



POSITIONING FOR A NEW WORLD

MMG INSURANCE

2013 ANNUAL REPORT



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TO OUR POLICYHOLDERS, AGENTS, AND ASSOCIATES:

From an industry perspective, 2013 was a year with fewer and less impacting catastrophes overall resulting in profitability for many companies across the country. With no major hurricanes making landfall in the U.S. and loss events being more localized, profitability improved and balance sheets were strengthened for many companies across the country. MMG's experience tracked with the industry as our region of operation experienced a mild winter and losses below expectations over the first nine months of the year. However, the great start was impacted by an increase in loss activity throughout the fourth quarter, topped off by a northern New England ice storm during the last week of the year.

Even with the increased loss activity over the fourth quarter, we are pleased to report another year of positive financial results represented by a 96.1% combined ratio. We have now had five years of consistently strong performance averaging a 97.3% combined ratio over that timeframe. Policyholder surplus was up 11% ending at \$87.7 million further enhancing our balance sheet. From a growth perspective, the written premium increase of 6.54% was higher than expected and bodes well for future traction across all lines of business and territorial considerations. Major drivers of growth were Commercial Lines up 13.4%, now 35.6% of our business, and Pennsylvania up 36.8% to \$21.4 million.

Commitment to the MMG Model

2013 was a year of continued commitment to a business model that is built on the premise of being consistent and dependable over the long-term. Strategically, we continue to focus on being the company Agency Partners and Policyholders can depend on by consistently adhering to our operating principles to provide exceptional service, user-friendly technology, competitive products, and a Claims Department that cares. Our vision is to invest in areas that assure this consistency over the long-term and in 2013 we succeeded in meeting that commitment on a broad spectrum of initiatives.

A Year of Positioning

As we began 2013, major initiatives in northern New England were underway with Personal and Commercial Lines enhancements planned throughout our footprint. In our Homeowner product, we implemented a project designed to clarify guidelines, improve the ongoing view of individual risk as it ages, and establish new systematic monitoring approaches for both new and renewal business. We also succeeded in improving the competitiveness of our Auto product through changes to our predictive model. As a result, Auto is much better aligned competitively to a broader spectrum of the marketplace. Navigating this Personal Lines redefinition work represented a challenge for our Agency Partners and staff. We are confident the time and effort will pay off as we move into 2014.

Over the past ten years we have seen significant growth in Commercial Lines. This trend continued in 2013, with increased growth and positive loss experience. Strategically, we are committed to continuing to expand our offerings and began plans to move our appetite into more of the middle market. This commitment includes developing the expertise, technology, and services needed to compete. We will also continue to focus on being a go-to market in the smaller business we have built our book of business on. The combination of a growing appetite with expansion upon the fundamentals that have contributed to our success in Commercial Lines provides great optimism of the potential impact on MMG over the next ten years.

With the state of Virginia gaining traction and Pennsylvania experiencing strong growth, MMG's Mid-Atlantic presence has become a major segment of our current business and plans for the future. In 2013, the company wrote \$7.5 million of new business in this region, which resulted in additional premiums of \$5 million in Pennsylvania and \$1 million in Virginia. Agency

relationships have developed beyond expectations in Pennsylvania and we are establishing similar foundations in Virginia. We find the Mid-Atlantic Agency Plant appreciative of regional, relationship building companies like MMG. Establishing true partnerships with our Agents is a key component of our success and, based upon what we see developing in the Mid-Atlantic, we see great potential to grow in this region.

The Diversification March Continues

As mentioned above, significant shifts in our book of business followed a positive trend line in 2013. The spread of risk continues to diversify into the Mid-Atlantic, as well as Commercial Lines. Pennsylvania is now 14.4% of our business and our third largest state. As mentioned, Commercial Lines is now 35.6% of our business, up from 25% seven years ago and Virginia will provide new territorial growth for years to come. This strategy has helped to achieve new growth opportunities while contributing important diversification of weather-related exposures.

Adapting to a Changing World

As we look to the future, we see the need to continue to be agile across the organization. With major shifts in consumer expectations, evolution of technology advancing with a steepening trend line, and pricing analytics becoming more and more complex, we will need to continue to position our company to be nimble. A controversial study published by McKinsey during the year discussed many of the upcoming pressures the Independent Agency design will be exposed to in the future. Many of the points have been and continue to be debated, however, we agree with the concept that Agents and Companies will have to adapt and change in order to successfully compete in the future.

