

Ultimate Parent: Maine Mutual Group

MMG INSURANCE COMPANY

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AMB#: 004692

NAIC#: 15997

Ultimate Parent#: 052488

FEIN#: 01-0021090

Report Revision Date: 05/26/2015

BEST'S CREDIT RATINGS

Best's Financial Strength Rating: A

Outlook: Stable

Best's Issuer Credit Rating: a

Outlook: Stable

Best's Financial Size Category: VII

RATING RATIONALE

Rating Rationale: The ratings and outlooks of MMG Insurance Company (MMG) reflect its historically strong operating performance, consistent growth in surplus and solid risk-adjusted capitalization in recent years. In addition, the company continues to maintain its market position as a leading personal and small commercial lines writer in the northern New England states.

MMG's strong operating performance is derived from management's disciplined underwriting style; profitability initiatives, which include appropriate pricing strategies; continuous use of inspections; and enhancements to its technological platforms, including extensive use of analytics. MMG's operating performance consistently outperforms its peer group in the private passenger standard auto and homeowners composite, and it has maintained solid risk-adjusted capitalization over several years. The company's consistent surplus growth has been driven by management's strict underwriting discipline that has resulted in strong operating income as well as steady investment income generated by a high quality bond portfolio. In addition, the liquidity ratios continue to remain higher than the composite due to consistent cash flows from operations.

Partially offsetting these positive rating factors is MMG's geographic concentration of business in the northern New England states that leaves it susceptible to weather-related events. The company's increased commercial and Pennsylvania writings have provided some product and geographic diversification; however, this does create greater property catastrophe risk. Nevertheless, MMG does continue to maintain an effective reinsurance program to help mitigate the effects of severe weather-related events.

MMG's ratings could further benefit from producing a consistent trend of above-average earnings while broadening its business profile and maintaining strong risk-adjusted capitalization. However, the company's ratings and outlooks may come under negative pressure if an unfavorable earnings trend develops and/or its capital materially deteriorates.

FIVE-YEAR RATING HISTORY

BEST'S		
<u>Date</u>	<u>FSR</u>	<u>ICR</u>
05/08/14	A	a
05/21/13	A-	a-
05/04/12	A-	a-
03/18/11	A-	a-
06/02/10	A-	a-
05/13/09	A-	a-

KEY FINANCIAL INDICATORS

Period	Statutory Data (\$000)		
	Direct	Net	Pre-tax
	<u>Premiums</u>	<u>Premiums</u>	<u>Operating</u>
<u>Ending</u>	<u>Written</u>	<u>Written</u>	<u>Income</u>
2010	125,952	94,580	7,271
2011	133,214	107,282	5,948
2012	139,488	118,077	7,039
2013	148,606	135,560	6,467
2014	160,332	142,291	2,185

Period	Statutory Data (\$000)		
	Net	Total	Policy-
	<u>Income</u>	<u>Admitted</u>	<u>holders'</u>
<u>Ending</u>	<u>Income</u>	<u>Assets</u>	<u>Surplus</u>
2010	6,170	184,113	69,344
2011	6,737	192,444	72,977
2012	5,300	205,125	79,079
2013	5,796	225,329	87,706
2014	3,396	233,828	90,163

Period	Profitability			Leverage			Liquidity	
	Comb.	Inv.	Pre-tax	NA Inv	NPW	Net	Overall	Oper.
	<u>Ratio</u>	<u>Yield</u>	<u>ROR</u>	<u>Lev</u>	<u>to PHS</u>	<u>Lev</u>	<u>Liq</u>	<u>Cash</u>
<u>Ending</u>		<u>(%)</u>	<u>(%)</u>	<u>Lev</u>		<u>Lev</u>	<u>(%)</u>	<u>Flow (%)</u>
2010	96.7	3.0	7.9	27.3	1.4	3.0	160.4	107.3
2011	97.6	3.0	5.8	27.9	1.5	3.1	161.1	108.2
2012	96.8	2.8	6.2	28.7	1.5	3.1	162.7	110.7

2013	96.1	2.4	5.1	34.9	1.5	3.1	163.7	112.9
2014	100.8	2.3	1.6	37.5	1.6	3.2	162.8	106.3
5-Yr Avg	97.7	2.7	5.1	...	...	...	...	...
03/2014	113.3	2.5	-7.1	37.5	1.6	3.1	163.9	89.2
03/2015	115.9	2.4	-10.7	39.5	1.7	3.3	161.4	88.2

(*) Within several financial tables of this report, this company is compared against the Private Passenger Standard Auto & Homeowners Composite.

