



Leading with
**TALENT &
TECHNOLOGY**



2017 ANNUAL REPORT

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To Our Policyholders, Agents, and Associates



Larry M. Shaw

2017 was a year of record-setting weather disasters which resulted in it being the second most costly for our industry since 1960. For the first time in history, three Category 4 hurricanes made landfall in the United States. Harvey, Irma, and Maria wreaked havoc, causing approximately \$125 billion in overall damage and \$80 billion in insured loss. Significant activity

including wildfires, thunderstorms, and windstorms impacted many companies across the U.S. Even with this extraordinary, widespread activity the industry remained well capitalized following the significant loss payout associated with these losses.

Although MMG Insurance did not receive loss activity from Harvey, Irma, or Maria, we did experience significant events, namely, the October windstorm Philippe and the early onset of harsh winter weather. Philippe was a \$5.6 million event for us, exceeding our retention on our catastrophe cover and impacting our combined ratio by 2.4 points. The early onset of winter resulted in over \$2 million of loss the last two weeks of the year and impacted the combined by 1.2 points. When added to an active year of large losses on both the property and casualty sides of the business, the combined ratio ended at 101.97%. While all of the above resulted in a lower than expected financial performance, once again our claims people provided exceptional customer service to many impacted policyholders across our five states of operation.

An underwriting loss of \$4.7 million was the result of the aforementioned activity. This number was stabilized by

strong investment income provided by a considerable run-up in equity markets. Net income before taxes was \$2.7 million, increasing policyholder surplus by \$1.9 million. The year-end surplus was impacted negatively by \$2.4 million due to changes in the new tax code effective in 2018. The good news is, the 2017 impact will be offset over time by paying a lower federal income tax rate in the future. Although we did not meet our expectations for bottom-line results, we are pleased that the Company was able to provide earnings in a year of challenging loss activity.

Loss ratios by line of business continued historic patterns. Even with significant weather activity, Commercial Lines and Homeowners performed well. Homeowners finished 2017 with a loss ratio of 48.4% and a five year of 49.5%. It has been a consistently performing line since 2008. Commercial Lines had a marginal uptick against historical results to 43.5% and the five and ten-year numbers remain solid at 39.8% and 36.9% respectively. Personal Auto experience continued to run high at 74.6% leaving the five-year at 74.8%. An improvement over 2016, dynamics within this line of business create a challenging but needed return to profitability. A so-called perfect storm of issues has overtaken this segment of business. An increase in miles driven as a result of the improving economy, impacts of distracted driving, medical inflation, and rising repair costs for newer vehicles have created loss costs that will need ongoing rate increases.

As for overall loss ratios by state, Maine finished at 53.8% and a five-year loss ratio of 49.4%; New Hampshire 51.4% and 52.4%; Vermont 50.6% and 51.5%. Pennsylvania reflected a marked improvement in 2017 with a loss ratio of 60.0% and a five-year loss ratio of 68.3%. Virginia continues to run high at 81.7% with a five-year loss ratio of 71.5%. Northern New England continues to show consistent positive



results. The seasoning of the book of business and profitability strategies in Pennsylvania are creating improving trends. Virginia, being new, is being monitored closely with adjustments in rates and in underwriting approach ongoing.

Top line growth finished the year at 4.63%, slightly below our budgeted number of 5.49%. As expected, growth slowed based on actions within Personal Lines tied to rate increases and underwriting discipline. By line of business, growth for Homeowners was 4.1% and represents 26% of our business; Personal Auto growth was 2.8% and makes up 33% of our business, and Commercial Lines growth was 7% and 38% of our business. By state, growth and percentage of our book of business were as follows: Maine 4.44% and 41%, New Hampshire 3.72% and 26%, Vermont 2.50% and 14%, Pennsylvania 1.83% and 14%, and Virginia 30.95% and 5%. With 2017 premium finishing at \$193,408,226, we are poised to crest the \$200 million milestone in 2018.

