

Strong.

We have an unwavering commitment to our policyholders, our agents, our employees and our community.



PENN NATIONAL
INSURANCE

Feel Secure®

2021 Annual Report

2021 President's Message

For nearly two years now, our team has demonstrated that the “what, why and how” of work is more critical than the “where and when.”

Strong Performance

We are proud of our 2021 body of work, especially given the fits and starts that accompanied the pandemic. Through it all, the team overcame figurative and literal headwinds to post strong results this year, with premium surpassing the \$800 million mark with policyholder surplus soon to follow. The net combined ratio was under 100 for the third consecutive year.

COVID remains at the top of our challenge list. However, we accept that the pandemic is beyond our control and realize there are plenty of other passengers aboard this boat. We remain resolute in keeping team members safe, operations unimpeded and communication strong.

A frequency of large property losses marred the first-half results and as the year progressed, weather-related losses again aggregated to surpass the budgeted forecast for the year. The continued upward trajectory of natural catastrophe losses presents a troubling trend that insurers and reinsurers cannot easily dismiss.

In the face of these challenges, we achieved progress and success on important fronts. A few notable accomplishments merit recognition, as each will help us thrive in future years.

Four states went live on the new commercial lines policy administration system, bringing the total to seven. The finish line on this massive multi-year project is in sight and the final four states will be live in 2022. The project team responded well to challenges that emerged during the year in what made for a good comeback story.

Substantial groundwork was completed that will enable us to begin writing business in Minnesota, our first expansion state since the addition of Wisconsin and Iowa through the Partners Mutual affiliation in 2011. Expanding our footprint will help us achieve our growth objectives.



People increasingly look to businesses rather than to the government to assume a leadership role on environmental, societal, and governance issues, and our inaugural Corporate Responsibility Report shows how we respond to that challenge. We are proud of our report, which reflects the traditional values and behaviors that have been a hallmark of the company for more than a century and documents our starting point on key issues of the day.

We conducted National Agency Council meetings in August. These meetings are invaluable to us and help us set our plans for the coming year. Likewise, our third attempt during the pandemic to conduct our President's Choice Forum went off without a hitch. Hosting both events represented a step forward in building and maintaining the strong business relationships upon which we base our business.

Our subsidiary, Inservco Insurance Services, Inc., had a banner year and again made strong contributions to our overall financial results. We have come to expect such results from Inservco based on their consistent performance over the years, but the Inservco team outdid themselves by setting a new record high for net income.

Uncertain Times

Investment markets (and underwriters) thrive on certainty. At present, the industry is confronting a long and growing list of concerns. Core inflation, social inflation, rising weather loss activity, supply chain issues, workforce shortages and a persistently low-yield interest rate environment weigh heavily on the minds of underwriters. Each of these concerns exerts pressure on underwriting performance to keep pace with external forces.

In addition to these operational uncertainties, we can add to the mix the open question of how and when the pandemic ends, and the ongoing conversation over the workplace of the future.

"Can we talk about something else?"

As the pandemic moves into its third year, a feeling of exhaustion with all things COVID-19 is understandable. Every day, we are flooded with an overwhelming amount of information regarding infection and hospitalization rates, death counts, mask requirements, vaccines/boosters, testing, and more recently variants.

At a June industry event, my first away game in over a year, the agenda included a discussion on pandemic workplace issues. As the discussion grew in length, one of the participants half-jokingly requested, "Can we talk about something else?" The remark drew laughter and the group willingly moved to the next topic.

We can suspend a discussion, but we cannot wish away the pandemic. As we approach the endemic stage, we will need to learn to live with the regional viral outbreaks that will prevail. It will also be necessary to apply the learnings of the past two years that have radically altered work paradigms.

The novelty of working from home wore off long ago. Work-from-home has transitioned to being simply work. Despite working apart since March of 2020, our bi-annual employee engagement survey unsurprisingly showed our team is motivated to succeed. The survey also helps us refine our approaches to assure that we do not encounter slippage.

