

Envisioning the possibilities





To our **Policyholders,**
Agents, and Associates:

2012 represented another year of progress for the MMG franchise as we navigated uncertain times, a significant weather event, and evolving customer expectations. We are pleased to report significant progress in adapting and responding to this environment while continuing to set our sights for long-term sustainability and success.

The Insurance Industry

From an industry perspective, 2012 continued the concerning trend of severe weather activity. It was a year that seemed relatively benign in many parts of the country until Superstorm Sandy made landfall and devastated areas of New York, New Jersey and southern New England. Sandy is considered to be amongst the largest catastrophe losses in U.S. history. MMG and the insurance industry overall responded well to this historic event, earning accolades from the policyholders impacted. As stated above, Sandy added to a disturbing upward trend in the number of severe weather events throughout the United States and globally. This has impacted, and will continue to impact, how we manage the associated risk in all aspects of our business.

Financial Synopsis

Due to our writings relative to the storm's track, our Sandy loss was not significant. We experienced a \$1.2 million loss with 60% of the total occurring in Pennsylvania. Our Claims Department was well prepared to handle the impacts of Sandy, once again standing steadfast to our promise to be there for our policyholders in their time of need. Overall, our results were strong with a 96.8% combined ratio. Net income before taxes was \$7.4 million, driving an increase in policyholder surplus of \$6.1 million, or 8.4%. Written premium growth was up 4.7%, slightly below expectations attributable to marketplace corrections made in personal lines in northern New England. One milestone achieved in 2012 was the attainment of \$200 million in assets. We are very pleased with these results considering the challenging economy and depressed interest rate environment we find ourselves operating in.

Vision: Sustainability of the MMG Business Model

Our overall focus operationally for 2012 was to recommit to the business model that has driven our success – a model emphasizing a high tech/high touch design. Our success is attributable to providing the highest level of service, building solid agency partnerships, providing user-friendly best-in-class automation and delivering competitive products. With long-term vision supported by strategic plans for the future, we continue to allocate resources, both financial and intellectual, to these core operating principles. The following discussion will touch on operational areas that play major roles in the sustainability of this model. Positioned to compete, we look forward to executing plans to ensure the future dependability and consistency for which the company has been known.

Vision

Growth/Diversification

A major long-term step is the continuation of our expansion into the Mid-Atlantic. With Virginia becoming our fifth state in late 2011, this past year saw us go live with personal lines, complementing our previously introduced commercial products. We are pleased with how our presence in the state is evolving. In particular, we are impressed with the professionalism of the agency appointments made and are encouraged by the value that these agents and policyholders place in regional carriers like MMG. We are excited and optimistic about our future in Virginia and its potential contribution to territorial diversification and growth opportunities.

Our first move to the Mid-Atlantic was into Pennsylvania in 2006. With \$15.6 million in written premium and a 42% growth rate in 2012, the state continues to be a productive environment for the MMG model. Relationships with our agency partners have developed quickly and have proven to be impacting to not only this state but to our company overall. We plan to maintain our steady expansion into Pennsylvania with immediate focus on strengthening existing relationships while adding new agents in the western part of the state.

Another major growth area for MMG is in commercial lines. With strategic intent, commercial lines has grown from \$16.7 million ten years ago to \$46.7 million today. At 33.5% of our total written premiums and consistently solid loss ratios, this line has provided the company with strong results year after year. It has also allowed us to expand our market offerings, driving value to our agency relationships.

Alignment for the Future

In 2012, significant work was placed into clarifying and aligning our vision for the future of personal lines. With this area being extremely competitive and evolving at a rapid pace, it was important that we adapt our strategy in order to compete over the long-term. With predictive analytics being monitored, we are redefining our personal lines approach in order to provide products and services that will respond to the emerging marketplace. We are pleased with the progress made and will continue to place emphasis on delivering on a strategy that aligns with enhancing our market position both short and long-term.

Technology and The Future Consumer

Continued evolution of technology and new communication mediums put pressure on the need to analyze and adapt to the needs of today's consumer. We have focused on this over the past five years and have made moves to position MMG to be able to keep pace as technology and consumer expectations evolve.