Three areas that are receiving much of our attention as we prepare for a changing world are: servicing our customers; increasing automation; and developing a workforce able to compete in the future. The demands and expectations of the consumer continue to shift at a faster and faster pace. We have all grown to expect immediate service whenever we would like it and we expect it to be easy and without error or hassle. Though simple to say, this is very challenging to achieve. For the past five years, MMG has been building our Customer Care Department. It has been designed to be flexible in providing Agents with assistance in servicing Policyholders. At the same time, we plan to continue to enhance our traditional servicing model based on fast response, accessibility, and direct contact. We feel customer care


will continue to be a focal point of providing top notch customer service as we adapt to the demands of the future consumer and our Agents.

At the center of everything we do is automation enabled by technology. We find this one of the most challenging areas as we look to the future. As more and more sales and service-related transactions are done online, our systems will need to run faster, adapt quicker and be innovative. We know that in order to do this, we will need to enhance our IT spend as well as provide more focus and talent to this area in 2014. Another important factor is to make certain we position MMG to enhance the brand and capabilities of our Agency Partners in this area. As a result, we are regularly consulting our Agents on where they see technology needs evolving as well as putting support behind their initiatives – most recently Project CAP. We see great opportunity ahead as we tackle this challenge with evolving consumer expectations driving our direction and decision-making.

Preparing our workforce for the challenges and opportunities that lie before us continues to be a major area of focus. Having recommitted to the existing business model and culture of high tech/high touch, successfully delivering is all about our people. Developing existing staff and attracting new talent

is imperative for MMG to reach its goals. Much time was spent in 2013 strategizing and building the tactics we will use as the future unfolds. With the unique assortment of skill sets we will need, this area will require innovative thinking as the war for talent permeates our world.

From many perspectives, 2013 was a great year. Much progress was made to operationally and financially position MMG for the future. We are fortunate to work with a team that embraces change and evolves well. I would like to thank our Board, Management Team, and exemplary Employees. When combined with a first class Agency Plant, MMG is destined to continue to adapt successfully to the challenges of the future. We look forward to what is to come...



Larry M. Shaw, CPCU

President & CEO

MMG Insurance



MMG'S 20-YEAR PARTNERSHIP WITH THE UNITED WAY OF AROOSTOOK

The United Way of Aroostook helps fund organizations that provide vital services to thousands of our neighbors, from families facing food insecurity, to seniors without family support, to the homeless. MMG has consistently supported the United Way through workplace campaigns that have raised a total of \$280,000, and the annual MMG Charity Golf Tournament. The inaugural event in 1993 raised \$1,500 for the United Way of Aroostook. Twenty years later, 144 participating golfers helped raise \$30,000, and the cumulative amount contributed stands at \$389,000.



Holding the 2013 Tournament check are, from left to right: Claudia Stevens, Executive Director, United Way of Aroostook; Larry Shaw, President & CEO, MMG Insurance; and Wanda Guiggey, United Insurance, United Way Campaign Chair. In the background are the members of MMG's Charity Golf Tournament Committee.

"We have enjoyed a long and productive relationship with MMG. They are a model of corporate generosity and commitment to the community, year in and year out. There's always an MMG team member serving on our Board, they are one of our top workplace campaigns, and they help with virtually every event we put on."

"MMG's biggest impact on the community has been in early childhood education, which is so vital to the long-term growth of our region. They also support senior services, and efforts to help families achieve self-sufficiency when other support programs are in jeopardy."

—Claudia Stevens, Executive Director, The United Way of Aroostook

2013 COMMUNITY VOLUNTEER OF THE YEAR: SHERRY LOCKE

Sherry Locke has been selected for her generosity in taking time from her busy day to give back to the community. She is most involved with the Kiwanis Club of Presque Isle and the elementary school in Mapleton, where she lives with her husband, Chris, an IS specialist at MMG, and two children.

- **Kiwanis Club of Presque Isle**—As President Elect, she attends weekly meetings and Interclub meetings with other Kiwanis Clubs in the area. In addition, she continues to chair the Youth Day event and recently chaired the Annual Talent Revue and Vegas Fever events.

Sherry also serves on the Kiwanis Christmas Basket Program, and the Scholarships & Youth Services Committees.

