



## *Management Letter for 2009*

In 2009, Frederick Mutual Insurance Company concluded its 165<sup>th</sup> year of providing a stable market for quality property and casualty insurance products and financial strength to our agents and policyholders. It is our responsibility to provide our stakeholders with corporate integrity, financial security, sound products, ease of doing business, competitive pricing and unparalleled customer service. I can assure you that the professional staff of Frederick Mutual is strongly committed to meeting the needs of our policyholders and agents in these areas.

In 2009 the global economic condition and soft insurance market presented challenges for Frederick Mutual. Our written premiums and policies in force decreased however, our total assets and policyholder surplus had significant increases from 2008. Therefore, our balance sheet and financial security remain very strong.

### **Financial Condition**

Please see the following condensed financial exhibits:

<u>Balance Sheets as of:</u>	<u>12/31/09</u>	<u>12/31/08</u>
Cash and Short-Term Investments	\$ 1,665,303	\$ 1,399,277
Bonds	25,595,550	24,825,121
Stocks	12,295,183	9,410,758
Real Estate	2,991,977	3,042,565
Premium Balances	3,056,555	3,031,336
Other Assets	2,790,427	2,967,293
<b>Total Assets</b>	<b>\$48,394,996</b>	<b>\$44,776,274</b>
Unpaid Loss Reserves	\$ 5,661,999	\$ 6,368,323
Loss Adjustment Expense Reserves	1,442,646	1,426,089
Unearned Premium Reserve	9,946,270	10,127,448
Other Liabilities	1,840,891	1,627,793
<b>Total Liabilities</b>	<b>\$18,891,806</b>	<b>\$19,549,653</b>
<b>Policyholders Surplus (Security)</b>	<b>\$29,503,190</b>	<b>\$25,226,621</b>
Total Liabilities and Surplus	\$48,394,996	\$44,776,274
Underwriting Gain (Loss)	\$742,346	\$793,201
Investment Income (Loss)	\$44,617	\$(776,202)
Income (Loss) before Federal Income Taxes	\$882,061	\$116,755
Premium Written	\$19,938,506	\$20,537,914
Combined Ratio	95.6%	96.3%

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

## **Operations**

In 2009 Frederick Mutual completed a number of business initiatives to promote growth, enhance our products and provide ease of doing business. A few of the highlights include the following:

- Agency Interface which allows our agents to rate and quote our products in their offices for Artisan Contractors, Homeowners and Dwelling Fire programs in Maryland and Pennsylvania.
- Credit Card Acceptance.
- Primary and Non-Contributory endorsement for Artisan Contractors program.
- Additional Insured Endorsement-Automatic Status.
- Additional Insured Endorsement-Completed Operations.
- Commercial Downloading

The Business Development (BD) team was established with the hiring of Charles Karolewski, Denise Lembeck and Bryan Mosser. The BD team is responsible for new agency appointments and increased production from existing agencies with the goal of achieving profitable growth. As a result, 37 new agencies were appointed in 2009.

## **Outlook for 2010**

As we enter 2010 we are continuing the ongoing work of our Agency Interface initiative. We will soon have the Commercial Automobile and Businessowners programs on line for quick quoting and rating. A number of endorsements are in the latter stages of development for our Commercial Lines programs to further enhance our products. We are also developing business intelligence reports to assist in decision making and trend monitoring.

We are very blessed to have a committed staff to serve our agents and policyholders with the highest degree of integrity and professionalism. We take our responsibilities very serious as we conduct our business. 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