



Management Letter for 2010

Frederick Mutual Insurance Company concluded its 166th year of providing quality property and casualty insurance products and financial strength to our agents and policyholders. We take our responsibility seriously to provide our stakeholders with integrity, financial security and unparalleled customer service. We are strongly committed to meeting the needs of our policyholders and agents.

2010 brought significant weather events to the Mid-Atlantic area. The winter storms in February and a hail storm in May resulted in over \$3,000,000 in incurred losses for our Company. Therefore, Frederick Mutual had an underwriting loss of \$4,448,021. This is the first year since 2003 that we encountered an underwriting loss. However, we did have some positive results; our investments performed well and helped to stabilize our bottom-line profitability. Also, our written premiums grew over 4% from 2009. Our balance sheet continues to remain strong and provides the financial security necessary for our policyholders.

Financial Condition

<u>Balance Sheets (Condensed) as of:</u>	<u>12/31/10</u>	<u>12/31/09</u>
Cash and Short-Term Investments	\$ 2,594,150	\$ 1,665,303
Bonds	24,339,691	25,595,550
Stocks	14,111,325	12,295,183
Real Estate	2,923,301	2,991,977
Premium Balances	3,313,546	3,056,555
Other Assets	2,546,382	2,790,428
Total Assets	\$49,828,395	\$48,394,996
Unpaid Loss Reserves	\$ 7,246,786	\$ 5,661,999
Loss Adjustment Expense Reserves	1,434,208	1,442,646
Unearned Premium Reserve	10,323,229	9,946,270
Other Liabilities	1,792,776	1,840,891
Total Liabilities	\$20,796,999	\$18,891,806
Policyholders Surplus (Security)	\$29,031,395	\$29,503,190
Total Liabilities and Surplus	\$49,828,395	\$48,394,996
Underwriting Gain (Loss)	\$(4,448,021)	\$742,347
Investment Income (Loss)	\$1,843,443	\$44,617
Income (Loss) before Federal Income Taxes	\$(2,503,508)	\$882,061
Premium Written	\$20,790,547	\$19,938,506
Combined Ratio	124.1%	95.6%

Frederick Mutual Insurance Company is rated A- (Excellent) by A.M. Best

Operations

2010 was a very productive year in the completion of a number of business initiatives. A few of the highlights include the following:

- Agency Interface Phase I (quick quoting and rating) was completed and now all of our Lines of Business are on-line.
- Business Intelligence reporting was enhanced to assist in modeling and trending.
- Professional Liability Endorsements were added to our Commercial products.
- 36 new agencies were appointed in 2010.

Outlook for 2011

In 2011 we continue to work on Phase II (application phase) of our Agency Interface. Debbie Koser was hired in October 2010 to concentrate on Phase II. We are planning to have our Commercial Lines products deployed on Phase II by year end. We will continue to appoint new agencies in Maryland and Pennsylvania throughout the year.

We are very blessed to have a committed staff to serve our agents and policyholders with the highest degree of integrity and professionalism. We are also grateful to have as clients and business partners a network of professional agencies that place their business with us enabling our company to grow profitably.

I want to thank each of our agents, employees and directors for their commitment to Frederick Mutual. It is a pleasure to work with such a fine group of individuals.

Very truly yours,

Kevin R. Filler, CPCU, CIC, AU
President and CEO