The pandemic has given rise to the great resignation, and labor shortages abound across many industries. We have said farewell to many longtime team members who have begun to enjoy their retirement. At the same time, it is energizing to welcome new individuals aboard who are eager to contribute to our success.

Sustaining our relationship-driven business model is dependent upon us nurturing our culture and instilling the desired values and behaviors in new team members. A large class of underwriter trainees are joining us in 2022 and we are eager to get underway with this group as we build for the future.

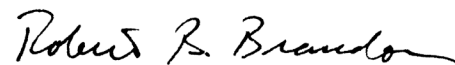
With Gratitude

An oft-repeated quote is that change takes place gradually and then suddenly, but the gradually phase seems to have disappeared altogether these days. Through it all, I am certain of our team's resilience, dedication and unwavering commitment to meeting the needs of our policyholders and agents over the long term.

A Deloitte Insights publication described the insurance industry as being the financial first responders in the aftermath of tragic events. The image of a financial first responder offering compassion and restorative professional services wherever the latest catastrophe happens to strike matches our mission statement:

"We help people feel secure and make life better when bad things happen."

Thank you to all of our team members and our independent agents who represent us so well and give life to our mission statement.



Bob Brandon,
President & CEO, Penn National Insurance

2021

Combined Statutory Financial Statements (Unaudited)

(Dollars in thousands)	2021	2020	2019	2018	2017
Direct premiums written	\$ 817,374	\$ 792,272	\$ 789,875	\$ 775,448	\$ 744,275
Net premiums written	771,248	749,933	749,616	734,124	703,216
Net premiums earned	761,765	745,578	742,044	716,348	690,334
Investment income, including realized gains and losses	52,737	45,719	53,831	61,194	51,198
Net income (loss)	43,917	48,188	48,421	36,367	(42,960)
Total cash and investments	\$1,707,268	\$1,614,703	\$1,556,425	\$1,478,635	\$1,456,793
Total admitted assets	1,957,778	1,866,786	1,808,517	1,759,599	1,747,004
Total policyholders' surplus	788,506	718,028	663,725	591,293	586,917
Combined ratio after dividends	99.8	98.7	99.3	102.5	116.9

The combined financial performance of Penn National Insurance for the year ended December 31, 2021, resulted in net income of \$43.9 million and a net combined ratio of 99.8. Although the loss and loss adjustment ratio increased 1.2 points from that of the prior year, our underwriting expense ratio improved by 0.2 point. Total investment income of \$52.7 million was higher than the \$45.7 million achieved in 2020, due to increased capital gains being realized through portfolio rebalancing.

