specific departments to increase depth of skill and improve service. We enhanced our claims service with the creation of a Special Investigative Unit (SIU) and bolstered management with deep casualty and automobile experience. As the company continues to grow and scale for the future, we have expanded the General Counsel office to support legal and compliance operations and initiatives. We realigned our Loss Control Department to improve our value-added benefits and provide more comprehensive and efficient servicing of accounts. Most importantly, we are utilizing the full scope of our Human Resources Department to ensure we have the benefits, culture, engagement, innovation, environment, and opportunities that today's and tomorrow's workforce depend on for success. We are relying on industry experts to keep our benefits package and compensation structure fair and competitive. Through professional, leadership, and career development strategies, we are empowering our most enthusiastic employees to help establish aggressive training and retention objectives.

And we are listening. Listening to our employees' desire to be part of a vibrant workplace and make Harford Mutual the last place they work. Listening to their request for flexibility and remote work options. Listening to what motivates them to increase their industry knowledge with more education and designations.

Evidence of our professional staff is the appointment of Geneau M. Thames, Esq., our General Counsel and Director of Compliance, to the Maryland State Ethics Commission by Governor Hogan, and Frank P. Kellner, Vice President of Claims and Corporate Secretary, to the inaugural advisory board for the new Risk Management Program at the University of Baltimore. The insert included with this statement highlights other employees' achievements in 2018 and showcases their commitment to our community and to Harford Mutual in support of our Corporate Social Responsibility mission. It is a mere snapshot of what I firmly believe is the foundation of our company and its accomplishments—an engaged employee.

In 2018, we acknowledged the 65th Anniversary of our Bel Air headquarters and completed the last piece of our 175th anniversary with the ceremonial sealing of our time capsule. A group of team members volunteered to sift through mountains of historical artifacts and collectibles, talk to coworkers, research recent statistics that would timestamp their inclusion, and collect pertinent items to provide a realistic picture of life at Harford Mutual in 2017/2018. It was a fitting and responsible act of preservation to leave behind some legacy items for a future generation to ponder and reflect upon when the next company milestone anniversary is celebrated.

While 2018 did not produce the financial performance we had planned, we achieved and can be proud of the



Along with our President & CEO Steve Linkous and our company officers, Angela Alaimo (L), Compliance Manager, and Pat Stifler (R), now-retired Business Development Manager, hold the banner that acknowledged the ceremonial sealing of our 175th Anniversary Time Capsule. Alaimo and Stifler led the employee volunteer efforts to capture the pertinent moments and artifacts for preservation.

numerous accomplishments mentioned. Tough years like this are part of the insurance business as a growing regional mutual carrier. Most importantly, we can take pride in fulfilling our mission to protect the financial wellbeing of those we serve, making our claim-impacted policyholders whole and allowing them to continue serving their own customers and employees. As 2018 came to a close, I had the opportunity to reflect on this challenging year while reading the memoir of legendary country music star Charlie Daniels.

"Walk onstage with a positive attitude. Your troubles are your own and not included in the ticket price. Some nights you have more to give than others, but put it all out there, every show. You're concerned with the people who showed up, not the ones who didn't. So, give them a show, and... never look at the empty seats."

Our longstanding commitment and position of strength renews us as we walk onstage in 2019 with an enthusiastic attitude to continue delivering on our mission of insuring opportunity through a commitment of mutual success. **With a clear strategic vision and an engaged team guided by our leadership and experienced board of directors, we remain focused, and... never worry about the "empty seats."**