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

BUSINESS PROFILE

MMG underwrites preferred personal lines and small commercial risks through 184 independent agents, comprising 449 locations, in Maine, New Hampshire, Vermont, Pennsylvania and Virginia. MMG received its license to write business in Virginia in March 2010 and New York in June 2010. The company began writing business in Virginia in late 2011 and has no immediate plan to expand into New York. Coverages provided include fire, allied lines, farmowners, homeowners, commercial multiple peril, inland marine, general liability, private passenger automobile and commercial automobile. A personal package policy is available as well as a special product for snowmobiles and watercraft. The commercial auto book is used to supplement the company's businessowners policies. The company bases its personal lines rates and forms on ISO, and files independently for businessowners and commercial package policies.

TOTAL PREMIUM COMPOSITION & GROWTH ANALYSIS

Period <u>Ending</u>	<u>DPW</u>		<u>Reinsurance Prem Assumed</u>		<u>Reinsurance Prem Ceded</u>	
	<u>(\$000)</u>	<u>(% Chg)</u>	<u>(\$000)</u>	<u>(% Chg)</u>	<u>(\$000)</u>	<u>(% Chg)</u>
2010	125,952	6.1	-32	-99.9	31,340	8.3
2011	133,214	5.8	100	411.2	26,032	-16.9
2012	139,488	4.7	188	87.2	21,598	-17.0
2013	148,606	6.5	150	-19.9	13,197	-38.9
2014	160,332	7.9	84	-44.4	18,125	37.3
5-Yr CAGR	...	6.2	...	-22.1	...	-8.9
03/2014	34,743	5.9	24	-62.4	4,284	999.9
03/2015	38,199	9.9	-33	-99.9	4,119	-3.8

Period Ending	NPW		(\$000)	NPE	
	(\$000)	(% Chg)		(% Chg)	
2010	94,580	5.0	91,944	5.1	
2011	107,282	13.4	102,157	11.1	
2012	118,077	10.1	112,833	10.5	
2013	135,560	14.8	126,716	12.3	
2014	142,291	5.0	136,840	8.0	
5-Yr CAGR	...	9.6	...	9.4	
03/2014	30,483	-7.5	33,150	7.4	
03/2015	34,047	11.7	35,949	8.4	

Territory: The company is licensed in ME, NH, NY, PA, VT and VA.

2014 BY-LINE BUSINESS (\$000)

Product Line	DPW		Reinsurance Prem Assumed		Reinsurance Prem Ceded	
	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)
Homeowners	41,594	25.9	...	...	5,178	28.6
Auto Physical	31,066	19.4	40	47.4	723	4.0
Com'l MultiPeril	35,503	22.1	...	...	5,413	29.9
Priv Pass Auto Liab	27,730	17.3	44	52.6	1,170	6.5
Comm'l Auto Liab	11,104	6.9	...	...	1,296	7.1
Oth Liab Occur	4,755	3.0	...	...	3,054	16.9
All Other	8,582	5.4	...	...	1,292	7.1
Total	160,332	100.0	84	100.0	18,125	100.0

Product Line	NPW		Business Retention (%)
	(\$000)	(%)	
Homeowners	36,416	25.6	87.6
Auto Physical	30,383	21.4	97.7
Com'l MultiPeril	30,090	21.1	84.8
Priv Pass Auto Liab	26,604	18.7	95.8
Comm'l Auto Liab	9,808	6.9	88.3
Oth Liab Occur	1,701	1.2	35.8
All Other	7,290	5.1	84.9
Total	142,291	100.0	88.7

BY-LINE RESERVES (\$000)

<u>Product Line</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Homeowners	4,766	5,846	4,504	5,578	6,308
Auto Physical	1,120	1,008	916	1,077	951
Com'l MultiPeril	10,685	8,503	7,761	6,965	6,938
Priv Pass Auto Liab	21,849	21,457	18,572	17,124	15,117
Comm'l Auto Liab	6,829	6,604	4,345	3,450	4,536
Oth Liab Occur	641	596	1,544	1,232	1,436
All Other	599	761	842	794	674
Total	<u>46,489</u>	<u>44,774</u>	<u>38,485</u>	<u>36,221</u>	<u>35,960</u>

