A detailed architectural drawing of a mechanical part, possibly a gear or a pulley, is the background. The drawing is in black ink on a light-colored paper. In the foreground, there are several drafting tools: a yellow pencil, a silver pencil sharpener, a silver compass, and a white ruler with black markings. The tools are arranged in a way that suggests they are being used to create the blueprint. The overall scene is a close-up, high-angle shot of a drafting table.

BUILDING A BLUEPRINT FOR THE  
**FUTURE**



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**2016 ANNUAL REPORT**

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## TO OUR POLICYHOLDERS, AGENTS, AND ASSOCIATES



LARRY M. SHAW  
President and CEO,  
MMG Insurance

The year 2016 was an interesting one for MMG. A mild start set the stage for Homeowner and Commercial property results to be stellar. However, an industry-wide trend of a spike in frequency and severity of Personal and Commercial Lines Auto loss experience found its way into our results. Due to the significant impact this trend had on the value of most liability claims, we embarked on an exercise to look at all open casualty loss files and revalue the future

expectation of the ultimate payout. We also valued all 2016 losses with the same change in reserving philosophy. The net impact to our financial results was an elevated combined ratio of 101.6% with re-estimated reserves contributing a 3.75% point impact.

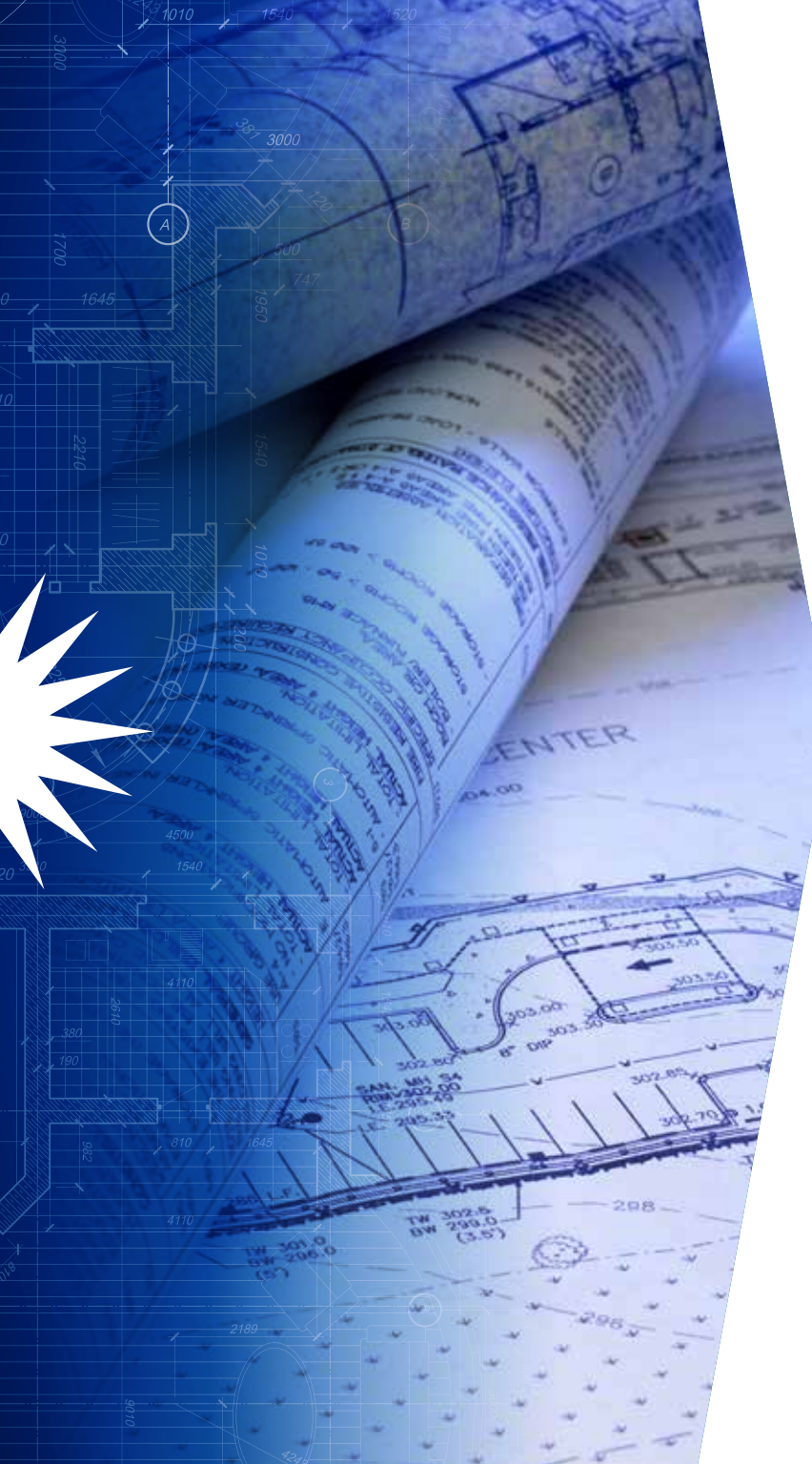
With the industry combined ratio estimated to finish at 100.7%, we were slightly above that average and our historic results. We consider this a positive outcome considering the increase in 2015 and older reserves of \$6 million. By revaluing our reserves to more adequately address the increases in expected payout, we have built more security into our balance sheet. An underwriting loss of \$3.8 million was buoyed by strong investment results increasing policyholder surplus by \$3 million.