One area of focus has been the expansion of our Customer Service Department. We are pleased to announce that in 2012 we initiated a beta test with an agency partner to take on the majority of servicing needs for their MMG policyholders. We are excited about this major step and the opportunity to learn more about how to assist our agents with servicing a more dynamic consumer base. We see this as an area of great potential to bring agent, policyholder, and MMG much closer by virtue of the benefit of a smooth, well-delivered servicing transaction.

Obviously, one cannot discuss the consumer of the future without speaking to the importance of the need to invest in technology. It is imperative that our infrastructure, both in terms of hardware and software, be aligned with the demands of the times. We continue to invest with the intent of returning immediate value to the consumer and the agent. As the internet becomes increasingly the preferred vehicle for transactions, there are exciting approaches on the horizon. Within this realm, we are excited and supportive of the Independent Insurance Agents & Brokers of America Consumer Agent Portal (CAP). This multi-pronged strategy is aimed at improving the web relevancy of the independent agent by increasing the capabilities of online quoting and social media interaction. In addition, many agents have adapted their own websites to provide similar capabilities for their respective policyholders. All told, the independent agency system is turning the corner on creativity and innovation, preparing the path for an exciting future marketplace that promises to strengthen relationships between agency, customer, and MMG.

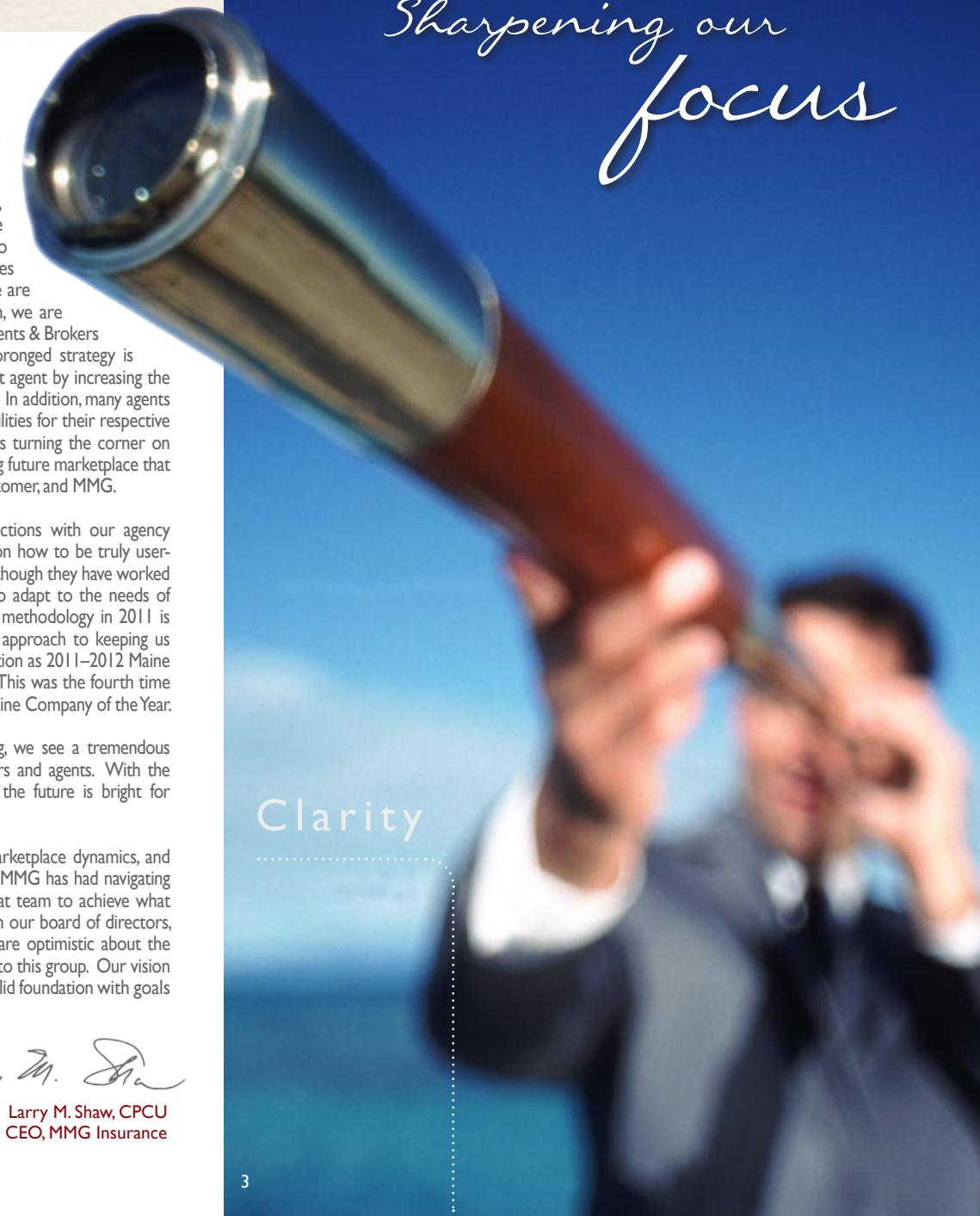
Equally important are our interface and system connections with our agency partners. We continue to allocate resources and focus on how to be truly user-friendly. Like all companies, we have legacy systems and although they have worked well in the past, it is imperative that we update them to adapt to the needs of the future. Our commitment to Enterprise Architecture methodology in 2011 is paying dividends and providing us with a more efficient approach to keeping us current with technology. Proof positive was MMG's selection as 2011–2012 Maine Company of the Year by the State's Independent Agents. This was the fourth time out of the last six years that MMG has been chosen as Maine Company of the Year.