STEVEN D. LINKOUS
President and Chief Executive Officer

FLAGSHIP AGENCY SPOTLIGHT

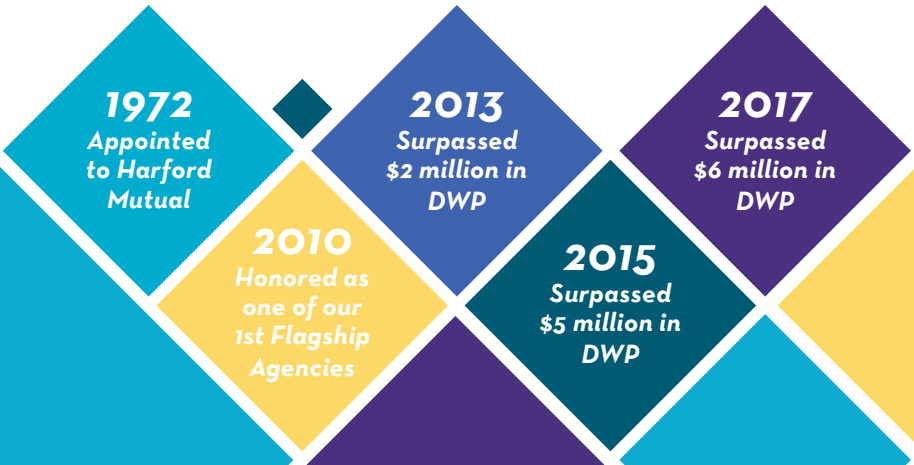
L&W INSURANCE



Since becoming a Flagship Agency in 2010, you’ve grown from \$1M in DWP to over \$6M. To what do you attribute your growth?
 We conduct our business as a customer-centric organization. We align ourselves with the right carriers, like Harford Mutual, who fit our clients’ needs. We plan for the future and work hard at creating a positive work environment.

What differentiates Harford Mutual from other carriers you work with?
 The company is very responsive to our needs. There is a willingness to listen and an ability to underwrite on an individual account basis.

What are your favorite things about working with Harford Mutual?
 Our most favorite would be **ease of doing business**. As the burden of quoting and marketing shifts more to the agency side, it is very important for us to have carrier partners like Harford Mutual who make this process easier for our staff. Secondly, we would go back to that differentiator of being **responsive**. Decision makers are a phone call away. We are always able to pick up the phone and call Harford Mutual leadership when there is a situation that needs management input.



BUSINESS ENHANCEMENTS



Special Investigative Unit

Harford Mutual, like any responsible insurance company, is focused on loss prevention and reduction—including crime and fraud prevention—and cost containment. In 2018, we created a new Special Investigative Unit under the direction of Alan Dark that allows us to be proactive in our prevention and protection efforts, but also underwrite more complex and sophisticated risks knowing that we have this expertise on staff. In the first 120 days of the new unit, Dark implemented new training for all employees, reviewed over 150 claims, and submitted 13 cases for suspected fraud.



General Counsel & Compliance

Geneau M. Thames, Esq. (pictured on right) serves as our General Counsel and Director of Compliance with support from Paralegal Stephanie Hall. Together they lead Harford Mutual’s strategies on Corporate Governance; Ethics & Safety; Employment Law; Legislative Oversight; Regulatory Compliance; and General Business matters. Responding to recent national workplace incidents, we have initiated several training protocols including ethics, active shooter, fraud, and cyber security. We’ve strengthened our relationships with the state level insurance commissioners and departments where we write business. And, we’ve increased our legislative support and advocacy with key insurance associations and legislators that will further the goals of the company and the industry.



Agency Automation

Brian Holloway, our Agency Automation Specialist, works as a liaison between our Agents, our Underwriters, and our IT Department to ensure that “ease of doing business” is a priority focus as we grow our company. Holloway trains new and existing agents on our agency portal, our RapidWrite rating system, and download and electronic funds transfer configuration. He chairs an Agency User Group to provide agency insight to our developers as we continue to build out our new agency interface. Holloway also explores new technologies for consideration and recommendation that will help our agents write business with Harford Mutual as efficiently as possible.

Coming in 2019: Nurse Case Management

Having an advocate help insureds navigate their employees’ care after an injury or illness benefits the patient, the agency, and the carrier. In 2019, Harford Mutual will introduce Nurse Case Management as part of our expanding claims handling. Studies show that NCM can:

- Reduce the time a claim is open by 50%
- Establish and manage a comprehensive medical plan for better patient recovery
- Shorten extended work absences and reduce financial strain for the claimant
- Avoid unnecessary litigation

FINANCIAL HIGHLIGHTS

STRONG & STABLE



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

CONDENSED CONSOLIDATED STATUTORY FINANCIAL REPORT *(in thousands)*

STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS <i>as of</i>	12/31/2018	12/31/2017
Bonds	\$289,496	\$281,633
Common Stocks	117,162	129,992
Preferred Stocks	5,064	0
Real Estate	4,691	4,807
Cash and Short-Term Investments	43,214	30,560
Premiums and Agents' Balances	55,368	52,336
Other Assets	4,627	7,694
Total Admitted Assets	\$519,622	\$507,022
Unpaid Losses and Loss Adjustment Expenses	\$177,681	\$154,401
Unearned Premiums	97,857	92,747
Other Liabilities	22,138	27,850
Total Liabilities	297,676	274,998
Total Policyholders' Surplus	221,946	232,024
Total Liabilities and Surplus	\$519,622	\$507,022