Much work continues to go into the fixing of our Personal Auto results. A new predictive model is providing a desired shift in attracting business that is appropriately priced. We have also been steadfast in rate changes that better reflect the exposure we

are writing. Although this will take another year or two to impact the loss ratio, we are confident we are moving in the right direction. As mentioned, the mild winter set us up nicely for very good Homeowner and Commercial Lines performances. The Homeowners loss ratio finished at 45% for the year and put the five year number at 49.5%—great results. Commercial Lines remained strong with a 42.33% loss ratio for 2016 and 38.3% for the past five years. The long-standing success of our property business has significantly impacted our financials over the past seven to ten years.

As for loss ratios by state, Maine posted a 49.82% in 2016 and a five year of 47.3%, New Hampshire a 57.24% and a five year of 53.9%, Vermont a 55.72% and a five year of 51.4%, Pennsylvania a 69.31% and a five year of 69.4% and Virginia a 75.92% and a five year of 65.4%. The Company's loss ratio overall was 56.46% and a 53.1% over five years.

Top line growth slowed through the year finishing at 5.62% and \$185 million in written premium. Commercial Lines growth remained strong at 8.74% and now makes up 37.63% of our business. Personal Lines grew at 3.83%. Underwriting discipline and rate increases in Auto created less dynamic growth than what has recently been experienced. Growth by state and the representative percentage of overall business was Maine 4.58% growth and 41% of our business, New Hampshire 5.32% growth and 26% of our overall business, Vermont 4.22% growth and 14% of our overall business, Pennsylvania 4.15% growth and 15% of our overall business, and Virginia 35.96% growth and 4% of our overall business. We like the geographic and product diversification of our book of business as it contributes both growth opportunities and stability in results.



## MMG'S UNIQUE OPTION— A LOOK TO THE FUTURE

As a company, MMG continues to execute a competitive strategy that provides a unique option to our agency partners and policyholders. Core to that strategy is a high tech / high touch business model. This well-tested and successful model has been in use for many years and remains our competitive differentiator as we look to the future. A unique option is a lofty objective that demands continuous attention, adaptation, and, ultimately, improvement in all areas of the company. 2016 was no exception. Enhancements made across the organization in all departments have positioned the company to deliver a marketplace option that provides policyholders and agents a model that looks to exceed their expectations. As these expectations evolve based on the digital advancements made in many industries, we continue to devote resources to technology and talent in order to provide a truly positive customer experience.