Finally, she serves on the Board of Directors for Sinawik, an extension of the Kiwanis Club, which partners with Northern Maine Community College to build homes to sell to local families to raise funds for the club.

- **Mapleton Elementary School**—Sherry's involvement with the school goes way beyond serving as treasurer of the Parent/Teacher Association. To encourage reading, she helps continue a tradition of giving all 200 students at the school a book of their own twice a year. To encourage exposure to the arts, Sherry has been instrumental in setting up author readings, and bringing a traveling company from Monmouth Theater.

- Sherry also volunteered to assist with a local Financial Fitness Fair, a new concept founded in 2004 by Maine Credit Unions. The Fair introduces youth (high school juniors and seniors) to money management; at the end of the event, the goal is for students to have a monthly budget that does not exceed their income.

In recognition of the award, MMG will make a \$500 donation in Sherry's name to the Presque Isle Kiwanis Club Community Center Project.



"I believe that doing small things, like attending weekly Kiwanis meetings and bringing donations to the local food pantry, are as necessary and important as bigger things that make the front page. I was born and raised in northern Maine and love it for the gentler atmosphere, the outdoor fun, and all the things to do I keep discovering."

"My kids are a big motivation for my volunteer work. I try to teach them by example that being helpful is an important part of life."

***—Sherry Locke, AIC, AINS, AIS, CISA
Inside Claims Adjuster***

deepening our commitment

2013 FEATURED AGENCY



HARRISBURG, PA

Enders Insurance was one of the first agencies to work with MMG in Pennsylvania in 2007, and became a “Partnership” Agency in 2013. CEO Donnie Enders and his son Andy, tell why MMG has become an important carrier.

“There are other carriers closer than MMG. But from the first, we felt they truly share our commitment to partnership and mutual respect. MMG has an excellent line of products, and they are fair and reliable. Our staff finds MMG easy to work with throughout the quote-to-claim cycle—quick, thorough and decisive.



(left to right): James Enders, Vice President; Andrew Enders, Esq.; and Donald Enders, Jr. CIC, CPCU, President & CEO

“They also help us with client retention and acquisition, through marketing support and strong support of technology. They don’t waste our time or that of our customers.

“One recent example: after a claim came in, I went to check on it the next day. Turned out, it had already been closed!”

—Donnie Enders, President & CEO

“Even though MMG and we are miles apart geographically, I feel that our respective areas share important core values: a strong work ethic, a sense of community, and a friendly attitude towards others. And these values are present throughout their organization, from top to bottom.

“MMG is flexible, nimble and hard-working on behalf of policyholders. As part of the younger generation, I also appreciate their adoption of social media to build staff and community connections.”

—Andy Enders, Esq.

cultivating relationships

MMG'S EXCELLENCE HONORED
WITH INDUSTRY AWARDS
AND RECOGNITION



**2013 Interface Partner Award
by Applied Systems**

MMG has received the 2013 Applied IVANS Interface Partner Award for the 6th year in a row, based on our commitment to carrier-agency interface, including IVANS Download and IVANS Real-Time.



**Named as one of the Best Places to Work in
Maine in 2013 for the fifth time.**



**Named #3 nationally for ease of doing
business in 2013.**



**Ranked #1 Performing Company Overall
in Commercial Lines by Insurance Agents
& Brokers of Pennsylvania in 2013.**

aspiring to be the best





Attendees:

(back row left to right)

Kyle Knapton, Knapton, Reade & Woods Agency

Jesse Bessler, Lacher & Associates

Ashley Gosline, Gosline Insurance Group

Pat Cahoon, Poulos Insurance

Chris Wilmoth, VPIA Insurance Agency

Tim O'Neill, Hickok & Boardman Insurance

(front row left to right)

Kate Foy, Foy Insurance

Vuthi Roeun, United Insurance

Chris Engels, Engels Insurance

MMG Commercial Lines FUTURE LEADERS FORUM

Two of the most important strategies in MMG's positioning for a new world are growing our Commercial Lines business; and preparing the next generation to serve the risk-management needs of the businesses of the future.

In support of both of these strategies, we held our inaugural Commercial Lines Future Leaders Forum, an exciting, selective, fast-paced networking opportunity. Over two and a half busy days last August, we convened nine emerging leaders from our partner Agencies, in all five states, at MMG's Presque Isle headquarters. They received interactive training from MMG managers and staff in the skills they'll need to drive their companies and the insurance industry forward.

