

IT ALL BEGINS WITH A SOLID FOUNDATION...



To our
Policyholders, Agents,
and Associates:



Drive

From a global, national and local perspective, 2011 was a year with many costly disasters to businesses and individuals. The earthquakes in Asia and South America, domestic tornado, hail and thunderstorm activity, Hurricane Irene, and an early snowstorm in late October were devastating. As an industry, 2011 was one of the most costly years with regard to incurred loss. The events also created many losses that were not covered by traditional insurance policies, leaving communities and individuals with tremendous hardship in the rebuilding of their infrastructure and property. All of us at MMG were inspired by the stories of communities coming together to get people back on their feet.

As a company, we did experience policyholder loss activity from Irene, the October snowstorm, and other events during the year. We are extremely pleased with how well-prepared our Claims personnel were to be effective and helpful during these difficult times. Irene tested our staff; however, our people were resolute in providing exceptional customer service and assisting insureds during a challenging timeframe with uncertainty prevalent from many aspects. With our agency partners as teammates, we were able to make a devastating situation more manageable for our policyholders.

Even with an active year from a loss perspective, MMG was still able to post solid financial results. A 97.6% combined ratio generated an increase in policyholder surplus of \$3.6 million, up 5.24%. A growth rate of 5.8% resulted in written premium of \$133 million. In spite of a decreasing interest rate environment and a flat performance from equities, the balance sheet remains strong, providing the capacity needed for a business plan of moderate growth over the next three to five years.

endless possibilities



Building on a Solid Foundation

A central component of our strategic approach has been to position the Company for future success. The principles of our business model remain the same. We strive for state-of-the-art, user-friendly technology combined with a consistent personal touch—one that provides the highest level of customer service in all transactions. Overlaying the

model with the need to constantly adapt to a dynamic, competitive market and the evolving demands of tomorrow's consumer, has positioned MMG with a solid foundation for continued success. This position has been earned by our employees who have executed a plan of strengthening our balance sheet with strong long-term results. We are also experiencing growth opportunities by virtue of strong relationships with our agents and policyholders, along with the diversification of our book of business through geographic and product expansion.

Continued Diversification

In 2011, we expanded to our second new state over the last five years with writing our first policy in Virginia in December. This culminates a tremendous effort put forth by our entire team. From software development to the appointment of agents, our people have taken on the challenge and created an expansion strategy with much opportunity. Virginia is a state that provides growth, diversification and an agency plant that values regional carriers. We will roll out our remaining products throughout 2012 and work diligently to establish all other elements to support our franchise.

Pennsylvania, entered in 2006, continues to lead our geographic diversification efforts. In 2011, we continued our expansion to the western portion of the state with eight new appointments. We now have 41 agents in 54 locations throughout Pennsylvania. Written premium finished at \$11 million, further establishing MMG's market presence. Pennsylvania, like many states, has experienced many weather events over the past two years; therefore, the loss ratio is higher than expected. We see this issue being short-term with the state continuing to build momentum.

Another area that has shown growth and diversification is our Commercial Lines product offerings. Consistently growing at over 10% and experiencing exemplary loss ratios, we envision a larger percentage of our book represented by Commercial Lines. Our model of high-tech, high-touch has provided our agents and policyholders a solution that works extremely well in today's competitive environment. We plan to continue to enhance this foundation moving forward.

Embracing the Future Consumer

High-tech, high-touch depends upon capable and motivated employees that utilize user-friendly technology to provide levels of service beyond the norm. At the same time, this model requires the monitoring of evolving consumer needs and wants in a rapid movement to more web-based purchasing, servicing, and communication. We continue to focus on this arena, embracing the Independent Insurance Agents & Brokers of America's Consumer Access Portal (CAP). This bold initiative will allow many in the independent agency world to continue to evolve their franchises to be as relevant in a web environment as they are today in their local communities. We are excited by the evolution driven by both CAP and other similar individual agent initiatives. Though it is a highly competitive world, we remain confident that the entrepreneurial nature of our agents combined with their high level of local knowledge holds significant promise.

We also continue to build our web-based strategy to assist our agents in the servicing of policyholders that are prone to this direction. Much of this work is focused on evolving our legacy system and processes to be more easily integrated to the technology needs of tomorrow. The investment in this area is being advanced with a great amount of resource and enterprise-level thought utilizing the latest in project management and software tools. Though we remain in the early stages, we are already seeing the benefits of scale and speed to market that will be needed to keep our franchise elevated in the future.

In addition, we continue to build a client care design for the future. Our plans include the inevitable marriage of web specific servicing with a team of individuals prepared to service any and all types of transactions. Ultimately, we envision a design that works closely with our agency partners to complement the value of their respective franchises. The reality is that tomorrow's consumer will continue to dictate how they would like to be serviced. They will also judge our industry experience against that of other products they buy. Therefore, a significant focus is warranted in keeping up with the needs of our agents in facing these challenges.