As we look to 2017, we see three major areas of focus: products that will provide competitive coverage and pricing for existing and potential policyholders; technology that will meet the expectations of these policyholders and provide a platform to build from as technology continues to evolve; and the talent to execute these strategies while providing the highest level of service to our agents and policyholders.

**Products.** With Personal Lines, our planning centers around the concept of the packaged account. The MMG portfolio recognizes the value of writing as many policies as possible in a package. We stand by the concept that an agency and company can better understand the needs of a client and serve them better if we write most, if not all, of their business. We will continue to enhance the package as we move forward. Another area that will continue

to receive focus will be the project of moving profitability back into Personal Auto. We have seen a significant shift in the profile of our business over the last three years and expect this to continue. This repositioning of the business will allow more confidence in the pricing of the product. We see rate increases continuing until the aforementioned frequency and severity of loss settles into a more stable range.

With Commercial Lines continuing to be a consistently profitable line, it remains imperative of our strategy to continue with growth in the 10% range. This will be challenging as the commercial marketplace is expected to be even more competitive in the future due to new competition and existing players being more aggressive. To compete, we will continue to expand our risk appetite in the areas of class of business and limit, strengthen our Commercial Lines underwriting team and look for synergistic collaboration with our marketing group. We know that human interaction with agents and policyholders provides the best opportunity to meet the needs of the commercial client.

**Technology.** In late 2015, we made the major decision to replace our legacy systems with state-of-the-art technology that positions us for the next 10 to 15 years. Through 2016, our first major application, a new billing system, was developed. We expect to go live in the third quarter of 2017. This will be a major milestone and one we are anxious to build on. Once implemented, we will embark on the replacement of our policy administration and claims systems.

We expect many enhancements and new offerings to come with this continuing focus on technology. An example in 2016 was a new and improved website which is more functional for all users. We expect new capabilities as we design the policy administration and claims systems in the areas of agency and policyholder portals, mobile applications, and other exciting technology driven options.

**Talent.** Our report on talent acquisition and development is a positive one due to the success we have had over the last three years tied to a heightened focus of our efforts. Our team of employees continues to get stronger and stronger based on a wide array of approaches. Our intern program provides not only a great experience for the intern and company, but also a high percentage of full time employees at graduation. We have had great success in the hiring of experience and expertise throughout the organization. This acquisition success has been enhanced by focused training and development of all employees—an approach that strongly ingrains the MMG culture. We know the war for talent across all industries is far from over and we will never be done; however, we are excited about building on a proven track record of success.

As always, we are fortunate to have the combination of so many great people contributing to the success of the company. An engaged and insightful board of directors, an employee base that consistently delivers the MMG unique option, agency partners that value a company that joins them in their quest to drive value to their clients, and a supporting cast of reinsurers, advisors, and other business partners make us what we are today. The combination and collaboration of the total team mentioned above gives us the excitement and motivation to continue to build on a foundation constructed over many years. We remain optimistic as we take on the challenges that lie ahead.

LARRY M. SHAW, CPCU  
PRESIDENT & CEO  
MMG INSURANCE

## MMG'S VISION OF EXCELLENCE HONORED



**2016 Company of the Year**  
Maine Insurance Agents Association



**2016 Top Performing Company**  
Professional Insurance Agents of New Hampshire



**2016 Business of the Year**  
Aroostook Aspirations Initiative

## MMG'S COMMITMENT TO THE COMMUNITY



For nearly 120 years, we have been committed to the communities where we live and work. Through MMG's corporate giving program and the work of our dedicated employee volunteers, we support a wide range of important efforts. From educational programs to health and wellness initiatives, economic development and sustainability, we are continuously working to improve the places we call home.