GEOGRAPHIC BREAKDOWN BY DIRECT PREMIUM WRITINGS (\$000)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Maine	66,845	64,041	63,105	63,180	60,868
New Hampshire	42,275	40,683	40,427	39,983	39,317
Pennsylvania	25,118	21,357	15,612	10,996	7,481
Vermont	22,831	21,342	20,083	19,046	18,286
Virginia	3,264	1,183	260	9	...
Total	<u>160,332</u>	<u>148,606</u>	<u>139,488</u>	<u>133,214</u>	<u>125,952</u>

RISK MANAGEMENT

The Chief Financial Officer is the leader of the ERM program and a committee consisting of the President, COO, CFO and SVP of external operations was also formed. The ERM program adds value and is suitable for the company's profile. The company conducts eight meetings per year with its Board of Directors, with regular updates with the ERM Committee and the Management Team. Major risks have been identified along with quantification based upon the impact to surplus. The risks have also been assessed against the appropriate drivers with mitigation approaches identified. In 2009, an economic capital model, Risk Agility was implemented and the company is currently transitioning to the Igloo capital model. Property risk is monitored through the use of a desktop mapping tool, which provides annual average loss estimated per risk before it is written, evaluation of neighboring exposure and views of overall risk concentration.

Catastrophe Exposure and Management: The company maintains a comprehensive catastrophe reinsurance program that limits the net probable maximum loss from a 100-year winter storm event to about 5% of surplus.

OPERATING PERFORMANCE

Operating Results: MMG reported consistent positive earnings in recent years and as a result, total return on equity remained above the composite over the most recent five-year

period. In 2014, the company reported a modest underwriting loss out of the past five years. The results for 2014 were mainly impacted by two significant hail storms as well as several smaller events throughout the year. The winter storm events of 2015 in the New England region impacted the company's results; however, management is on target to meet its year-end projections. The company remains susceptible to weather-related events given its geographic footprint and management has instituted a series of profitability initiatives in recent years that include increased rates, higher deductibles, loss mitigation efforts and exposure monitoring to mitigate some of the losses stemming from these events. This coupled with MMG's steady investment income allowed surplus to grow during the past five years. Although adverse winter weather and softening market conditions may continue to have an impact on earnings, sustained profitability is expected.

PROFITABILITY ANALYSIS (\$000)

Period	Company			
	Pre-tax Operating <u>Income</u>	After-tax Operating <u>Income</u>	Net <u>Income</u>	Total <u>Return</u>
2010	7,271	5,603	6,170	6,863
2011	5,948	4,747	6,737	4,296
2012	7,039	4,951	5,300	6,766
2013	6,467	4,275	5,796	7,982
2014	2,185	1,998	3,396	3,154
5-Yr Total	28,911	21,574	27,400	29,061
03/2014	-2,347	-1,938	-1,145	-1,698
03/2015	-3,849	-2,289	-2,022	-1,748

Period	Company			Industry Composite		
	Pre-tax <u>ROR</u> (%)	Return on PHS (%)	Operating <u>Ratio (%)</u>	Pre-tax <u>ROR</u> (%)	Return on PHS (%)	Operating <u>Ratio (%)</u>
2010	7.9	10.3	92.1	4.8	8.5	95.1
2011	5.8	6.0	93.4	-1.8	0.0	102.3
2012	6.2	8.9	92.9	3.9	6.9	96.3
2013	5.1	9.6	93.0	7.4	11.2	92.7
2014	1.6	3.5	97.8	6.4	8.3	93.4
5-Yr Avg	5.1	7.5	94.1	4.2	7.1	95.9
03/2014	-7.1	5.3	110.4	XX	XX	XX
03/2015	-10.7	3.6	113.2	XX	XX	XX

Underwriting Results: Historically, MMG's underwriting performance was impacted by heavy snowfall, ice and wind, primarily in the states of Maine and New Hampshire. In order to minimize the effect of this, underwriting and pricing strategies such as increased rates and deductibles, more frequent inspections and exposure monitoring were implemented and have shown to have a favorable impact on the company's results. In recent years the company has been impacted by severe weather and an unusual hail event, which caused the company to report modest underwriting losses in 2014. However, due to risk management initiatives, the impact of these events is expected to be diminished. Despite the impact of weather-related events, the company's five-year and ten-year average combined ratios fare better relative to the industry composite. However, MMG's five-year average expense ratio is higher than the industry composite, largely due to its above-average commission expense and reinsurance costs. However, reinsurance has minimized underwriting volatility in years of increased loss activity while also providing expense relief in the form of reinsurance profit sharing. The company also implemented several systems enhancements designed to improve efficiency over the long-term, which is also impacting expenses.