TALENT / TECHNOLOGY

As a company, MMG has built a business model driven by a high tech / high touch design. Our model has proven a differentiator in an extremely competitive marketplace. These two cornerstones to success have required a resolve to invest continuously in people and technology. In 2017, major progress was made as we continued our march to acquire and develop talent and complete our first legacy system replacement project, a new billing system.

TALENT

It has been four years since we began the 50/250 initiative. With the growing need for talent becoming more challenging as we analyze our workforce over the next ten years, this initiative was born. The associated analysis indicated we would need to hire 50 senior level people and 250 people in total over that timeframe, thus the 50/250 moniker. Since the inception of this focus area in 2014, we have been successful in hiring 124 individuals. We have five new vice presidents, eight new members of our management team, 24 senior level hires, 19 promotions from within to senior level and 12 interns

who are now full-time members of the MMG family. We are excited about the success in this regard. However, talent attraction and development is never finished. We remain committed to continuing to build and add to a stronger team ready to succeed in the future.

TECHNOLOGY

In 2015, we decided to make the major investment of replacing our legacy technology systems, an initiative that would become known as "MMG Next." As a company that had always written its own software, it was a significant leap to partner with a vendor. To position MMG for the future, we knew we had to make this decision for two major reasons. The first was the need to replace aging, and in some cases, obsolete programming to take advantage of the efficiencies and flexibility created by today's state-of-the-art software. The other reason was tied to the exploding trend of technology overall. It is critical to position our systems and design them in a fashion to leverage technology enhancements. We are pleased to report much progress in 2017. As stated, a new billing system was built during the year. We are now up to date and well positioned for the needs of external users (policyholders, agents, and vendors) and internal users (our people). A challenging endeavor, as everything we do touches the billing cycle; we are excited about the product that hit the streets in early 2018. The true grit of our people has come to the surface with an exemplary showing of collaborative effort that will serve us well as we continue our technology build.

We will continue to need much work in both the technology and talent areas of our business; however, the foundations have been designed and built over the last few years. We know it is the combination and coordination of these two areas that will allow MMG to take our unique option of high tech / high touch to the marketplace in the future.

MARKETPLACE

In such a dynamic marketplace, there are always actions required to respond to competitive and environmental pressures. In Personal Lines, we need to improve the loss ratio in Auto in a very challenging environment. As the

costs continue to rise, rates will reflect steady increases over the foreseeable future. Losses are up, tied to dynamics mentioned earlier. The number of accidents and the severity of costs related to those accidents continues to rise with no lessening in sight. As for Homeowners, results have been stellar, though the catastrophic events of 2017 will weigh on rates in the future. Reinsurance costs are rising which will ultimately find their way back into the primary rates in Homeowner policies.

Commercial Lines continues to experience favorable performance. Over the last 15 years, we have moved Commercial Lines from 20% of our business to 38%. Loss ratios have consistently performed well, and increased Commercial writings have stabilized our earnings through the volatility experienced in Personal Lines. We have plans to continue to grow Commercial Lines aggressively as we expand our risk appetite over time in the classes that we have been writing. We would, ultimately, like to see half of our business in the Commercial area due to the ongoing profitability this line has provided and the growth opportunities that we see with our Agency partners.

As always, it has been a privilege to work with all of the individuals associated with MMG. Our board continues to be engaged advisors. Our employees provide above and beyond commitment to making us the company we want to be. Our agents represent MMG with resolve and continue to challenge us to be better. All told, the future is bright as we are well-positioned to continue to take on the challenges that lie ahead.



Larry M. Shaw, CPCU
President & CEO
MMG Insurance



Commitment to the Community

MMG Insurance Company proudly supports non-profit organizations in the five states in which we do business through both monetary donations and volunteer efforts. From school improvement projects to playgrounds, community causes to economic development, MMG is committed to the organizations and efforts that are important to our employees, our policyholders and our Independent Agency Partners.

to empower leadership, support education and raise industry awareness.

In 2017, the Company partnered with organizations including EducateMaine, the Maine Development Foundation, InVEST, Young Professionals Institute and others to create and support unique initiatives aligned with these goals. Driven by a commitment to impact positive change, MMG's corporate giving program remains a steady guiding force within the Company's culture and identity.