As always, we would like to thank our policyholders for the trust they place in MMG, our agents for working with us to take value to an ever challenging marketplace, and our Board of Directors and employees for executing and believing in our long-term strategy of building affinity through relationships and technology. With this solid foundation and clear vision, we look forward to the future.

Larry M. Shaw, CPCU
President & CEO
MMG Insurance



Royce M. Cross
President,
Cross Insurance
Bangor, ME



"We've been representing MMG almost as long as we've been in business—over 54 years. It's important to us, being located in northern New England, that the carriers we work with have a risk appetite for the region. MMG embraces rural communities and offers a personal lines portfolio that works for people in our market and, they can also provide protection for the 'toys'—snowmobiles, boats—that our clients work so hard for.

We find that once we insure a client with MMG, they never want to leave. I don't recall ever seeing an MMG claims survey from one of our insureds with less than stellar marks.

What really makes MMG stand out—and why we value them as a partner—is their process. Our business runs on tight margins and we have to deliver a competitive product at a low cost in order to compete. MMG's technology makes it easy for our team to respond quickly. In fact, I recently recommended to a major international carrier that they use a system like MMG's.

As Cross Insurance continues to grow and brings new agencies in, we're finding opportunities to introduce large commercial producers to MMG. They quickly learn what we already know—MMG is easy to work with and offers a quality commercial portfolio that is relevant to the kinds of businesses that form the foundation of New England's economy."



enduring legacies



2012 Community Volunteer of the Year

Kathie Beaulieu has been named the 2012 Community Volunteer of the Year. Kathie, an Agency Interface Specialist in MMG's Information Systems department, exemplifies the caring spirit that is integral to our company's core values.

Many of Kathie's volunteer activities center around the Presque Isle Kiwanis Club, an organization whose activities touch the lives of so many people in our community. Kathie serves on the Board of Directors of Kiwanis and is a member of several committees within the organization.



I believe thriving communities have compassionate people willing to help others and I want to be a part of that. I don't volunteer for the recognition or self-serving benefits, I genuinely just want to help others with whatever struggles they may be facing. At some point in our lives, we'll probably all need a helping hand and I'm thankful that I'm in a position to help others at this point in my life.

The quote by Dr. Seuss sums it up well: ***"Unless someone like you cares a whole awful lot, nothing is going to get better. It's not."***

— Kathie Beaulieu

As noted in her nomination, Kathie has taken on leadership roles in a variety of Kiwanis endeavors, whether or not she was officially the chairperson, in order to ensure that the events were successful. These have included annual events like the Home, Garden and Recreation Show, Talent Revue, Casino Night, Youth Day, and Christmas Project. Kathie has also held numerous organizational leadership positions, including chair of the public relations committee and membership on the Financing & Fundraising Board. She has provided hands-on marketing support for the organization, designing brochures, flyers and posters.

Kathie also serves as President of Sinawik, Inc., an offshoot of the Presque Isle Kiwanis Club that builds affordable housing in partnership with Northern Maine Community College, benefitting local families while giving NMCC students practical vocational training.

As the recipient of this year's award, Kathie will be a member of the 2012 MMG Giving Committee, helping to make decisions about allocating the company's charitable contributions. In addition, MMG will make a \$500 donation in Kathie's name to the Kiwanis Christmas Gift Fund.

..... Commitment



MMG's Foundation of Excellence Recognized with Several Industry Awards

We are humbled and honored that MMG was recognized in 2011 by several insurance industry associations and other groups. These are a testament to the hard-working, dedicated, experienced employees who are the foundation upon which our success is built.



2011 Company of the Year by
Maine Insurance Agents Association



2011 Excellence in Service by
Professional Insurance Agents
of New Hampshire



2011 Named One of
the Best Places to Work in Maine



2011 Interface Partner Award by
Applied Systems

MMG's Expansion into Virginia Comes to Fruition



In late 2011, MMG began writing insurance in Virginia as we continue to expand our presence in the mid-Atlantic. Virginia offers MMG opportunities for growth and continued diversification of our business. We anticipate that, like Pennsylvania, which has been a strong and growing market for MMG for the past five years, Virginia will offer substantial long-term opportunities well into the future.

Dedication





.....lasting impressions

Continuing Our Focus on the Future

MMG has continued to invest in building and evolving our systems to meet agent and consumer demands for technology-based solutions that make it easy to do business with us, and anticipate the needs of agents and consumers in the future. We have made enhancements to the MyMMG portal, making it easier for policyholders to manage their accounts online and reduce the amount of paper they receive from us. This initiative is not only good for the environment, but also helps improve efficiency and control expenses through reduced mailing and printing costs. MyMMG is co-branded with our agents, which keeps their service value proposition as part of all transactions.

