

2008 Annual Report

delivering on our promise



To our Policyholders, Agents and Associates

2008 was a year of great economic challenge for us all. The ramifications are still unknown; however, the world as we know it has changed. From an industry perspective, the devastation of the financial markets, severe regional weather events, and the continuation of the soft market dynamics made for a tumultuous year. Unlike other sectors of our economy, the insurance industry was well capitalized and has survived the “perfect storm,” bruised but still strong.

Though 2008 provided practically every challenge imaginable, I am proud to say that MMG navigated these turbulent times well. Our combined ratio finished at 104.9%. While not at the expectations set at the beginning of the year, our book proved resilient in spite of a record setting winter snowfall and a major ice storm in December. Further, our Private Passenger Auto and Commercial lines of business continued to generate positive results. Our Homeowners business, impacted by the two major weather events,

continued to underperform. This will need to be reversed as our overall results are effected greatly by this segment.

From a balance sheet perspective, surplus declined 8.87%, directly attributable to the steep decline of the equities market. Though this had a definite impact, the Company remains well capitalized. With total assets of \$168.4 million and policyholder surplus of \$58 million, our balance sheet remains strong and allows us to continue to pursue our long-term business strategy.

Operationally, MMG experienced growth in 2008 at just over 3% in spite of the softest insurance market in decades. The growth was driven by continued success of our expansion into Commercial Lines and Pennsylvania. Commercial Lines now represent nearly 30% of our business and a gain of nearly \$25

million in writings since the late '90s. Pennsylvania continues to provide significant opportunities, the most encouraging of which is the growing confidence of a fine Agency plant which resulted in over \$2 million in premiums through the end of 2008.

2008 also saw major investments in the MMG franchise. Highlights included:

- **Careful planning and monitoring of the necessities in upholding our promise.** The volatile weather put MMG’s storm event plans to the test. Due to the dedication of our staff and partner relationships with vendors, we were able to deliver exceptional claims service when our policyholders needed us most. We also continue to work on mitigating unforeseen and systemic risk to MMG through a significant commitment to Enterprise Risk Management (ERM). 2008 taught us to expect the unexpected and all of the above is driven by our overall goal to be able to react quickly and anticipate challenges prior to them occurring.

- **Enhancement to our policyholder offerings.** Several new products were introduced in 2008 ranging from coverage enhancements to expanded pricing methodologies. We also continue to work towards significant additions to our eCommerce approach in order to keep pace with consumer demand.

- **Improvements to Agency “ease of doing business.”** The evolution of our industry and the associated landscape changes have caused us, more than ever, to focus upon the workflow dynamic with our Agency Partners. New initiatives and concepts to exchanging policy information were developed with their guidance. This work will continue to yield additional refinements, bringing much needed efficiency in the various transactions with our Agents.

- **Continuous improvement to our culture, work environment and training.** The growth of MMG makes it paramount that we continue to invest in our people and internal processes. Highlights in 2008 included expansion and improvements to our New Hampshire branch office, many activities centered on improving departmental workflow efficiency, addition of new skill set through hiring and training, and a new Community Giving policy.

As we look to 2009, our business model and vision remain unchanged. We are committed to delivering on our promise with the values of customer service and relationships while facilitating efficiency for our Policyholders, Agents, and Employees via technology.

With all of that being said, the world has changed. More than ever we must monitor external factors from the regulatory environment to the world economy in order to retain stability. While the challenges appear daunting at times, we are confident in our ability to continue to deliver due to the dedication of our staff and the strong financial and technology foundations built in the past. We also expect there to be great opportunity created as our industry works through adjusting to the macro changes to the economy.

We are pleased with how our employees have responded during a very challenging time. Their ongoing dedication to perform at the highest levels during the good and bad times makes MMG a consistent and stable player regardless of outside forces. When combined with an Agency force that continues to show persistence and resiliency and a Board of Directors that values long-term decision perspectives, MMG is ready to manage through the short-term challenges with an eye to long-term prosperity for our Policyholders, Agency Partners and valued Employees.



Larry M. Shaw, CPCU
President & CEO
MMG Insurance

DIRECTORS

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

John H. Cashwell III, Vice-Chairman
Bangor, Maine
Managing Partner of Portage Wood Products
Director since 1997

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

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

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

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

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

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

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

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

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

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



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



Front row (left to right):
Michael M. Young, Larry M. Shaw,
Roger J. Roy, Matthew R. McHatten
Back row (left to right):
Pamela G. Johnson, Stephen J. Gallant,
Steven D. Chandler, Lynn M. Lombard,
Timothy W. Vernon, Stacy L. Shaw

OFFICERS

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

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

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

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

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

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

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

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

Stephen J. Gallant
Vice President
Marketing Director
Service Since 1996

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



Protecting your piece of the world is a promise MMG doesn't take lightly. We strive to be there when our policyholders need us most—when they file a claim following an accident, theft, or storm damage. We're grateful to those who have taken the time to share compliments that confirm we're keeping our promises. Highlighted throughout are testimonials from MMG customers who have filed claims in the past year.