Caring about the places where we live and work also means building relationships and opening our doors

ORGANIZATIONS AND CAUSES SUPPORTED IN 2017 INCLUDE:

- | | | |
|---|---|---|
| Junior Achievement of Maine – Titan Challenge | Presque Isle Community Playground Project | Concord Hospital Trust |
| New Caribou School Project & Gymnasium | Caribou Marathon | American Cancer Society |
| Husson University – New College of Business | Maine Early Learning Investment Group | New Ventures Maine |
| Maine Development Foundation | WinterKids | SADC Entrepreneur of the Year Challenge |
| Advanced Mentoring Enrichment Network | Penobscot Boys & Girls Club | Aroostook House of Comfort |
| Aroostook Aspirations Initiative | The Susan L. Curtis Foundation | Wintergreen Arts Center |
| Maine College Circle | SkillsUSA – Presque Isle High School | St. Apollonia Dental Clinic |
| FeedMore | Aroostook Chapter of Credit Unions – Financial Fitness Fair | United Way |
| The Friendly Kitchen | Homeless Services of Aroostook | Nordic Trail Festival |
| Magnetize Maine | Project Explore | InVEST |
| | | Boys & Girls Clubs in New Hampshire |
| | | Central Pennsylvania Food Bank |



Featured Agency: The Essex Agency

Pushing forward with new technology is essential, yet it is most successful when coupled with trusted relationships and shared vision.

The Essex Agency, Inc., a full-service Property and Casualty Insurance Agency headquartered in Essex Junction, Vermont, became the first MMG Agency appointment in the state of Vermont in 1981.

Agency Principals David Holton and John Handy are committed to representing quality, trustworthy, and competitive insurance companies and are proud of their long partnership with MMG.

“Our relationship with people at MMG goes beyond insurance. For over 35 years we’ve become friends with their people. We’ve ‘grown up’ in the industry together. It is very rare to have a professional relationship that can span an entire career, but with MMG we have that,” says Handy.

Holton echoes that sentiment, “Our businesses have similar cultures—quality, hardworking people with strong customer service skills.”

Holton, a 10th generation Vermonter who joined The Essex Agency in 1973, and Handy, who joined ten years later – his first job after college – appreciate MMG’s high tech / high touch business model.

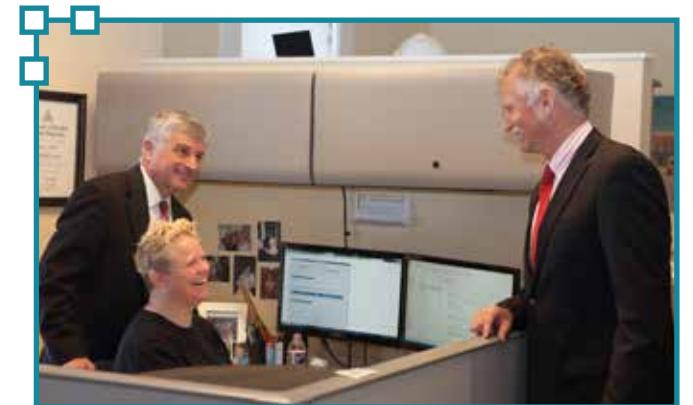
“They understand that whoever makes the process the easiest is going to win in the long run,” remarks Handy. “They know that the technology has to be spot on and MMG has put a lot of resources into becoming an industry leader and always staying on the cutting edge.”

For The Essex Agency, MMG brings substantial value to both their clients and their agency. “Every single person that we deal with, at every level, wants to help. It’s sincere and genuine. It shows in the service they give to us and our clients,” explains Holton.

Handy agrees, “From their senior management, underwriting, processing, claims...everybody that we deal with at MMG is totally committed to their work, they’re committed to their agents, and they’re committed to giving their customers the best service possible.”

A partnership undoubtedly strengthened by the past, The Essex Agency and MMG continue to grow and move forward together, sights set on the opportunities ahead.