UNDERWRITING EXPERIENCE

<u>Year</u>	Net	Loss Ratios			Expense Ratios			<u>Ind</u>		
	Undrw Income	Pure	Loss &		Net	Other	Total	Div.	Comb.	Comb.
	(\$000)	Loss	LAE	LAE	Comm	Exp.	Exp.	Pol.	Ratio	Ratio
2010	2,154	53.0	8.9	61.9	18.2	16.5	34.7	...	96.7	101.0
2011	634	54.3	8.8	63.0	19.5	15.1	34.6	...	97.6	108.0
2012	1,810	53.0	8.9	61.9	20.1	14.8	34.9	...	96.8	102.2
2013	1,848	51.6	9.5	61.1	21.3	13.6	35.0	...	96.1	98.2
2014	-2,919	57.0	10.3	67.3	19.9	13.6	33.5	...	100.8	99.0
5-Yr Total/Avg	3,527	53.9	9.4	63.2	19.9	14.6	34.5	...	97.7	101.6
03/2014	-3,547	70.8	9.7	80.5	XX	XX	32.8	...	113.3	XX
03/2015	-5,093	73.0	10.8	83.9	XX	XX	32.0	...	115.9	XX

BY-LINE LOSS RATIO

<u>Product Line</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>5-Yr Avg</u>
Homeowners	54.2	51.4	52.5	59.1	59.4	55.1
Auto Physical	78.0	65.1	60.7	69.0	62.2	67.6
Com'l MultiPeril	34.2	26.2	34.9	29.6	30.5	31.2
Priv Pass Auto Liab	75.0	71.2	73.4	71.8	59.0	70.5
Comm'l Auto Liab	46.6	58.6	34.5	27.8	62.1	46.0
Oth Liab Occur	9.0	-24.7	36.8	-16.5	34.8	7.0

All Other	36.7	31.1	36.1	35.1	28.7	33.7
Total	<u>57.0</u>	<u>51.6</u>	<u>53.0</u>	<u>54.3</u>	<u>53.0</u>	<u>53.9</u>

DIRECT LOSS RATIO BY STATE

						5-Yr
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Avg</u>
Maine	48.2	45.1	43.6	38.5	44.5	44.0
New Hampshire	43.7	51.4	59.4	54.5	55.2	52.8
Pennsylvania	74.5	62.8	60.3	85.1	69.5	69.7
Vermont	58.1	49.9	49.2	48.4	44.8	50.4
Virginia	47.4	31.1	115.6	306.6	...	46.0
Total	<u>52.4</u>	<u>49.8</u>	<u>50.7</u>	<u>48.1</u>	<u>49.1</u>	<u>50.1</u>

Investment Results: MMG continued to produce a consistent level of investment income from a relatively conservative investment portfolio. While yields stabilized, they remained relatively low due to the current interest rate environment. In addition, the company's five-year average total return on invested assets remained below the composite average. Approximately 68% of the portfolio is invested in fixed-income securities. Tax-exempt bonds represent approximately 50% of long-term bonds, with the balance of fixed-income holdings in high-grade public corporate bonds and mortgage-backed securities. Equities comprise approximately 18% of invested assets. MMG's ability to generate steady investment income in recent years is in line with its overall investment strategy of maintaining a conservative high quality investment portfolio.

INVESTMENT GAINS (\$000)

		Company	
	Net	Realized	Unrealized
	Inv	Capital	Capital
<u>Year</u>	<u>Income</u>	<u>Gains</u>	<u>Gains</u>
2010	4,190	567	692
2011	4,345	1,991	-2,441
2012	4,338	349	1,466
2013	3,971	1,521	2,186
2014	4,071	1,399	-243
5-Yr Total	20,914	5,826	1,661
03/2014	966	794	-554
03/2015	961	267	274

_____ Company _Industry Composite_

Year	Inv Inc	Inv	Return on	Pre-tax	Inv Inc	Inv
	Growth	Yield	Inv	Total	Growth	Yield
	(%)	(%)	Assets	Return	(%)	(%)
2010	0.3	3.0	3.4	4.3	0.2	3.3
2011	3.7	3.0	4.4	2.5	1.2	3.3
2012	-0.2	2.8	3.1	4.6	5.2	3.4
2013	-8.4	2.4	3.3	5.7	-3.4	3.1
2014	2.5	2.3	3.1	3.2	8.1	3.2
5-Yr Avg	-0.5	2.7	3.4	4.1	2.3	3.2
03/2014	4.1	2.5	3.9	0.8	XX	XX
03/2015	-0.5	2.4	2.9	1.0	XX	XX