While at times the pace of technology appears daunting, we see a tremendous opportunity for MMG to bring value to our policyholders and agents. With the explosion of apps, social media, and mobile capabilities, the future is bright for providing a level of service that is second to none.

In looking back over the challenges of the economy, marketplace dynamics, and severity of the weather, I am impressed with the success MMG has had navigating through truly difficult and uncertain times. It takes a great team to achieve what has been accomplished. As we evaluate our position with our board of directors, management team, employees, and agency partners, we are optimistic about the state of our company. Our ten year success rate is owed to this group. Our vision for the next ten years, one of continuing to build on this solid foundation with goals of higher tech and higher touch, is bright and exciting.


Larry M. Shaw, CPCU
President & CEO, MMG Insurance

*Sharpening our
focus*



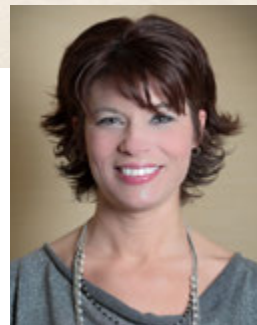
Clarity



2013 Community Volunteer of the Year

A Limestone native, Grace O'Neal has been chosen for her hard work, good ideas, and enthusiasm on behalf of several local organizations:

- She has served as President, Vice President, Secretary, and Board Member of the Limestone Chamber of Commerce.
- One of her main roles with the Chamber is organizing the annual Limestone Fourth of July Festivities, which includes a parade, street dance, and fireworks display.
- She has been instrumental in getting Limestone on the Web, first via a Facebook page to regularly promote local businesses and community events; then through a redesign of the existing website. The community can now rely on the site for consistent, up-to-date information, while anyone looking to relocate to northern Maine can now learn more about this "quaint little community."
- After close family members were diagnosed with cancer, Grace organized and captained an MMG team to participate in the annual Relay for Life American Cancer Society event, helping to raise close to \$10,000 in the first year alone.
- Grace's young son has been the inspiration for her involvement with the Limestone Recreation Department. Grace is passionate about making sure the children in her community have lots of fond childhood memories and experiences and are given the same opportunities as those growing up in a bigger area. She would even be willing to learn the rules of soccer if the coach needed her help to run the program.