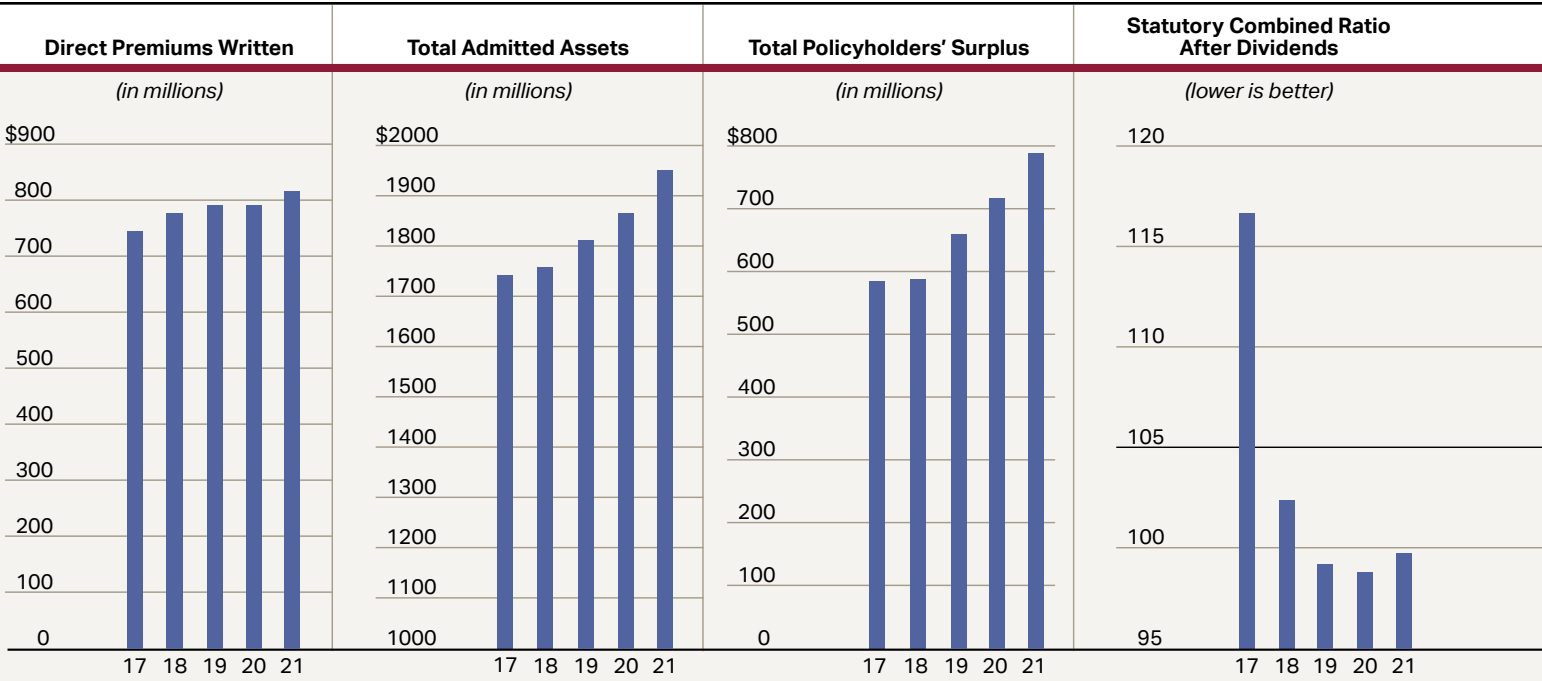
Total net premiums written and earned of \$771.2 million and \$761.8 million, respectively, represented growth of 2.8 percent and 2.2 percent from the prior year. Rate firming in commercial lines continued to favorably impact renewal pricing, particularly in the commercial auto and property lines, while new commercial business was higher than ever. As a result, direct premiums written for our commercial lines were up by \$22.5 million or 5.0 percent from last year, reaching \$474.1 million for the year ended December 31, 2021. Personal lines direct premiums written also increased slightly, by \$2.7 million or 0.8 percent, from \$338.8 million in 2020 to \$341.5 million in 2021. This increase was seen in the homeowners line, which had premium growth of 3.6 percent over the previous year.

Our 2021 net loss and loss adjustment expense ratio was 65.5 compared to the 2020 ratio of 64.3. Overall, incurred losses and loss adjustment expenses totaling \$499.0 million during the year were up by \$19.4 million compared to those incurred during the year prior. An abnormal number of non-catastrophe large fire losses were experienced during the first quarter, and automobile physical damage losses were higher than last year as well. While catastrophe losses were higher than our company's normal experience level, they were substantially less than the catastrophes incurred during the previous year, with improvements in the homeowners, businessowners and fire lines. Total net catastrophe losses and LAE incurred were \$31.0 million or 4.1 points for the year ended December 31, 2021, compared to \$55.9 million or 7.5 points for the prior year.

Underwriting expenses for the year ended December 31, 2021, increased by \$5.6 million from the prior year. This was largely driven by greater depreciation expense, increased consulting fees, costlier employee benefits, and higher taxes, licenses and fees. Our underwriting expense ratio remained in line at 33.6, compared to 33.8 the year before.

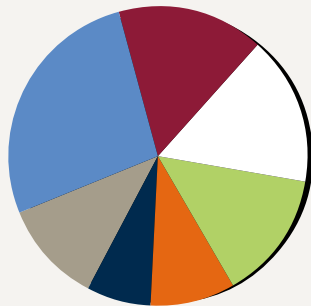
Total admitted assets rose \$91.0 million from December 31, 2020, to \$2.0 billion as of December 31, 2021. Largely the result of the net income achieved for 2021 in addition to unrealized capital gains on investments, we added \$70.5 million to our policyholders' surplus since December 31, 2020, to a total of \$788.5 million.