Through a coordinated effort to communicate the availability and functionality of MyMMG and the Go Paper-Free option, we increased the number of MyMMG users by 20% in 2011.

Our commitment to a business model that focuses on our relationships with independent agents remains steadfast—a major focus of our technology investment will be in systems that make it even easier for our agents to provide top-notch service to their customers.

 **Save a tree—go Paper-Free!**

DIRECTORS

John H. Cashwell III, Chairman
Bangor, Maine
President Evergreen Ridge, Inc.
Director since 1997

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

Larry M. Shaw, CPCU, President
Presque Isle, Maine
Chief Executive Officer of MMG Insurance
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 Company
Director since 1998

Tom E. Gagnon
Presque Isle, Maine
President of H.G. Slipp Company Investments
Director since 1992

Dawn Hill, Esq.
Cape Neddick, Maine
Maine State Senator
Director since 1990

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

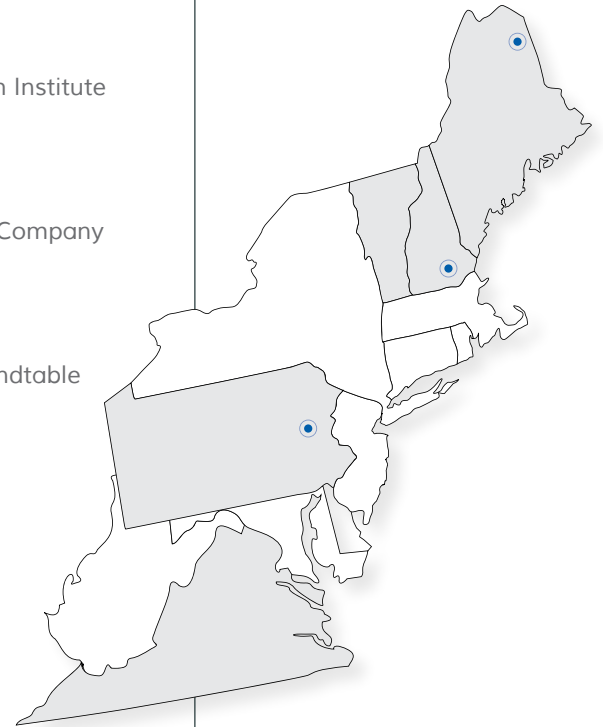
Donald W. Perkins, Jr.
Westbrook, Maine
President of Gulf of Maine Research Institute
Director since 2005

Jon J. Prescott
Island Falls, Maine
President & CEO 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

MMG Insurance currently has three offices from which it writes insurance in Maine, New Hampshire, Vermont, Pennsylvania and Virginia in partnership with over 390 independent insurance agency offices.



Front Row (left to right):
Lisa M. Ventriss, Tom E. Gagnon,
Dawn Hill, Harold A Dakin
Back Row (left to right):
Michael D. MacPherson,
John H. Cashwell III, Larry M. Shaw,
Samuel W. Collins, Donald W. Perkins, Jr.,
Jay Y. McCrum, Jon J. Prescott,
George H. Ellis

OFFICERS

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

Matthew R. McHatten
Executive Vice President
Chief Operating Officer
Secretary, Clerk
Service since 2001