I volunteer because I want to do my part. I refuse to be one of those people who complain and don't do anything to make it better. I want there to be opportunities for people to experience in the community I'm part of.

I believe in the businesses that are here and in the public programs that are offered. I want to see the businesses in my town succeed because they are supporting families—my friends, husband's friends and my son's friends.

What's rewarding about volunteering is hearing people say "Oh, that was fun!" or "I'm so glad we did that together!" whether it be participating in a 15-hour relay event, or watching fireworks at dusk on the 4th of July. When I hear the crowd's oohs and aahs, I know that organizing and hosting the fundraising events has paid off in bringing family and friends together for an American tradition.

As Gayla LeMaire put it, "Volunteers are paid in six figures: S-M-I-L-E-S."

—Grace O'Neal, Senior Programmer/Analyst



In recognition of the award, MMG will make a \$500 donation in Grace's name to the Limestone Rotary Club's Rotary Park Clock Project

nurturing Community



MMG's Commitment to the Community

At MMG, we are proud to be involved with a wide range of community service organizations, educational programs, and important economic development initiatives. In addition, our employees extend this commitment with involvement in many other volunteer and fundraising activities.

In 2012, MMG's community support included the following:

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|---|-------------------------------------|
| Special Olympics | Junior Achievement |
| United Way of Aroostook | Young Professionals Institute |
| American Cancer Society Relay for Life | Angel Flight Northeast |
| Gulf of Maine Research Institute | Cary Women's Imaging Center |
| Northern Maine Community College | Wintergreen Art Studio |
| Maine Early Learning Investment Group | Concord Hospital Trust |
| Nordic Heritage Sport Club | Momentum Aroostook |
| Ride Aroostook | Skills USA Maine |
| Maple Meadow Farm Festival | Friendly Kitchen |
| Cystic Fibrosis Foundation | Fat Tire Festival |
| Boy Scouts of America Katahdin Area Council | National Multiple Sclerosis Society |
| Tri Aroostook | Kiwanis Christmas Gift Fund |
| Aroostook Partners in the Arts | Project Explorer |
| TAMC Charities | Good Shepherd Food Bank |
| Vermont Disaster Recovery Fund | Catholic Charities Food Bank |
| St. Apollonia Dental Clinic | Second Harvest Food Bank |
| Aroostook House of Comfort | Lund Family Center |
| Aroostook Partnership for Progress | Federation of Virginia Food Banks |
| | Challenger Learning Center |

Sharing our
vision



Scott Boardman, CPCU
President,
Hickok & Boardman Insurance Group
Burlington, VT



MMG has been a very important partner with Hickok & Boardman for close to 20 years. We have a wonderful relationship with their whole team, from management to marketing, information systems, underwriting, and customer service.

I use three words to describe MMG's approach: fair, efficient and swift. Their underwriters take a personalized approach to our clients and deal with them in a very professional manner.

They are especially good in our clients' time of greatest need, when they have a claim to file.

As independent agents, we can rely on MMG to deliver on our promise, which is summed up in our theme line, "Here when you need us!"

Trust is an essential part of any good relationship, and MMG continually works hard to develop that.