2021 Combined Statutory Financial Statements (Unaudited)



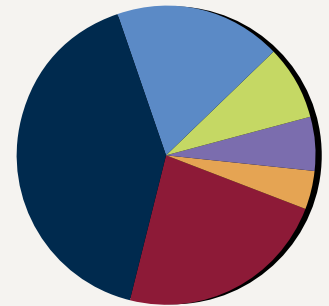
2021 Combined Direct Premiums Written by Line of Business

Personal Automobile	27%
Other Liability	17%
Commercial Automobile	16%
Homeowners	14%
Workers' Compensation	8%
Businessowners	7%
Other	11%
Total	100%



2021 Combined Direct Premiums Written by State

Pennsylvania	40%
North Carolina	18%
New Jersey	8%
Maryland	6%
Virginia	6%
Other	
Alabama	5%
Tennessee	5%
Wisconsin	5%
Other	7%
Total	100%



2021

Combined Statutory Financial Statements (Unaudited)

Combined Statutory Balance Sheets (Unaudited)

December 31, (dollars in thousands)	2021	2020
Admitted Assets		
Investments:		
Bonds	\$1,400,112	\$1,355,060
Stocks	217,664	189,250
Mortgage loans	—	14,916
Real Estate	24,181	—
Cash and cash equivalents	65,311	55,477
Total cash and investments	1,707,268	1,614,703
Agents' balances and uncollected premiums	212,914	211,987
Investment income due and accrued	9,305	9,520
Amounts due from reinsurers	8,946	9,326
Deferred tax asset, net	6,377	12,066
Other assets	12,968	9,184
Total admitted assets	\$1,957,778	\$1,866,786
Liabilities and Policyholders' Surplus		
Liabilities:		
Reserves for losses and loss adjustment expenses	\$ 721,016	\$ 711,222
Unearned premiums	358,996	349,512
Premium taxes and other expenses	29,109	28,067
Other liabilities	60,151	59,957
Total liabilities	1,169,272	1,148,758
Policyholders' surplus:		
Surplus notes	29,500	29,500
Unassigned surplus	759,006	688,528
Total policyholders' surplus	788,506	718,028
Total liabilities and policyholders' surplus	\$1,957,778	\$1,866,786

2021

Combined Statutory Financial Statements (Unaudited)

Combined Statutory Statements of Income (Unaudited)

Years Ended December 31, (dollars in thousands)	2021	2020
Underwriting income:		
Net premiums written	\$771,248	\$749,933
Increase in unearned premiums	(9,483)	(4,355)
Premiums earned	761,765	745,578
Losses and loss adjustment expenses	499,020	479,592
Underwriting expenses	258,974	253,336
Total losses and expenses	757,994	732,928
Total underwriting income	3,771	12,650
Investment income:		
Net investment income	40,891	43,505
Net realized gains on investments	11,846	2,214
Total investment income	52,737	45,719
Other income, net	2,165	2,250
Income before dividends and federal income tax expense	58,673	60,619
Dividends to policyholders	5,477	4,126
Income before federal income tax expense	53,196	56,493
Federal income tax expense	9,279	8,305
Net income	\$ 43,917	\$ 48,188

Combined Statutory Operating Statistics (Unaudited)

Years Ended December 31,	2021	2020
Loss ratio	55.8	53.5
Loss adjustment expense ratio	9.7	10.8
Loss and loss adjustment expense ratio	65.5	64.3
Underwriting expense ratio	33.6	33.8
Dividend ratio	0.7	0.6
Combined ratio after dividends	99.8	98.7
Net premiums written to surplus ratio	1.0	1.0
Net liabilities to surplus ratio	1.5	1.6
Net leverage ratio	2.5	2.6

2021 Corporate Highlights

The following summary touches on several key highlights of 2021.



Corporate Responsibility Report

Our [Corporate Responsibility Report](#) informs our stakeholders about our efforts to positively impact the environment and society and to sustain our world.