STATEMENTS OF INCOME <i>for the years ended</i>	12/31/2018	12/31/2017
Net Premiums Earned	\$181,255	\$169,501
Losses and Loss Adjustment Expenses	137,932	103,469
Other Underwriting Expenses	72,346	62,900
Net Underwriting Gain [2018 (\$13,114) excluding IT system write-down]	(29,023)	3,132
Investment Income	15,384	10,456
Other Income	42	141
Income Tax (Expense)	(783)	(3,360)
Net Income [2018 \$1,529 excluding IT system write-down]	\$(14,380)	\$10,369



FORT MILL RIBBON CUTTING

NEW OFFICE IN SOUTH CAROLINA



President & CEO Steve Linkous prepares to cut the ceremonial ribbon at the grand opening of our new office in Fort Mill, SC. The day was celebrated by South Carolina Department of Insurance Director Ray Farmer (far left), Matt Summerell, Business Development Manager–Southern Territory (center) and several Harford Mutual officers, directors, and staff members.

Demonstrating our commitment to our existing Southern Territory agents and insureds and in preparation of our planned growth in the region, Harford Mutual opened a new office in South Carolina.

Located at 951 Market Street, Suite 201 in Fort Mill, SC, the office is ideally located to support our southern agency plant and will serve as home base for our Business Development Manager-Southern Territory, our southern state Production Underwriters, our dedicated southern Loss Control Specialist, and our on-site Underwriters. It will also provide us with the base we need to plan future expansion in the territory as our agent relationships grow and prosper.

We celebrated our new office with a ribbon cutting ceremony and open house on March 21 welcoming our appointed agents, local businesses, representatives from the South Carolina Insurance Commission, and the Fort Mill Chamber of Commerce, as well as employees based in our southern states and a contingent of leaders from our headquarters in Bel Air, Harford County, Maryland.

The Fort Mill office will be at the center of our strategy to strengthen our relationships with our currently appointed agents and build new ones as we expand in the region and work to reach our 2019 DWP goal of \$52.2M and \$10.5M in new business.

Georgia Spotlight

We opened for business in Georgia in February 2018. Production Underwriter Sheila Tucker came on board in March, and we appointed our first agency in May. We are focusing on mid-size agencies who want to partner with us and can provide new business opportunities for all three of our business units, Foundation (accounts <\$50,000), Middle Market (accounts from \$50,000 - \$250,000), and Large Accounts (accounts > \$250,000). We are concentrating our initial agency prospecting activity in Athens, Gainesville, Atlanta, and the northwestern Georgia region.

Blanchard & Calhoun is one of our Georgia agencies that has truly partnered with Harford Mutual and is steadily growing a profitable book of business. We are confident they are on their way to being our first Georgia Flagship agency.



DIRECTORS & OFFICERS



Board of Directors

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| <p>CLARENCE C. BOYLE JR.
Retired President, Boyle Buick GMC Truck</p> <p>JAMES J. KENNEDY
Retired President and CEO, Ohio Mutual Insurance Group</p> <p>ATWOOD COLLINS III
Executive Vice President, M&T Bank Corporation</p> | <p>STEPHEN T. SCOTT
Chairman
Retired Principal, Investment Counselors of Maryland</p> <p>STEVEN D. LINKOUS
President and CEO, Harford Mutual Insurance Companies</p> | <p>ABIGAIL E. SMITH
President, Abigail E. Smith, Associates, P.A.</p> <p>ALBERT J. MEZZANOTTE JR.
Partner, Whiteford, Taylor & Preston, LLP</p> <p>SPENCER M. ROMAN
Retired President and COO, AAA Mid-Atlantic Insurance Group</p> | <p>DONALD C. FRY
President and CEO
Greater Baltimore Committee</p> |
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Officers

- | | | | |
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| <p>KENNETH G. THOMPSON
Assistant Vice President and Controller</p> <p>JEFFREY S. RINK
Senior Vice President</p> | <p>KAREN L. MASHINSKI
Vice President and Chief Financial Officer</p> <p>STEVEN D. LINKOUS
President and Chief Executive Officer</p> | <p>TIMOTHY F. BAUM
Vice President and Chief Information Officer</p> <p>JUNE A. POOLE
Vice President and Treasurer</p> | <p>FRANK P. KELLNER III
Vice President, Claims and Corporate Secretary</p> |
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HARFORD MUTUAL
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THE HARFORD MUTUAL INSURANCE COMPANIES

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Bel Air, Maryland 21014-3544
800-638-3669

HARFORDMUTUAL.COM

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