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

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

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

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

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

Stephen J. Gallant
Vice President
Marketing Director
Service Since 1996

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



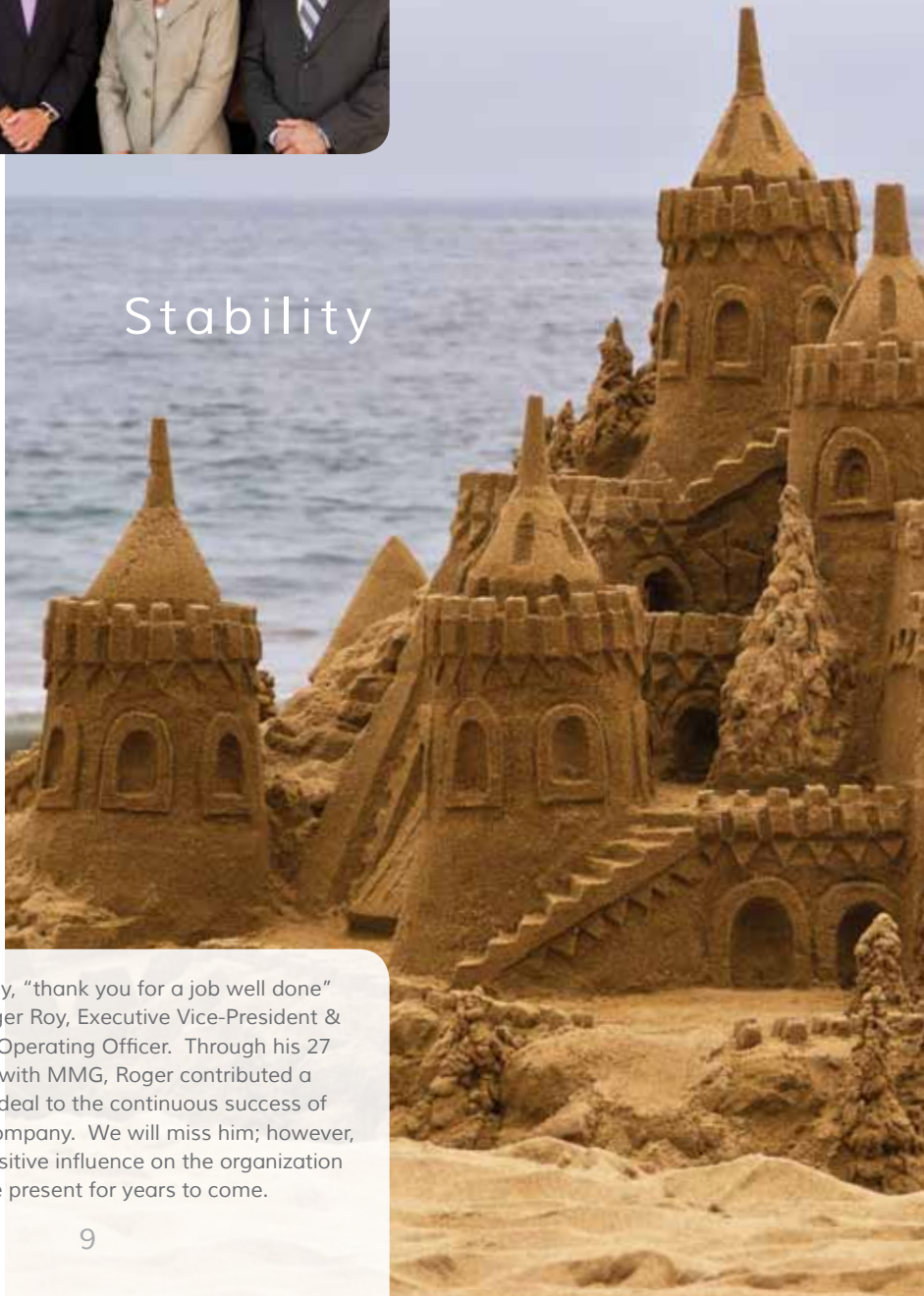
Front row (left to right):

*Timothy W. Vernon,
Michael M. Young,
Larry M. Shaw,
Pamela G. Johnson,
Stacy L. Shaw*

Back row (left to right):

*Stephen J. Gallant,
Roger J. Roy (Retired),
Steven D. Chandler,
Lynn M. Lombard,
Matthew R. McHatten*

Stability



We say, "thank you for a job well done" to Roger Roy, Executive Vice-President & Chief Operating Officer. Through his 27 years with MMG, Roger contributed a great deal to the continuous success of the Company. We will miss him; however, his positive influence on the organization will be present for years to come.

Financial Strength

Comparative Balance Sheet

<u>Admitted Assets</u>	12/31/2011	12/31/2010
Total Admitted Assets	\$ 192,443,537	\$ 184,113,397
<u>Liabilities</u>		
Total Liabilities	\$ 119,466,084	\$ 114,769,014
Policyholder Surplus	\$ 72,977,453	\$ 69,344,383

Total Liabilities and Surplus	\$ 192,443,537	\$ 184,113,397
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Two Year Income Statement

	12/31/2011	12/31/2010
Underwriting Gain	\$ 634,030	\$ 2,153,590
Net Investment Income	\$ 6,335,426	\$ 4,756,742
Total Other Income	\$ 969,393	\$ 928,156
Net Income Before Income Taxes	\$ 7,938,849	\$ 7,838,488
Net Income	\$ 6,737,493	\$ 6,170,452

Change in Surplus	\$ 3,633,070	\$ 5,586,504
Surplus End of Period	\$ 72,977,453	\$ 69,344,383

Effort



lifelong passions



Comparative Results

	Written Premium	Policyholder Surplus	Admitted Assets	Combined Ratio
2011	133,213,853	72,977,453	192,443,537	97.64%
2010	125,952,121	69,344,383	184,113,397	96.66%
2009	118,696,329	63,757,879	174,868,274	99.16%
2008	114,087,098	58,060,022	168,416,631	104.95%
2007	110,547,607	63,708,030	171,994,244	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%



MMG Insurance

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