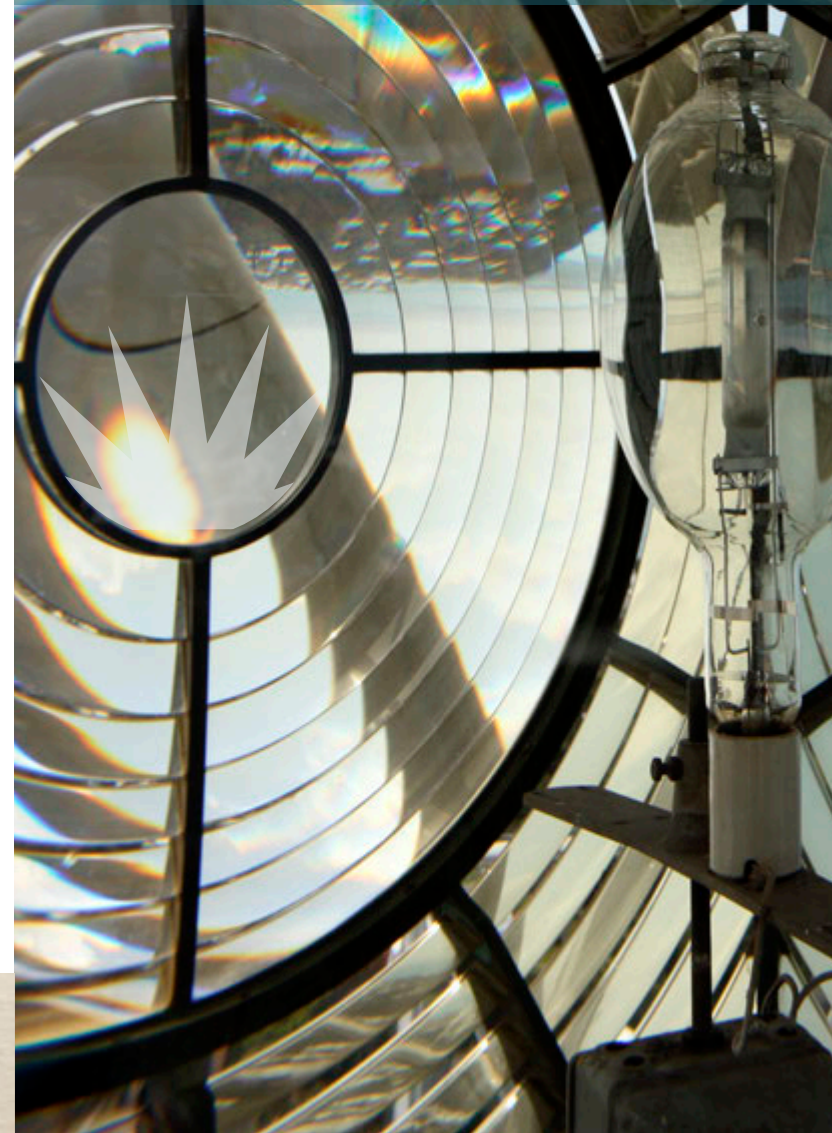
They show a genuine interest in us as people, in our success and in our clients.

I think the excellence we see in MMG begins right at the top. They draw up a plan, execute it well, and then keep trying to improve on their processes. The marketing team does a great job of helping us market their products, both personal and commercial lines, in today's highly competitive insurance field.

To sum up why MMG is such a good fit for Hickok and Boardman, I'd say it's the common vision and mission we share: to proactively develop long-term relationships with our clients.

..... Future

Positive
reflections



**MMG's Vision of Excellence
Honored with Two Important
Industry Awards**



2012 Company of the Year
Maine Insurance Agents Association



2012 Interface Partner Award
by Applied Systems

These represent the hard work and dedication of our employees and their ongoing commitment to providing the best service and support to our agency partners.



**MMG'S Expansion into
Virginia Gets Personal!**

Expanding our presence in the Mid-Atlantic region, we began writing commercial insurance in Virginia in late 2011, and in 2012 added personal lines in the Commonwealth. We are excited about Virginia's potential contribution to our continued growth.



On August 24, 2012, George Ellis, an Honorary Member of our Board of Directors, passed away. George served on our Board from 1975 to 1988 and remained very active in his honorary capacity. His contributions to MMG over his 37 years of service were many, having been a major part of the significant evolution of MMG over that time period. In addition, George was a devoted family man and friend – a model to all of us in this regard. In his honor, we dedicate this portion of our annual report to his memory.

