

The sounds of success:

old fashioned teamwork + a vision for the future



2007 Annual Report





To our Policyholders, Agents and Associates:



The insurance industry had another solid year in 2007. A lack of major weather events across the country, combined with the balance sheet strength accumulated over the past five years, helped maintain a very competitive marketplace. Policyholders

benefited from significant investments in new products and technology as well as falling prices enabled by strong earnings.

While MMG's 2007 results were not as positive as in the previous five years, we are pleased to report respectable returns considering the frequency and severity of losses experienced throughout the year. Our Northern New England market area experienced a significant weather event in mid-April that resulted in the second-largest loss in our history—a reminder of how swiftly one storm can impact a majority of our Policyholders. More important, it was an opportunity to follow through on our promise to respond quickly and effectively to Policyholders who suffered losses. We are extremely proud of how the MMG team performed.

Despite the unusual weather and claims activity in Northern New England, we still generated a combined ratio of 101.8%. While not exemplary, it did result in policyholder surplus growth of just under \$1 million. We also completed a \$7 million capital raise. Our surplus

now stands at \$63.7 million, the highest level in our history. The combination of organic surplus growth and the capital we raised positions MMG well for continued investment in growing our products, building new technology and, above all, ensuring the stability of our franchise well into the future.

From an operating perspective, the softening marketplace limited our growth in writings to 2.5%. A majority of this growth resulted from our continuing strategy to diversify writings by increasing our Commercial Lines presence. We also saw positive trends from our 2006 expansion into Pennsylvania, where our value proposition has demonstrated strong appeal to both Policyholders and Agents. As a result, we have great expectations for future growth there.

During 2007, MMG invested in many areas that we believe will have a positive impact on our operations for years to come:

- To enhance **Policyholder service**, we embarked on an e-commerce and customer service initiative we call *Consumer of the Future*.
- We began developing new predictive modeling techniques to keep our **personal lines products** state-of-the-art while maintaining competitive prices.



- We introduced several new platforms to enhance **work-flow between MMG and our Agents.**

In the midst of all this activity, we completed a major expansion and renovation of our headquarters in Presque Isle, Maine. The project doubled our existing workspace, implemented many technology upgrades, and addressed several efficiency considerations. All told, the new facility will contribute to a much more productive workspace and will serve us well into the future.

We are proud to report that MMG received several important awards in 2007. We were named:

- *Company of the Year* by the Professional Insurance Agents of New Hampshire
- *Company of the Year* by the Independent Insurance Agents and Brokers of New Hampshire
- #1 in the nation for Ease of Doing Business
- #1 *Best Place to Work in Maine* for companies with 25 to 249 employees

We appreciate recognition in such diverse areas and believe it reinforces our commitment to our business model.

In looking at the industry as a whole, we expect the current market cycle to continue through 2008. Though State and Federal legislation remains somewhat quiet, we continue to follow proposed regulatory measures closely. The world moves faster every day and we shall continue to pay close attention to developing trends.

In closing, we remain firmly committed to upholding the core MMG values of strong relationships and exceptional customer service. Complementing these efforts with an innovative approach towards products and technology positions us well for future success. We appreciate the confidence our Agents and Policyholders place in MMG, and look forward to continuing to deliver on our promises.

Sincerely,

Larry M. Shaw, CPCU
President & CEO
MMG Insurance





Maine's Best Place to Work

In 2007, MMG was named Maine's Best Place to Work within the mid-sized business category. This annual award is based upon a survey of Maine businesses that evaluates employee responses on a variety of workplace-related topics, and a review of each company's benefit plans. We take special pride in this honor because we rely on our employees every day to fulfill our promise to protect your piece of the world.

New Headquarters Completed

In October, we completed a major renovation of the MMG corporate headquarters in Presque Isle, Maine. The project not only increased our square footage, but also enhanced the technology, comfort, energy-efficiency and other environmental advantages of the workspace. We're excited about the many benefits this new space will provide our employees—and, in turn, our Policyholders and Agents.



MMG Named Company of the Year...in NH

MMG was named New Hampshire Company of the Year...TWICE! Both the Independent Insurance Agents and Brokers of New Hampshire (IIABNH) and the Professional Insurance Agents of New Hampshire (PIANH) gave MMG their top awards based on a variety of criteria that measure the strength of the carrier-agent relationship. We appreciate this vote of confidence from our New Hampshire Agents.

#1 for Ease of Doing Business in the U.S.