In 2016, MMG proudly supported more than 150 organizations and causes, including:

### MMG CENTER FOR PROFESSIONAL DEVELOPMENT AT THE UNIVERSITY OF MAINE AT PRESQUE ISLE

A new 1,000 square foot state-of-the-art space devoted to the region's professional and workforce development needs. Designed to serve as a hub for education, enrichment, and opportunity, the center encourages remote learning opportunities and eliminates the barrier of travel for training.

### INAUGURAL CARIBOU MARATHON

The northeasternmost USATF certified marathon in the United States. The weekend long event also included a half marathon, relay marathon, kids' race, expo, street festival, and more. Runners, volunteers, and spectators from more than 15 states and three Canadian provinces converged on the city for the first annual event.

### COUNTY DIALYSIS CENTER (THE AROOSTOOK MEDICAL CENTER)

Founded in 1997, the County Dialysis Center is the only kidney dialysis service in Aroostook County and the only not-for-profit center in Maine. A significant expansion in 2016 allowed for the facility and equipment to be updated and for the center to accommodate a growing number of patients.



## SERVICE AREA

MMG Insurance proudly supports the Independent Agency distribution system throughout its five state operational footprint of Maine, New Hampshire, Pennsylvania, Vermont, and Virginia.



## 2016 FEATURED AGENCY: ALLEN INSURANCE | FINANCIAL

"We're honored to receive this recognition because we are a like-minded company," says Mike Pierce, President of Allen Insurance and Financial.

It's that like-minded commitment to exceeding customers' expectations and continuously providing exceptional service which bonds Allen Insurance and Financial and MMG Insurance. As a 100% employee owned business, the Allen Agency cares deeply about the families, employees, and businesses they serve. Celebrating 150 years in the industry, they have built a company based on knowledge, expertise, and professionalism and they work hard every day to earn their customers' trust.

Pierce and Executive Vice President Mike Dufour explain how MMG helps achieve their mission to be the local company that individuals and businesses in the community seek out first.

"As a business partner they are available from the top down and always listen to our concerns. Their work ethic, integrity, and trust increases our level of comfort, but the real differentiator is the people," says Mike Pierce.

"They are the best regional carrier around. They have innovative technology, which puts them ahead of the curve, and the management is always easy to access; in fact, we meet on a regular basis and even attend events together. We're so lucky to have such a great company right in our back yard," adds Mike Dufour.

Pierce and Dufour recognize the need to rise to the challenges of the constantly evolving technological landscape within the insurance industry. Companies must work to balance the need for efficiency and automation with the need for a responsive and knowledgeable employee base.

Pierce notes the Agency's appreciation for MMG's unique high tech / high touch business model. "They continue to be innovative and exceed our expectations."

Dufour adds, "They are intuitive with their computer systems and that makes them one of the primary go-to companies. They have the ability to react quickly when we need help, and the help they provide is better than larger companies."

The desire to create and maintain long lasting relationships and valuable experiences drives the Allen Agency and its flourishing partnership with MMG. With a combined 270 year history, it's a relationship with a blueprint for proven success.



**MIKE DUFOUR**  
Executive Vice President,  
Allen Insurance | Financial

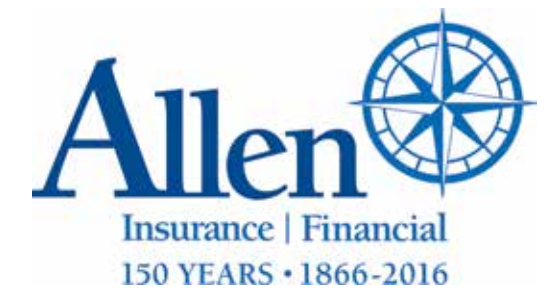
**MIKE PIERCE**  
President,  
Allen Insurance | Financial