“Our future with MMG is bright and on solid ground,” says Holton. “We’re committed to MMG, and we know they are committed to us. They are very much an elite player and are poised to have great success moving forward.”



Left to Right: David Holton and John Handy

“There are so many things that have made our relationship successful, but above all it is trust. We trust that they will be there for our clients when they are needed the most, and they trust that we will be the best we can be. We’re in this for all of our mutual benefit.”

John Handy, Agency Principal, The Essex Agency



“Our whole family - we’re really not that good at just sitting around. And when we do things together, we try to do things that mean something.”

Shawn Lahey, Programmer Analyst II, MMG Insurance Company



Community Volunteer of the Year

Living life backward has propelled Shawn Lahey forward as a volunteer.

“I had kids young so I kind of did life backwards. They’re older now and not really hanging out with me as much so I thought ‘What am I going to do?’” says Lahey, a Programmer Analyst II in MMG’s Information Systems Department.

Lahey began filling his time by finding things to help his community, starting with serving on the Northern Maine Community College Board of Directors.

“It was almost like an addiction, I’m like ‘Oh what else can I do. I still have five extra minutes a day. How can I fill that with something?’”

Shawn’s wife, Jessica, helped him find that ‘something’ with the Anah Temple Shrine.

“She was volunteering at the Shrine Circus and said ‘You can do this, too!’ So I joined her in volunteering for a couple years. Then I thought ‘I could totally be a clown. I already do it. I just need to put makeup on now.’”

From there Lahey’s commitment to community has only grown. Last year he found himself leading three organizations simultaneously: the Anah Shrine Clown Unit, the Aroostook Shrine Club, and the Central Aroostook Chamber of Commerce Board of Directors.

One would think his schedule would cut into family time, but Shawn says volunteering together is a Lahey family pastime.

“Our whole family – we’re really not that good at just sitting around. And when we do things together, we try to do things that mean something.”

Shawn shares particular pride in his daughter, Kiarra, who quickly completed her 40 volunteer hours required for graduation from Presque Isle High School, but who continued well beyond the requirement.

Lahey says adults must set the example of volunteering for younger generations.

“The only way kids are going to get involved in their community is to see somebody else doing it and to be inspired.”

Lahey says he is grateful to be honored as MMG’s Volunteer of the Year, but the true reward is the work itself.