In an annual survey of over 8,000 Independent Agents, Deep Customer Connections asked, "Which U.S. carrier is easiest to do business with?" MMG came out #1 among the more than 220 insurance companies rated. We're proud that our commitment to superior service has been validated and promise to continue to foster a seamless relationship between MMG, Agents and Policyholders.

Consumer of the Future

In 2007, MMG developed a new initiative to anticipate the evolving service needs of the "Consumer of the Future," including both current and potential Policyholders. As a result of our efforts, we now have a five-year vision that encompasses improved claims service, additional e-commerce functionality, and innovations in customer service. The initial phase saw the launch of a new, secure web site exclusively for Policyholders: MyMMG. During the coming months and years, we'll continually refine our vision and plans for future service initiatives in close consultation with our Agents.





**Commitment to
Superior Service**





2007 Financials

FINANCIAL STRENGTH

Comparative Balance Sheet

Admitted Assets

	<u>12/31/07</u>	<u>12/31/06</u>
Total Admitted Assets	\$171,993,551	\$159,472,579

Liabilities

Total Liabilities	\$108,285,521	\$103,506,032
Policyholders Surplus	\$63,708,030	\$55,966,547
Total Liabilities and Surplus	\$171,993,551	\$159,472,579



TWO YEAR INCOME STATEMENT



	<u>12/31/07</u>	<u>12/31/06</u>
Underwriting Gain (or Loss)	(\$2,263,818)	\$4,215,007
Net Investment Income	\$6,188,063	\$4,697,183
Total Other Income	\$1,049,296	\$1,023,587
Net Income Before Income Taxes	\$4,973,541	\$9,935,777
Net Income	\$4,280,794	\$6,990,303
Change in Surplus	\$7,741,483	\$6,941,873
Surplus End of Period	\$63,708,030	\$55,966,547



COMPARATIVE RESULTS

	Written Premium	Policyholder Surplus	Admitted Assets	Combined Ratio
2007	110,547,607	63,708,030	171,993,551	101.85%
2006	107,850,198	55,966,547	159,472,579	93.07%
2005	102,060,848	49,024,674	146,365,936	92.11%
2004	94,380,782	42,826,352	130,552,306	94.40%
2003	84,755,651	31,783,896	107,940,366	99.64%
2002	76,129,002	26,413,268	94,249,084	97.46%
2001	69,370,480	24,659,819	81,400,823	107.90%
2000	64,564,531	24,903,577	72,956,526	99.90%
1999	58,547,730	21,540,920	64,937,670	99.84%
1998	53,762,564	20,059,362	58,709,784	102.29%



Directors

Tom E. Gagnon, Chairman of the Board
Presque Isle, Maine
Partner, Key Realty; President of
H.G. Slipp Company Investments
Director since 1992

John H. Cashwell III, Vice-Chairman
Bangor, Maine
President of Seven Islands Land Company
Director since 1997

Larry M. Shaw, CPCU, President
Chief Executive Officer
Presque Isle, Maine
Director since 1995

Samuel W. Collins
Caribou, Maine
President of S.W. Collins Company
Director since 2001

Harold A. Dakin
Londonderry, New Hampshire
Consultant, Retired Vice President—International,
NYNEX Information Resources Co.
Director since 1998

Rep. Dawn Hill, Esq.
Cape Neddick, Maine
Maine House of Representatives
Attorney, President of It's a Dogs' World
Director since 1990

Michael D. MacPherson
Presque Isle, Maine
President/Owner of Just Value Associates
Vice President/Owner of Future Security, Inc.
Director since 1997

Jay York McCrum
Mars Hill, Maine
President of Penobscot McCrum LLC
Director since 2005

Donald W. Perkins, Jr.
Westbrook, Maine
President of Gulf of Maine Research Institute
Director since 2005

Jon J. Prescott
Island Falls, Maine
President of Katahdin Trust Company
Director since 2005

Lisa M. Ventriss
South Burlington, Vermont
President of Vermont Business Roundtable
Director since 2000

George H. Ellis, Honorary Director
Scarborough, Maine
Retired Vice President of Maine Central Railroad
Director from 1975-1988

Standing, from left to right:
Jay York McCrum, Jon J. Prescott,
Samuel W. Collins, Donald W. Perkins, Jr.,
Larry M. Shaw, George H. Ellis,
Seated, from left to right:
Dawn Hill, Esq., Michael D. MacPherson,
John H. Cashwell III, Tom E. Gagnon,
Harold A. Dakin, Lisa M. Ventriss