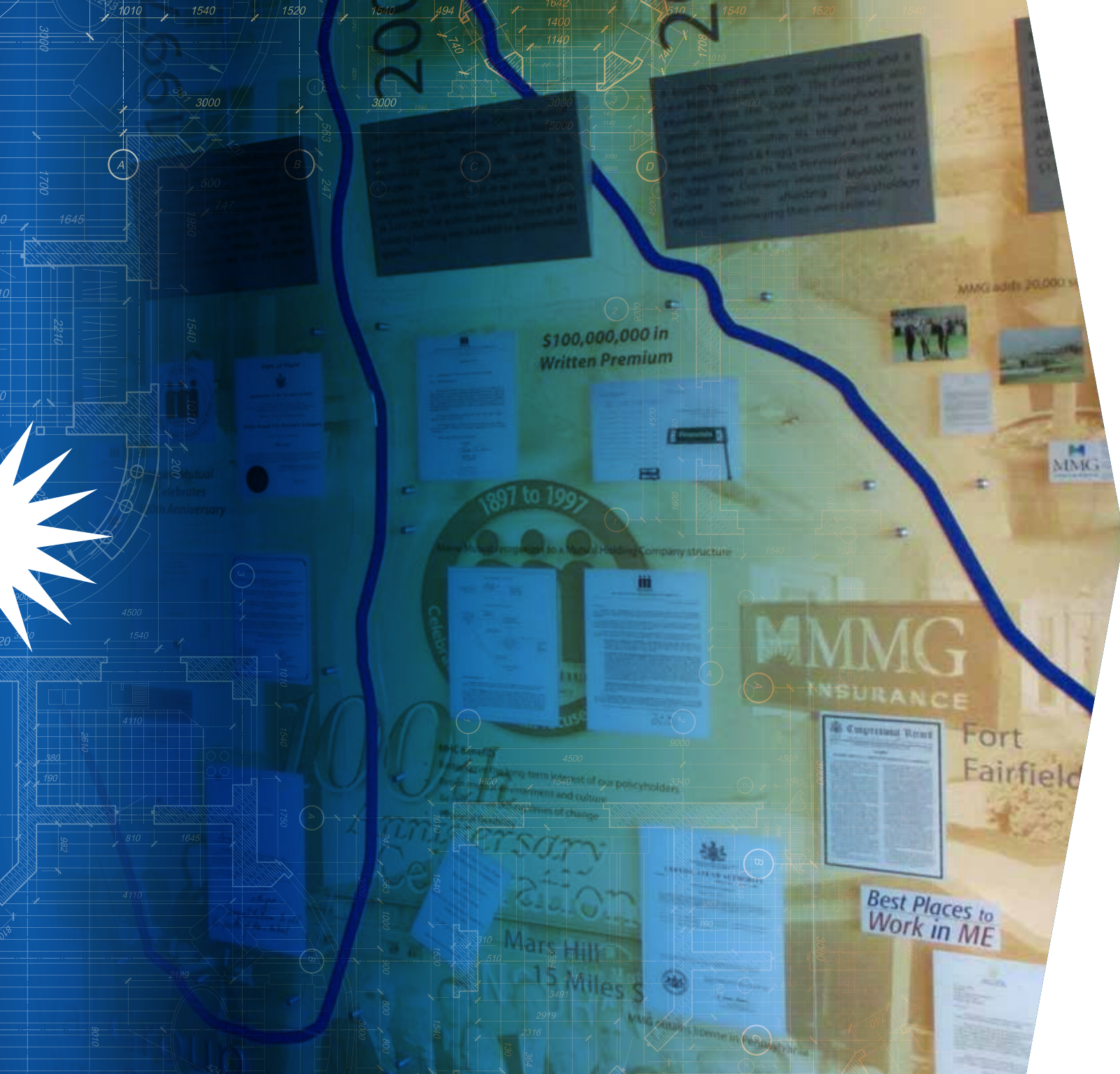
**"There's lots of good synergy. Like us, they are Maine-based, and there is an increased level of trust and respect of sustainability. We're confident the relationship will continue for years to come."**

**– Mike Pierce**  
President  
Allen Insurance | Financial

**"We tend to be a very community-based agency, and MMG shares a strong commitment to civic excellence. You hear that from other companies, but MMG does it. This is a 'people' business, and they have great people."**

**– Mike Dufour**  
Executive Vice President  
Allen Insurance | Financial





# COMMUNITY VOLUNTEER OF THE YEAR: PAULA BALLARD



**PAULA BALLARD**  
Assistant Accountant,  
MMG Insurance

“Working vacation” may be an oxymoron, but for MMG’s Volunteer of the Year it’s an opportunity to live her faith.