BALANCE SHEET STRENGTH

Capitalization: MMG maintains favorable risk-adjusted capitalization as evidenced by Best's Capital Adequacy Ratio (BCAR) which supports the current rating and outlook. The company maintained modest premium risk as it controlled its exposure growth while improving its spread of risk. Historically, MMG carried an elevated underwriting leverage position, however, \$6 million trust-preferred securities offerings in 2003 and 2004, a \$5 million preferred stock offering in 2007 and \$2 million common stock offering in 2007 facilitated the reduction of underwriting leverage to a level more comparable to the composite, while representing a relatively small portion of total capital. Consequently, the company's capital position benefits from the financial flexibility of its intermediate holding company, MMG Financial Services, Inc. The company's capital is exposed to hurricane loss as represented by its 100 year after-tax net probable maximum loss estimate that represents approximately 5% of surplus. While exposure to severe winter weather may impact future surplus growth, MMG's strong risk-adjusted capitalization is expected to be maintained over the near-term.

Current BCAR: 250.6

CAPITAL GENERATION ANALYSIS (\$000)

Year	Source of Surplus Growth			
	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains
2010	7,271	567	1,668	692
2011	5,948	1,991	1,201	-2,441

2012	7,039	349	2,088	1,466
2013	6,467	1,521	2,192	2,186
2014	2,185	1,399	187	-243
5-Yr Total	28,911	5,826	7,337	1,661
03/2014	-2,347	794	-409	-554
03/2015	-3,849	267	-1,560	274

Source of Surplus Growth				
Year	Net Contrib. <u>Capital</u>	Other <u>Changes</u>	Change in <u>PHS</u>	% Change in <u>PHS</u>
2010	-955	-321	5,587	8.8
2011	-600	-63	3,633	5.2
2012	-660	-5	6,101	8.4
2013	-599	1,244	8,627	10.9
2014	-620	-77	2,457	2.8
5-Yr Total	-3,434	778	26,405	7.2
03/2014	-150	-881	-2,729	-3.1
03/2015	...	-783	-2,531	-2.8

QUALITY OF SURPLUS (\$000)

Year	Surplus <u>Notes</u>	Other <u>Debt</u>	Contributed <u>Capital</u>	Unassigned <u>Surplus</u>
2010	37,874	31,470
2011	38,489	34,489
2012	37,874	41,205
2013	37,874	49,832
2014	37,874	52,289
03/2014	37,874	47,103
03/2015	37,874	49,758

Year	Year- End <u>PHS</u>	Conditional <u>Reserves</u>	Adjusted <u>PHS</u>
2010	69,344	...	69,344
2011	72,977	...	72,977
2012	79,079	...	79,079
2013	87,706	...	87,706

2014	90,163	...	90,163
03/2014	84,977	...	84,977
03/2015	87,632	...	87,632

LEVERAGE ANALYSIS

	Company				Industry Composite			
<u>Year</u>	<u>NPW to PHS</u>	<u>Reserves to PHS</u>	<u>Net Lev</u>	<u>Gross Lev</u>	<u>NPW to PHS</u>	<u>Reserves to PHS</u>	<u>Net Lev</u>	<u>Gross Lev</u>
2010	1.4	0.5	3.0	3.7	1.1	0.7	2.4	2.7
2011	1.5	0.5	3.1	3.6	1.1	0.7	2.5	2.8
2012	1.5	0.5	3.1	3.5	1.1	0.6	2.4	2.7
2013	1.5	0.5	3.1	3.4	1.0	0.6	2.3	2.6
2014	1.6	0.5	3.2	3.5	1.0	0.6	2.3	2.6
03/2014	1.6	0.6	3.1	XX	XX	XX	XX	XX
03/2015	1.7	0.6	3.3	XX	XX	XX	XX	XX

CEDED REINSURANCE ANALYSIS (\$000)

	Company				Industry Composite			
<u>Year</u>	<u>Ceded Reins Total</u>	<u>Business Retention (%)</u>	<u>Rein Rec to PHS (%)</u>	<u>Ceded Reins to PHS (%)</u>	<u>Business Retention (%)</u>	<u>Rein Rec to PHS (%)</u>	<u>Ceded Reins to PHS (%)</u>	
2010	45,014	75.1	19.7	64.9	94.1	13.5	23.4	
2011	38,431	80.5	17.0	52.7	94.0	15.0	25.1	
2012	35,163	84.5	17.2	44.5	93.8	16.8	27.6	
2013	26,872	91.1	15.6	30.6	93.7	15.8	25.8	
2014	30,347	88.7	13.6	33.7	94.4	16.5	25.7	