Officers

Larry M. Shaw, CPCU
President
Chief Executive Officer
Service since 1982

Roger J. Roy
Executive Vice President
Chief Operating Officer
Treasurer, Secretary, Clerk
Service since 1984

Michael M. Young, CPA, CFE
Chief Financial Officer
Senior Vice President
Service since 1994

Matthew R. McHatten
Senior Vice President
External Operations
Service since 2001

Lynn M. Lombard
Vice President
Director of Human Resources
Service since 1971

Pamela G. Johnson, CPCU
Vice President
Commercial Lines Manager
Service since 1984

Timothy W. Vernon, SCLA
Vice President
Property Claims Manager
Loss Prevention/Legislative Affairs
Service since 1986

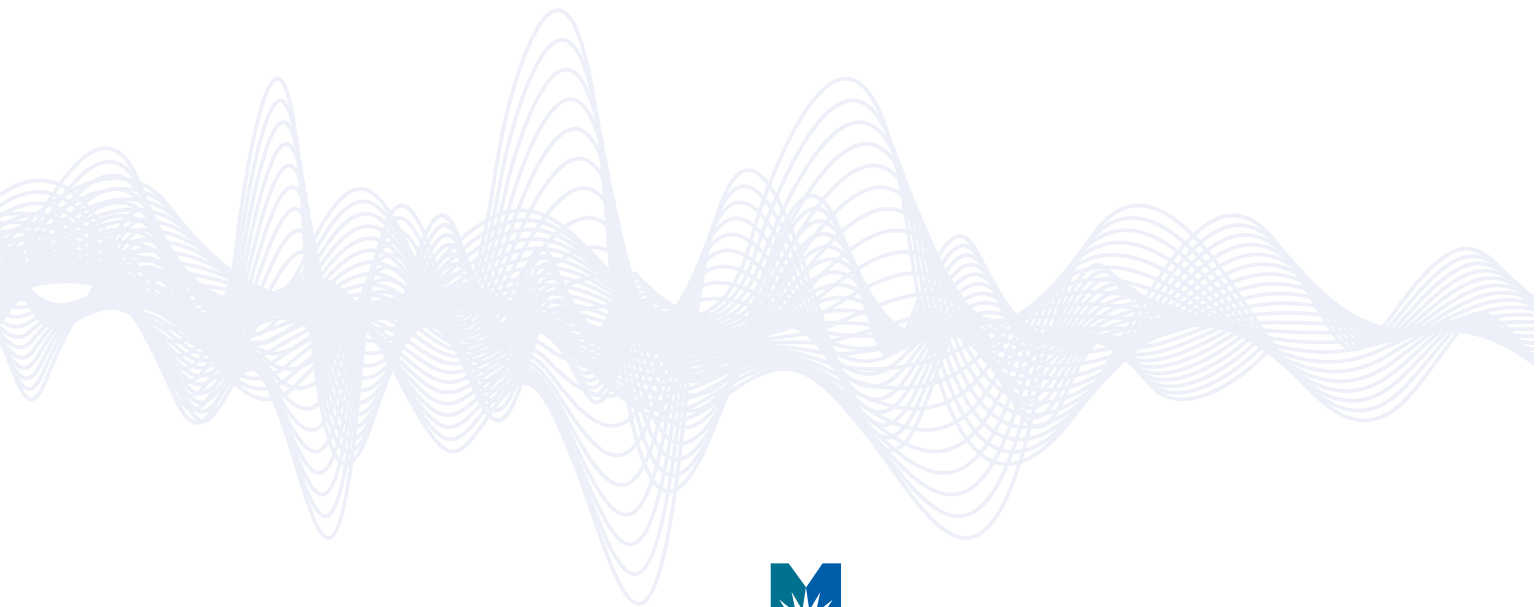
Steven D. Chandler, CPCU
Vice President
Personal Lines Manager
Service since 1987

Stephen J. Gallant
Assistant Vice President
Accounting Manager
Service Since 1996

Stacy L. Shaw
Assistant Vice President
Information Systems Manager
Service Since 1998



Top to bottom left:
Roger J. Roy
Larry M. Shaw
Michael M. Young
Stacy L. Shaw
Matthew R. McHatten
Top to bottom right:
Stephen J. Gallant
Lynn M. Lombard
Pamela G. Johnson
Timothy W. Vernon
Steven D. Chandler



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