"As we look to 2009, our business model and vision remain unchanged. We are committed to delivering on our promise with the values of customer service and relationships while facilitating efficiency for our Policyholders, Agents, and Employees via technology."

— Larry Shaw —

"Everything was amazing. You made us feel like you were actually glad to help us, and pay for the damage. Great!"



"We were very satisfied with everything that was done for us to help get the house fixed up before cold weather. Thank you!"



"I could not believe how courteously and promptly our claim was handled. Our representative was wonderful!! We were extremely pleased with everything."

My piece of the world is on 23 Maple Street.



Our Promise to the Communities We Serve

MMG has a long history of supporting the people and communities of Aroostook County, both through corporate giving and employee-driven efforts. In 2008, the Company and its employees made significant contributions in the form of cash and in-kind donations to support dozens of civic, educational and charitable organizations in the communities where we have a corporate presence. And, our employees contributed nearly 6,000 hours of their time and talents to groups ranging from the Humane Society, Little League and Girl Scouts to Kiwanis, Rotary, local churches and chambers of commerce.

As our Company continues to grow and becomes a more prominent player in the business community, not only in Maine but in all the states where we have a corporate presence, we will endeavor to take this commitment to the next level. In 2008, MMG adopted Corporate Giving Guidelines that align with our Company's core values. Moving forward, we will focus our giving on:

- Expansion of educational opportunities for our employees, local youth and the workforce, as well as development of talent and expertise for the Insurance Industry;
- Health and wellness initiatives; and,
- Economic development efforts that contribute to the sustainability and growth of the Aroostook County economy.

MMG's 2008 Community Volunteer of the Year

As part of our Community Giving Policy project, MMG created a new recognition program to honor individual employees who give tirelessly to make our community a better place and who inspire others through action.



The first recipient of the MMG Community Volunteer of the Year award is Debbie Lamont. Debbie is a Senior Underwriter with MMG's Personal Lines Department. She has been active with many community and civic organizations ranging from the Nordic Heritage Center to the Presque Isle Community Players. Of particular note is Debbie's long time leadership of MMG's corporate commitment to Special Olympics. Debbie brings a high level of energy and creativity to all of these activities, which promotes MMG's culture well and, more importantly, encourages others to get involved. As her nominators noted, "Debbie never loses her enthusiasm and is a wonderful example of someone who gives of her time to the community. You can tell she really enjoys helping."

< Debbie Lamont, Senior Underwriter / MMG

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"The recent ice storm was difficult for us to deal with. No power, heat or ability to cook for 12 days. Having limited experience in claim submissions, we anticipated another "storm" when we sent in our claim due to storm related damage. To our pleasant surprise, we found that you handled our claim in a most professional and expeditious manner. We are very happy we made the change to your company."

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"We love working with MMG because, in an industry that's all about relationships, they are very easy people to forge a relationship with. I appreciate that they're disciplined in their approach, but also nimble enough that once they make a decision, they make things happen quickly, whether that means implementing a new system, introducing a new product, or improving their service. I'm confident that when MMG makes a promise, we can count on them to follow through.

Of course, my priority is to make sure our customers are happy—and that's where MMG really shines. I've literally never heard a complaint from any of our clients about MMG, and I get similar reports from my staff. I wish all our carriers could be as satisfying to work with as MMG."

— Dale Hudson, President
Clark Associates
Portland, Maine



"Thanks again for the outstanding service MMG Insurance has demonstrated throughout the process; you've made it easier to handle a less than pleasant event."



"Thank you so very much for the wonderful service. We are truly fortunate to have you as our insurance company."



"MMG was spectacular in the claim handling. Just wanted to let you know we were amazed by the speed and professionalism of this transaction."

My piece of the world has been in my family for three generations.



2008 Financials

FINANCIAL STRENGTH Comparative Balance Sheet

			12/31/08	12/31/07
<u>Admitted Assets</u>				
Total Admitted Assets			\$168,416,631	\$171,994,244
<u>Liabilities</u>				
Total Liabilities			\$110,356,609	\$108,286,214
Policyholders Surplus			\$ 58,060,022	\$ 63,708,030
Total Liabilities and Surplus			\$168,416,631	\$171,994,244

TWO YEAR INCOME STATEMENT

			12/31/08	12/31/07
Underwriting Gain (or Loss)			\$(4,685,663)	\$(2,263,818)
Net Investment Income			\$ 303,182	\$ 6,188,063
Total Other Income			\$ 1,022,286	\$ 1,049,296
Net Income Before Income Taxes			\$(3,360,195)	\$ 4,973,541
Net Income			\$(4,995,023)	\$ 4,280,794
Change in Surplus			\$(5,648,008)	\$ 7,741,483
Surplus End of Period			\$58,060,022	\$ 63,708,030

COMPARATIVE RESULTS

	Written Premium	Policyholder Surplus	Admitted Assets	Combined Ratio
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%
2001	69,370,480	24,659,819	81,400,823	107.90%
2000	64,564,531	24,903,577	72,956,526	99.90%
1999	58,547,730	21,540,920	64,937,670	99.84%



MMG Insurance

Presque Isle, ME
Concord, NH
Lehighton, PA

www.mmgins.com