For more than ten years, Paula Ballard and her husband Pat have spent their annual vacation in Central America, joining other missionaries to help children in Guatemala.

“We join up with Centro Cristiano Cultural De Guatemala (CCCG) to go into villages and help with

feeding programs and building projects. We call it our vacation, but we see it as visiting family.”

Paula’s not afraid to get dirty and mixes concrete by hand to make slabs for homes in the villages.

“It’s rewarding—a blessing—to work alongside the other missionaries and the people of Guatemala,” says Ballard.

Along with CCCG, Paula and Pat lend their time and talents to other ministries: Neighbors First Inc., the Bowery Mission in New York City, and Martha & Mary’s Soup Kitchen in Presque Isle.

Paula recalls recently helping a woman who was struggling to meet her basic needs.

“Her home was basically a shack. You could see through the walls. She had an outhouse for a bathroom, no running water, and she was alone. Through Neighbors First, we put a slab in and found an affordable mobile home. And when helping her move her belongings out of storage she told me ‘I woke up this morning and thought I was dreaming. I could not believe that I had a new home.’”

As an Assistant Accountant at MMG, Ballard plays a key role in the department’s daily functions, contributing to various projects and assisting customers.

“I love my job and I really enjoy the people with whom I work. They feel like family. We have a lot to get done every day, but we have a lot of fun accomplishing it together!”

After 17 years with MMG, Ballard also shares her accounting skills with the organizations she serves.

**“I’ve learned so much here at MMG that I am able to help Neighbors First and Centro Cristiano Cultural De Guatemala with their books.”**

**– Paula Ballard**  
Assistant Accountant  
MMG Insurance

When Paula and Pat return to Presque Isle after a “working vacation,” they may look tan, but they’re not necessarily rested.

“When we come home we’re tired and we’re spent,” says Ballard. “We don’t get much sleep, but it’s worth it.”





## YOUNG PROFESSIONALS INSTITUTE



Problem solving. Teamwork. Communication. Goal setting. Networking.

The Young Professionals Institute came to life ten years ago with a mission to connect and strengthen one of northern Maine's greatest assets—its young professional community. Born out of a need for increased training opportunities, the Institute was an ideal match for MMG Insurance. The Company partnered with the University of Maine at Presque Isle, wholeheartedly embracing the concept and assisting with the planning and execution of the new program.

Now, a decade later, 144 participants, including this year's class, are successful products of the fast-paced, seven-week course. MMG has 39 employees who have enrolled in the program. As a major area business leader, MMG takes seriously its responsibility to support this one-of-a-kind professional development opportunity, as attracting, retaining, and developing a talented workforce continues to be critical to the future of both northern Maine and MMG.