2014 REINSURANCE RECOVERABLES (\$000)

	<u>Paid & Unpaid Losses</u>	<u>IBNR</u>	<u>Unearned Premiums</u>	<u>Other Recov*</u>	<u>Total Reins Recov</u>
US Insurers	3,763	2,951	4,451	-615	10,550
Pools/Associations	104	...	68	...	172
Other Non-US	376	...	1,124	...	1,500
Total (ex US Affils)	4,243	2,951	5,643	-615	12,222
Grand Total	4,243	2,951	5,643	-615	12,222

* Includes Commissions less Funds Withheld

Loss Reserves: In recent years, management implemented a more conservative reserving approach in an effort to strengthen its loss development patterns over the long-term. Such initiatives include increased initial case and more frequent reviews of open liability claims. In most of the previous ten years loss reserves developments have been redundant. However, MMG's loss reserve experienced periods of adverse development on both a calendar and accident year basis for 2010 -2012 time period. This was a relatively sudden shift from prior year redundancies. As a result IBNR was increased in 2013 to compensate for the shift in development. It is expected that reserves for all lines of business will be adequate going forward.

LOSS & ALAE RESERVE DEVELOPMENT: CALENDAR YEAR (\$000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2014	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. Reserves to NPE (%)	Unpaid Reserves @ 12/2014	Unpaid Reserves to Develop. Reserves (%)
2009	33,441	29,509	-11.8	-6.2	33.7	1,019	3.5
2010	32,019	29,541	-7.7	-3.6	32.1	2,495	8.4
2011	32,396	33,023	1.9	0.9	32.3	4,546	13.8
2012	34,652	36,187	4.4	1.9	32.1	9,442	26.1
2013	40,683	40,101	-1.4	-0.7	31.6	17,714	44.2
2014	41,852	41,852	...	...	30.6	41,852	100.0

LOSS & ALAE RESERVE DEVELOPMENT: ACCIDENT YEAR (\$000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2014	Develop. to Orig. (%)	Unpaid Reserves @ 12/2014	Acc Yr. Loss Ratio	Acc Yr. Comb. Ratio
2009	16,744	15,009	-10.4	286	65.4	101.1
2010	16,483	15,386	-6.7	1,476	63.6	98.3
2011	17,818	18,181	2.0	2,051	67.1	101.7
2012	19,362	19,649	1.5	4,896	63.6	98.5
2013	21,809	21,041	-3.5	8,272	60.2	95.2
2014	24,138	24,138	...	24,138	67.4	100.9

Liquidity: Liquidity ratios remained comparable to the industry composite as excess cash is invested in a portfolio heavily weighted in fixed income securities. Nevertheless, MMG maintained a favorable liquidity position with relatively consistent cash flows from operations and a liquid balance sheet in order to settle claims in a timely manner.

LIQUIDITY ANALYSIS

_____ Company _____ Industry Composite

<u>Year</u>	Quick	Current	Overall	Gross Agents Bal	Quick	Current	Overall	Gross Agents Bal
	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>to PHS (%)</u>	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>to PHS (%)</u>
2010	35.2	133.2	160.4	22.7	29.3	113.7	173.2	6.1
2011	36.6	130.3	161.1	6.4	28.2	108.1	170.4	5.7
2012	36.9	127.8	162.7	6.2	29.2	110.0	173.2	6.6
2013	38.0	125.4	163.7	6.1	30.7	115.1	176.9	6.2
2014	39.8	124.7	162.8	6.3	31.7	114.2	176.5	6.5
03/2014	XX	125.0	163.9	6.0	XX	XX	XX	XX
03/2015	XX	122.0	161.4	6.4	XX	XX	XX	XX

CASH FLOW ANALYSIS (\$000)

<u>Year</u>	Company			_Industry Composite_			
	Underw Cash Flow	Oper Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper Cash Flow (%)	Underw Cash Flow (%)	Oper Cash Flow (%)
2010	3,447	6,768	-944	103.8	107.3	100.2	105.8
2011	3,390	8,424	-1,221	103.3	108.2	93.5	99.9
2012	8,557	11,926	3,784	107.9	110.7	98.3	104.8
2013	14,446	15,849	2,290	112.2	112.9	102.7	107.8
2014	2,655	8,713	114	101.9	106.3	103.3	108.4
5-Yr Total	32,494	51,680	4,023	...	...	...	...

INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

<u>Year</u>	Company					_Industry Composite_		
	Class 3-6 Bonds	Real Estate/Mtg.	Other Invested Assets	Common Stocks	Non-Affil Inv. Lev.	Affil Inv.	Class 3-6 Bonds	Common Stocks
2010	0.9	...	...	26.4	27.3	8.8	4.6	20.8
2011	0.6	...	...	27.3	27.9	8.1	4.7	19.7
2012	...	...	...	28.7	28.7	7.3	...	19.7
2013	0.3	...	...	34.6	34.9	6.3	6.4	22.2
2014	...	...	...	37.5	37.5	5.9	...	22.4

INVESTMENTS - SECURITIES

Current Year Distribution of Bonds By Maturity

	-----Years-----					Yrs-Avg Maturity
	<u>0-1</u>	<u>1-5</u>	<u>5-10</u>	<u>10-20</u>	<u>20+</u>	
Government	0.1	0.8	0.0	0.0	0.0	3
Gov't Agencies & Muni	5.8	24.2	31.1	2.1	0.4	5
Industrial & Misc	2.6	18.2	14.1	0.4	...	5
Total	8.6	43.3	45.2	2.5	0.4	5

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Bonds (000)</u>	124,676	120,476	112,965	111,854	107,114
US Government	1.0	1.1	1.4	2.4	2.5
State/Special Revenue - US	63.7	65.7	64.0	62.6	62.0
Industrial & Misc - US	35.4	33.2	34.5	35.1	35.4
Private Issues	...	...	...	0.4	...
Public Issues	100.0	100.0	100.0	99.6	100.0
<u>Bond Quality (%)</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Class 1	91.1	90.0	91.5	93.3	95.2
Class 2	8.9	9.8	8.5	6.3	4.2
Class 3	...	0.2	...	...	...
Class 4	...	...	...	0.4	0.6

INVESTMENTS - EQUITIES

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Stocks (000)</u>	33,809	30,331	22,686	19,895	18,313
Unaffiliated Common	100.0	100.0	100.0	100.0	100.0

INVESTMENTS - MORTGAGE LOANS & REAL ESTATE

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Mortgage Loans & <u>Real Estate (000)</u>	5,348	5,558	5,757	5,883	6,104
Property Occupied by Co	100.0	100.0	100.0	100.0	100.0

INVESTMENTS - OTHER INVESTED ASSETS

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Other Inv Assets</u> <u>(000)</u>	18,431	18,314	17,234	12,208	13,420
Cash	99.8	99.8	92.7	99.9	100.0

All Other 0.2 0.2 7.3 0.1 ...

HISTORY

The company was incorporated on May 22, 1897 under the laws of Maine and began business on August 19 of the same year as the Aroostook County Patrons Mutual Fire Insurance Company. The name was changed to Maine Mutual Fire Insurance Company on December 31, 1968, concurrent with the absorption by merger of the Maine Mutual Fire Insurance Company (formed in 1904). Another former companion fire carrier, United Mutual Insurance Company, was absorbed by merger on December 28, 1978. On March 15, 2002, Maine Mutual Fire Insurance Company was converted into a stock property and casualty insurance company and changed its name to MMG Insurance Company. MMG issued shares of common stock to Maine Mutual Group, a newly formed mutual holding company. In turn, Maine Mutual Group transferred all of the MMG common stock shares to MMG Financial Services, Inc., a newly formed stock holding company.

MANAGEMENT

Administration of the affairs of this well established company is under the direction of Larry M. Shaw. He has been with the Company since 1982 and serves as President and CEO. Prior to being promoted to President & CEO in 1995, Mr. Shaw served in various capacities, including Chief Operations Officer, Vice President, and Secretary. He has also held various positions within the Underwriting Department from 1982 to 1992.

Matthew R. McHatten joined the Company in 2001 and serves as Executive Vice President, Chief Operating Officer, Secretary and Clerk. He previously served as Sr. Vice President of External Operations, Vice President and Marketing Director.

Michael M. Young has been with the Company since 1994 and serves as Sr. Vice President, Chief Financial Officer and Treasurer. Prior to joining the Management Team at MMG, Mr. Young worked for the Maine Insurance Department for over ten years. Mr. Young held various management positions and was responsible for financial regulation of Maine's insurance industry.