The agenda included dynamic discussions on the products that comprise MMG's Commercial Lines business, how we can continue to evolve alongside Agency Partners, and the uses of social networks in the insurance industry.

The attendees also participated in the Gen Re PRIME Game, an engaging simulation of operating a P&C company.

"I had a great time. I think the balance between education and forums was perfect and I came away feeling like I both added something and learned a great deal. Thank you for the invite!"

—Kate Foy, Foy Insurance

"I truly appreciate the invite and the opportunity to be part of the Future Leaders Forum. I found it to be very informative and sincerely have a new perspective on why insurance companies do what they do! It was also very refreshing to spend some time with other agents of leadership caliber."

—Pat Cahoon, Poulos Insurance



DIRECTORS



Seated (left to right):
Tom E. Gagnon
John H. Cashwell III
Michael D. MacPherson
Lisa M. Ventriss

Standing (left to right):
Harold A. Dakin
Dawn Hill
Larry M. Shaw
Jay Y. McCrum
Donald W. Perkins, Jr.
Samuel W. Collins
Jon J. Prescott

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

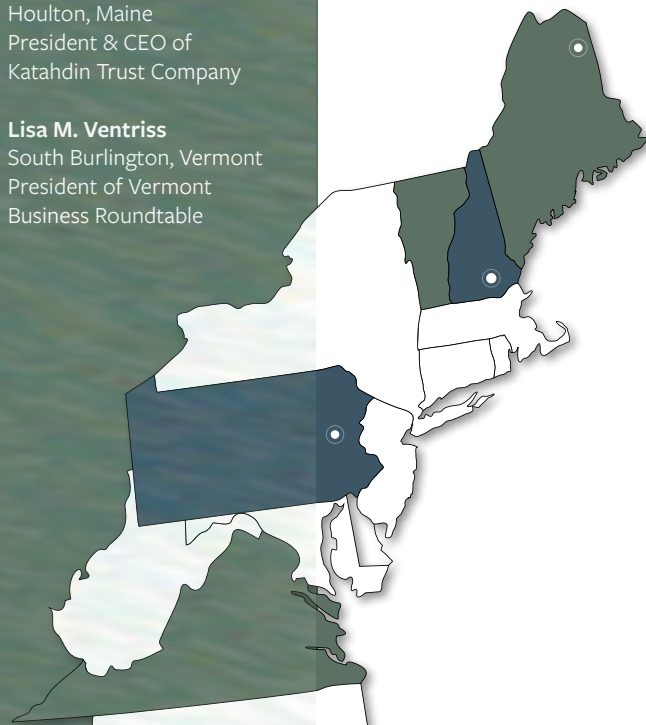
Dawn Hill, Esq.
Cape Neddick, Maine
Maine State Senator

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

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

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

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



putting down roots

MMG INSURANCE
CURRENTLY HAS
THREE OFFICES FROM
WHICH IT WRITES
INSURANCE IN MAINE,
NEW HAMPSHIRE,
VERMONT, PENNSYLVANIA
AND VIRGINIA IN
PARTNERSHIP
WITH OVER 444
INDEPENDENT INSURANCE
AGENCY OFFICES.

OFFICERS



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

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

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
Vice President, Casualty Claims Manager

FINANCIAL STRENGTH

Comparative Balance Sheet

<u>Admitted Assets</u>	12/31/2013	12/31/2012
Total Admitted Assets	225,328,952	205,124,517
<u>Liabilities</u>		
Total Liabilities	137,622,889	126,045,627
Policyholder Surplus	87,706,063	79,078,890
Total Liabilities and Surplus	225,328,952	205,124,517

TWO YEAR INCOME STATEMENT

	12/31/2013	12/31/2012
Underwriting Gain	1,847,950	1,810,410
Net Investment Income	5,492,140	4,686,184
Total Other Income	647,868	891,291
Net Income Before Income Taxes	7,987,958	7,387,885
Net Income	5,796,148	5,299,973
Change in Surplus	8,627,173	6,101,437
Surplus End of Period	87,706,063	79,078,890

COMPARATIVE RESULTS

	Written Premium	Policyholder Surplus	Admitted Assets	Combined Ratio
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%
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%

gathering momentum



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