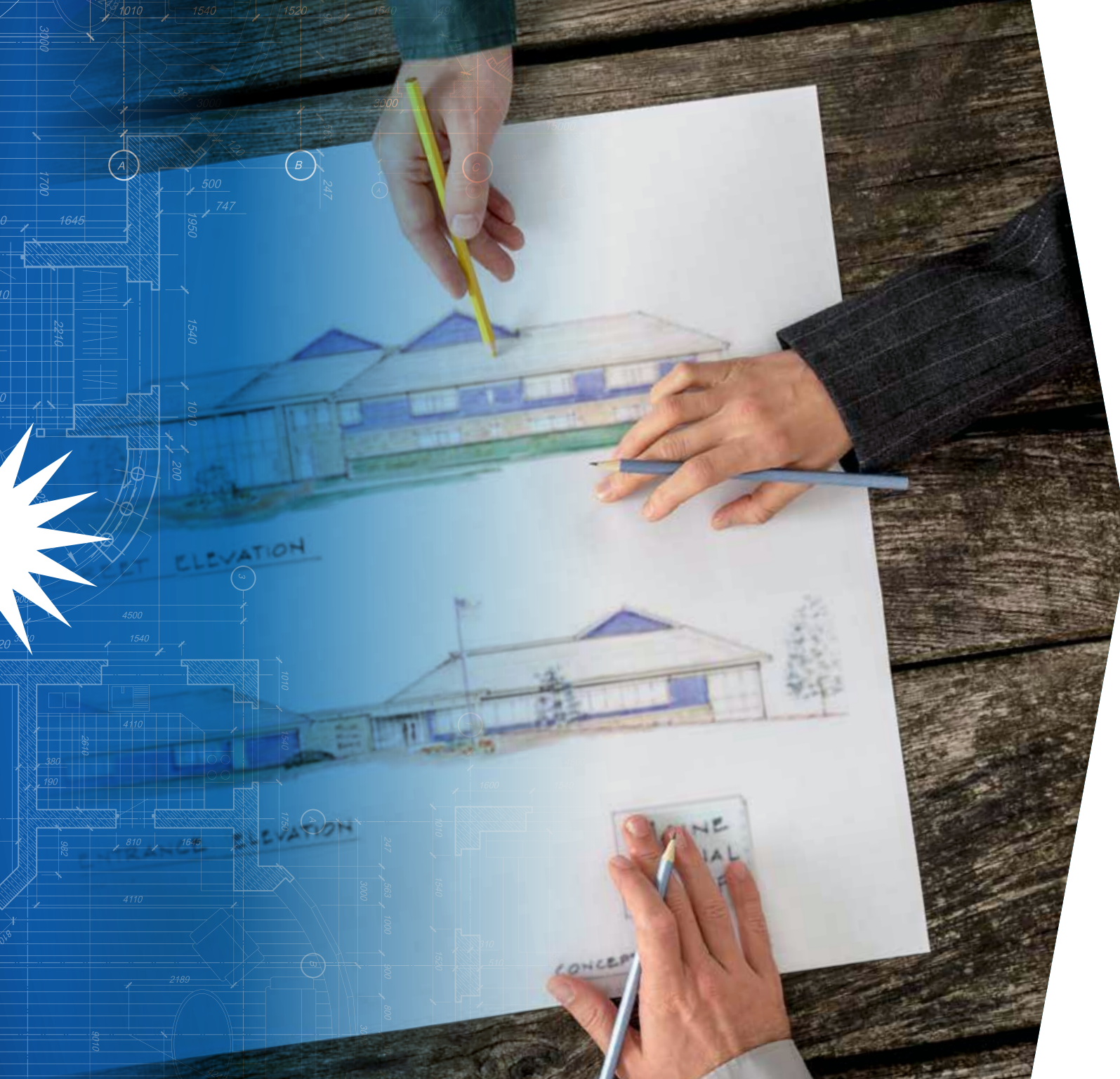
**"For me, YPI has been a tremendous confidence-builder. My college courses introduced theoretical concepts in business, but YPI's hands-on exercises helped 'bridge the gap' to the everyday demands at MMG. I believe communication, decision-making, and teamwork skills have been essential to my professional growth. YPI helped me to build these skills."**

**– Thomas Wire**  
Senior Data Analyst  
MMG Insurance

**"Throughout the program, each session was designed to push the participants outside of their comfort zone and challenge them in unexpected ways. The confidence that I gained both personally and professionally is highly attributable to the hands-on experience that this program affords. I consider the Young Professionals Institute as one of the various stepping stones in my development, which has afforded me opportunities that I never imagined could exist at this point in my career."**