Stephen J. Gallant joined the Company in 1996. He serves as Sr. Vice President – External Operations and previously held the positions of Vice-President and Marketing Director, Accounting Manager, Assistant Accounting Manager, and Staff Accountant.

OFFICERS

President and CEO: Larry M. Shaw
EVP, Secretary and COO: Matthew R. McHatten

SVP, Treasurer and CFO: Michael M.

Vice President: Douglas R. Hazlett

Vice President: Pamela G. Johnson

Vice President: Lynn M. Lombard

Young

SVP: Stephen J. Gallant (External Operations)

Vice President: Corey A. Graham

Vice President: Stacy L. Shaw

Vice President: Timothy W. Vernon

DIRECTORS

John H. Cashwell III (Chairman)	Jay Y. McCrum
Samuel W. Collins	James E. Nevels
Harold A. Dakin	Donald W. Perkins, Jr.
Jean M. Deighan	Jon J. Prescott
Dawn Hill	Larry M. Shaw
Michael D. MacPherson	Lisa M. Ventriss

REGULATORY

An examination of the financial condition was made as of December 31, 2010, by the insurance department of Maine. The 2014 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Jeffrey R. Carlson, FCAS, MAAA, Towers Watson.

REINSURANCE

The largest net retention on any one property risk is \$300,000. The company has property excess of loss reinsurance of \$6,700,000 excess of \$300,000. A four layer catastrophe program provides \$120,000,000 of coverage excess of \$4,000,000. Casualty excess of loss reinsurance is carried for \$4,750,000 excess of \$250,000. Umbrella business is reinsured under a 92% quota share contract. In addition, the company eliminated the quota share treaty during 2013 and ceded premium is expected to be under 12% in 2015 and subsequent years.

BALANCE SHEET (\$000)

<u>ADMITTED ASSETS</u>	<u>12/31/2014</u>	<u>12/31/2013</u>	<u>2014 %</u>	<u>2013 %</u>
Bonds	124,676	120,476	53.3	53.5
Common stock	33,809	30,331	14.5	13.5
Cash & short-term invest	18,388	18,274	7.9	8.1
Other non-affil inv asset	43	40	0.0	0.0
Real estate, offices	5,348	5,558	2.3	2.5
Total invested assets	_____	_____	_____	_____

	182,264	174,679	77.9	77.5
Premium balances	41,638	38,649	17.8	17.2
Accrued interest	1,456	1,402	0.6	0.6
All other assets	8,469	10,600	3.6	4.7
Total assets	<u>233,828</u>	<u>225,329</u>	<u>100.0</u>	<u>100.0</u>

<u>LIABILITIES & SURPLUS</u>	<u>12/31/2014</u>	<u>12/31/2013</u>	<u>2014 %</u>	<u>2013 %</u>
Loss & LAE reserves	46,489	44,774	19.9	19.9
Unearned premiums	76,790	71,339	32.8	31.7
All other liabilities	20,386	21,510	8.7	9.5
Total liabilities	<u>143,665</u>	<u>137,623</u>	<u>61.4</u>	<u>61.1</u>
Capital & assigned surplus	37,874	37,874	16.2	16.8
Unassigned surplus	52,289	49,832	22.4	22.1
Total policyholders' surplus	<u>90,163</u>	<u>87,706</u>	<u>38.6</u>	<u>38.9</u>
Total liabilities & surplus	<u>233,828</u>	<u>225,329</u>	<u>100.0</u>	<u>100.0</u>

SUMMARY OF 2014 OPERATIONS (\$000)

<u>STATEMENT OF INCOME</u>	<u>12/31/2014</u>	<u>FUNDS PROVIDED FROM OPERATIONS</u>	<u>12/31/2014</u>
Premiums earned	136,840	Premiums collected	139,926
Losses incurred	77,981	Benefit & loss-related pmts	76,793
LAE incurred	14,099	LAE & undrw expenses paid	60,478
Undrw expenses incurred	47,678		
Net underwriting income	<u>-2,919</u>	Undrw cash flow	2,655
Net investment income	4,071	Investment income	5,133
Other income/expense	1,033	Other income/expense	1,033
Pre-tax oper income	<u>2,185</u>	Pre-tax cash operations	8,820
Realized capital gains	1,399		
Income taxes incurred	<u>187</u>	Income taxes pd (recov)	108

Net income	3,396	Net oper cash flow	8,713
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