Talent Development

We engaged employees throughout 2021 in a series of communications promoting our Mission, Vision and Core Values, to ensure the continuity of our corporate culture during a time of increased employee recruiting and on-boarding. With many long-tenured employees retiring and new employees joining us, we focus not just on passing along the job skills of seasoned employees as they retire, but also instilling the same focus on why we exist and our standards of performance and service.

Inclusion and Diversity

Our Inclusion and Diversity Team spreads awareness, and promotes and enhances our culture of accountability, on issues of inclusion and diversity, in support of our mission, vision, values and strategy. Our integrated, strategic, company-wide approach to our inclusion and diversity efforts includes developing a common language and focus. In this context, diversity includes: The collective mixture of visible and invisible differences that includes, for example, individual and organizational characteristics, values, beliefs, experiences, backgrounds, preferences and behaviors. Inclusion entails the involvement and empowerment of employees, where the inherent worth and dignity of all people are recognized. An inclusive culture promotes and sustains a sense of belonging; it values and practices respect for the talents, beliefs, backgrounds, and ways of living of its employees.



We thank our team members for advancing our mission of helping people feel secure and making life better when bad things happen.



Workplace of the Future

Our employees did not miss a beat when we transitioned to remote work at the COVID-19 pandemic's outbreak. Our strategic plan already included a Workplace of the Future component before the pandemic, and we are now factoring the experiences and learnings from two years of remote working into our Workplace of the Future initiatives. As the pandemic subsides, we are redefining how we operate so that we best meet the needs and desires of team members, while meeting the needs of the company, too. Our offices will transform from a place where all work is performed to an environment that fosters listening, learning, and sharing experiences for the benefit of the individual and the team, with work-location decisions made by managers and supervisors of our various divisions and work teams. Exactly what this means will evolve as we continue to learn and gain the benefit of experimentation.

State expansion

Growth stands as one of the pillars in our strategic plan, and our analysis and planning to expand into Minnesota came together in 2021, with a goal to start writing business in the state by the end of 2022. Minnesota offers significant profitable growth opportunities. Our Waukesha, Wisconsin Office will oversee expansion into Minnesota, including its agency management, and commercial and personal lines underwriting.



Strong. True to our mission.



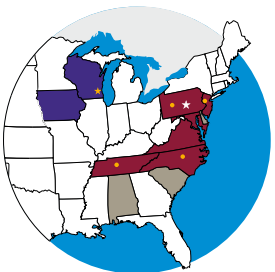
In 1919, a Pennsylvania farmer's association founded Penn National Insurance to provide farm-related workers' compensation insurance to its members.

Today, we do business in 11 states, including a broad variety of business insurance and personal auto and homeowners insurance. And, we changed from an agricultural focus to a service-economy focus. In 2012, we affiliated with Midwestern-based Partners Mutual Insurance, and continued our tradition of delivering personal attention with a local presence in Wisconsin and Iowa and the regional strength and services of a super-regional carrier.

True to our roots, we're still a mutual insurance company, which means we operate for the benefit of our policyholders through providing superior customer service, and bringing innovative products and services to meet the ever-changing needs of the marketplace.

Facts in Brief

- We employ over 800 people.
- We were founded in 1919.
- Our principal lines of business are personal automobile, other liability, commercial automobile, homeowners & workers' compensation.
- We sell through 1,200 independent agency operations in 11 states.



Engaging Policyholders

Because we are a mutual company, our policyholders – not shareholders – come first.

We continuously enhance our technology and processes to provide better service and increase convenience for policyholders. We look out for the best interest of our policyholders and are committed to providing a consistent, high-quality experience that is personable, respectful and responsive.



Partnering with Our Agents

We remain committed to distributing our products and services through independent agencies. Guided by a data-driven approach, we develop and implement agency management strategies and systems that position us to respond to the continuously changing environment and expectations of our agents. We continue to identify ways that we can help our agents grow and solidify the important role they offer their customers as trusted advisor.

Our Mission

We help people feel secure and make life better when bad things happen.