Dedication



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

DIRECTORS

John H. Cashwell III, Chairman
 Bangor, Maine
 President of JHC Consulting LLC

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

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

Samuel W. Collins
 Caribou, Maine
 President of S.W. Collins Company

Harold A. Dakin
 Londonderry, New Hampshire
 Consultant
 Retired Vice President of SuperMedia

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

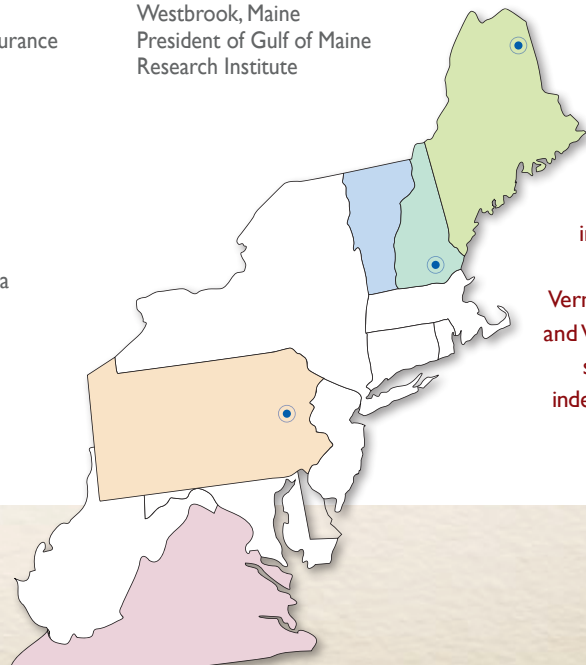
Dawn Hill, Esq.
 Cape Neddick, Maine
 Maine State Senator

Jay Y. McCrum
 Mars Hill, Maine
 President & CEO of
 McCrum Family Holdings

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

Jon J. Prescott
 Island Falls, Maine
 President & CEO of
 Katahdin Trust Company

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



MMG Insurance currently has three offices from which it writes insurance in Maine, New Hampshire, Vermont, Pennsylvania and Virginia in partnership with over 427 independent insurance agency offices.



OFFICERS

Larry M. Shaw, CPCU
 President and Chief Executive Officer

Matthew R. McHatten
 Executive Vice President, Chief Operating Officer,
 Secretary and Clerk

Michael M. Young, CPA, CFE
 Senior Vice President, Chief Financial Officer and Treasurer

Stephen J. Gallant
 Senior Vice President, External Operations

Lynn M. Lombard
 Vice President, Director of Human Resources

Pamela G. Johnson, CPCU
 Vice President, Commercial Lines Manager

Timothy W. Vernon, SCLA
 Vice President, Property Claims Manager

Stacy L. Shaw
 Vice President, Information Systems Manager

Douglas R. Hazlett
 Vice President, Personal Lines Manager

Corey A. Graham, AIC
 Assistant Vice President, Casualty Claims Manager

*Seated, front row
 (left to right):
 Michael M. Young
 Larry M. Shaw*

*Matthew R. McHatten
 Stephen J. Gallant*

*Standing, back row
 (left to right):
 Douglas R. Hazlett
 Stacy L. Shaw
 Corey A. Graham
 Lynn M. Lombard
 Timothy W. Vernon
 Pamela G. Johnson*

A vision of the future





Financial Strength

Comparative Balance Sheet

<u>Admitted Assets</u>	12/31/2012	12/31/2011
Total Admitted Assets	\$205,124,517	\$192,443,537
<u>Liabilities</u>		
Total Liabilities	\$126,045,627	\$119,466,084
Policyholders Surplus	\$ 79,078,890	\$ 72,977,453
Total Liabilities and Surplus	\$205,124,517	\$192,443,537

Two Year Income Statement

	12/31/2012	12/31/2011
Underwriting Gain	\$ 1,810,410	\$ 634,030
Net Investment Income	\$ 4,686,184	\$ 6,335,426
Total Other Income	\$ 891,291	\$ 969,393
Net Income Before Income Taxes	\$ 7,387,885	\$ 7,938,849
Net Income	\$ 5,299,973	\$ 6,737,493
Change in Surplus	\$ 6,101,437	\$ 3,633,070
Surplus End of Period	\$ 79,078,890	\$ 72,977,453

Comparative Results

	Written Premium	Policyholder Surplus	Admitted Assets	Combined Ratio
2012	139,487,692	79,078,890	205,124,517	96.77%
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%



The long view



MMG Insurance

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