**– Chantal Pelletier**  
Assistant Personal Lines Manager  
MMG Insurance





## BOARD OF DIRECTORS



**Seated (left to right):** Jay Y. McCrum; Jean M. Deighan; Harold A. Dakin; Dawn Hill; Lisa M. Ventriss

**Standing (left to right):** James E. Nevels; Jon J. Prescott; Michael D. MacPherson; John H. Cashwell; Larry M. Shaw; Donald W. Perkins, Jr.; Samuel W. Collins

**John H. Cashwell, Chairman**  
Bangor, Maine  
President of JHC Consulting LLC  
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  
Retired Vice President of Dex Media  
Director Since 1998

**Jean M. Deighan**  
Bangor, Maine  
Founder & Chief Executive Officer  
of Deighan Wealth Advisors  
Director Since 2014

**Dawn Hill, Esq.**  
Cape Neddick, Maine  
Maine State Senator  
Director Since 2005

**Jay Y. McCrum**  
Mars Hill, Maine  
President & CEO of McCrum Family Holdings  
Director Since 2005

**James E. Nevels**  
Philadelphia, Pennsylvania  
Chairman/Founder of The Swarthmore Group  
Director Since 2014

**Donald W. Perkins, Jr.**  
Cape Elizabeth, Maine  
President of Gulf of Maine Research Institute  
Director Since 2005

**Jon J. Prescott**  
Houlton, Maine  
President & CEO of Katahdin Trust Company  
Director Since 2005

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



# THANK YOU, LYNN LOMBARD



Lynn Lombard retired from MMG Insurance in July of 2016 after a 45 year career with the Company. She served in many roles during that time, most notably as Vice President and Director of Human Resources. As an accomplished professional, Lynn has also been a leader within the community, lending her time and skills to numerous organizations and causes.

We dedicate this portion of our annual report in recognition of Lynn's career and in thanks for her many contributions to MMG.



## OFFICERS



**Seated (left to right):** Matthew R. McHatten;  
Larry M. Shaw; Michael M. Young; Stephen J. Gallant

**Standing (left to right):** Pamela G. Johnson;  
Timothy W. Vernon; John B. Herweh; Corey A. Graham;  
Douglas R. Hazlett; Stacy L. Shaw

**Larry M. Shaw, CPCU**  
President & 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

**John B. Herweh, SPHR, SHRM-SCP**  
Vice President, 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, Chief Information Officer

**Douglas R. Hazlett**  
Vice President, Product Management

**Corey A. Graham, AIC, LPCS, CSPO**  
Vice President, Casualty Claims Manager

## FINANCIAL STRENGTH: COMPARATIVE BALANCE SHEET

	12/31/16	12/31/15
<b>Admitted Assets</b>		
Total Admitted Assets	262,103,546	245,158,129
<b>Liabilities</b>		
Total Liabilities	164,667,551	150,678,352
Policyholder Surplus	97,435,995	94,479,777
Total Liabilities & Surplus	262,103,546	245,158,129

### TWO YEAR INCOME STATEMENT

	12/31/16	12/31/15
Underwriting Gain / (Loss)	(3,825,467)	253,972
Net Investment Income	6,346,658	4,667,413
Total Other Income	1,002,889	1,049,190
Net Income Before Income Taxes	3,524,080	5,970,575
Net Income	3,494,676	4,473,592
Change in Surplus	2,956,218	4,316,983
Surplus End of Period	97,435,995	94,479,777

## COMPARATIVE RESULTS

	Written Premium	Policyholder Surplus	Admitted Assets	Combined Ratio
2016	184,850,895	97,435,995	262,103,546	101.63%
2015	175,015,305	94,479,777	245,158,129	98.30%
2014	160,332,451	90,162,794	233,827,582	100.80%
2013	148,606,238	87,706,063	225,328,952	96.10%
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%

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