Our Vision

We build enduring relationships with policyholders, agents and team members by serving their long-term best interests.

Our Core Values

Our exceptional work environment and camaraderie are guided by our core values.



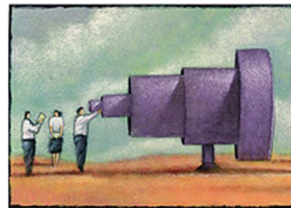
Integrity

We behave ethically, guided by a strong understanding of right and wrong.



Respect

We treat everyone fairly and promote diversity and inclusiveness.



Transparency

We openly and honestly share our successes and shortcomings.



Social Responsibility

We care about others and strengthen our communities by volunteering our time and financial support.

Ground Rules

Our behaviors adhere to ground rules designed to optimize team member's ability to contribute to achieving our objectives and fulfilling our mission.



Officers & Directors



Executive Management Team

Karen Yarrish
senior vice president, secretary & general counsel

Robert B. Brandon, CPCU
president & CEO

Mike Watts
chief information officer

Thomas K. Korber
vice president, Human Resources

John V. Foster
senior vice president, Insurance Operations

Jacquelyn M. Anderson, CPCU, CPA
senior vice president, CFO & treasurer

Listed as pictured left to right

Elected Officers

Robert B. Brandon, CPCU*
president & CEO, Penn National Insurance

Jacquelyn M. Anderson, CPCU, CPA
senior vice president, CFO & treasurer

Karen C. Yarrish
senior vice president, secretary & general counsel

**serves as a member of the Board of Directors*

Board of Directors

Stephen L. Swanson
chairman of the board,
director – Strategy & Corporate
Development, Bon Tool Company

G. Lawrence Buhl
retired audit partner –
Philadelphia office of Ernst & Young

Todd R. Fisher, M.D.
principal – Fisher Medical Practice

Carole Ferrero
retired president and global chief
underwriting officer,
General Reinsurance Corporation

Constance B. Foster, Esq.
retired partner – Saul Ewing, LLP

Mark B. Glessner
retired managing partner –
PricewaterhouseCoopers

Michael N. Herro
owner/CEO – NICKAL, LLC

Robert J. Powell, CEO
Invictus Leadership Group

Ellen Rinaldi
retired chief security officer and
chief information security officer,
The Vanguard Group

Christine Sears, CPCU
retired president & CEO,
Penn National Insurance

Kenneth R. Shutts, Esq.
retired president & CEO,
Penn National Insurance

Leadership Council

Frank Benedek, CPCU
vice president, Claims Division

John Buchenauer, CPCU
vice president, Personal Lines Division

Tracy Fleager, CPCU, ARe
vice president, Corporate Risk

**Randal Mancini, CPCU, ARM,
ARe, AIS, AINS**
vice president, Commercial Lines Division

Chad Ott, ACAS, MAAA
vice president, Actuarial

**Andrew Potalivo, MS, CPCU, ARM,
AIAF, CRIS, AU**
vice president, Field Operations

Robert Potter, CPCU, AIAF, ARe, ARC
vice president, Finance

Regional Vice Presidents

Jeff Blatherwick, MBA, CPCU, CIC
regional vice president, Harrisburg

Jonathan Dillon
regional vice president, Greensboro

Bill Emerick, CPCU, CIC, ARM
regional vice president – Nashville

Mark Fitzgerald
vice president – Surety

Donald McAuliffe, Jr., CPCU, AIC
regional vice president – Central Atlantic

Linda Pihonsky, CPCU
regional vice president – Pittsburgh

Claims Office Managers

Neil French, CPCU, CIC, AIM & SCLA
regional claims manager,
Pittsburgh & Waukesha

Paul Heineck, CPCU, SCLA, ARM, AIC
regional claims manager,
North Carolina & Tennessee

Joseph Holland
regional claims manager,
Harrisburg & New Jersey

Partners Mutual Insurance

Richard Keith
president & CEO

Mark Ewert, CPCU, CIC
executive vice president & secretary

Inservco

Michael Scheib, ARM, AAI
president & CEO

Staci Ulp, AIC
executive vice president & COO