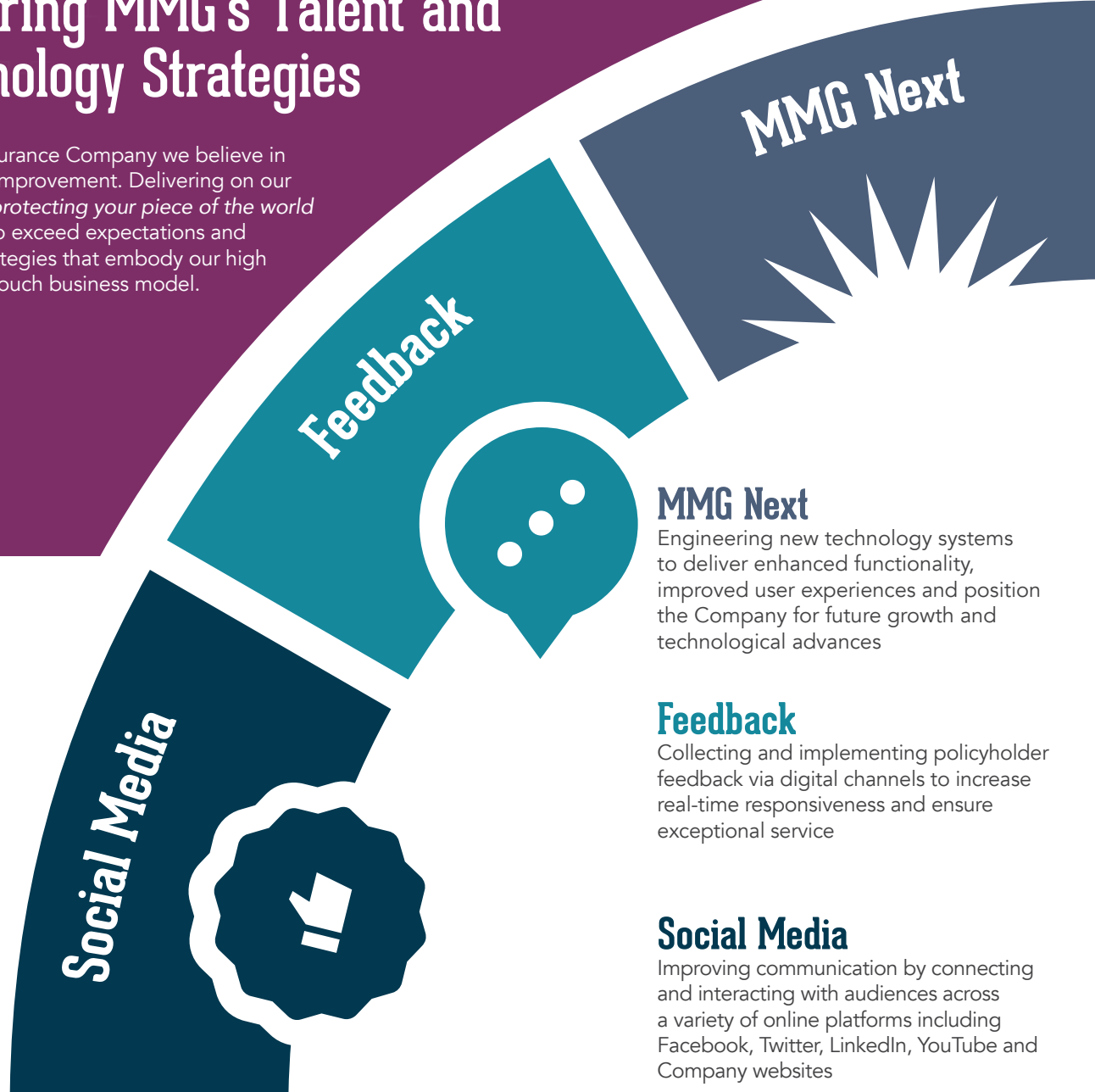
“I don’t volunteer to get credit. I volunteer because it needs to be done. It’s not for the glory. It’s for the good.”



Shawn Lahey

Exploring MMG's Talent and Technology Strategies

At MMG Insurance Company we believe in continuous improvement. Delivering on our promise of *protecting your piece of the world* inspires us to exceed expectations and develop strategies that embody our high tech / high touch business model.





Campus Compact
Maine

Corporate Partner of the Year

MMG Insurance has been honored as the 2017 Corporate Partner of the Year by the Maine Campus Compact. The award recognizes MMG's contributions and commitment to strengthening campuses and communities in Maine.



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

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

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

Harold A. Dakin
Londonderry, New Hampshire
Retired Vice President of Dex Media
Director Since 1998

Dawn Hill, Esq.
Cape Neddick, Maine
Maine State Senator
Director Since 1990

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

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

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

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

John H. Cashwell
Bangor, Maine
President of JHC Consulting LLC
Director Since 1997

Larry M. Shaw, CPCU, President
Presque Isle, Maine
Chief Executive Officer of MMG Insurance
Director Since 1995

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

Samuel W. Collins, Vice Chairman
Caribou, Maine
President of S.W. Collins Company
Director Since 2001



Best Places to Work in Maine

MMG Insurance has been named to the Best Places to Work in Maine list for the seventh time.



Officers



Seated (left to right): Eric W. Tawfall; Michael M. Young; Larry M. Shaw; Matthew R. McHatten; Matthew P. Cote

Standing (left to right): Derek J. Hochradel; John B. Herweh; Timothy W. Vernon; Douglas R. Hazlett; Stacy L. Shaw; Corey A. Graham

Eric W. Tawfall, CPCU
Vice President, Personal Lines

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

Larry M. Shaw, CPCU
President & Chief Executive Officer

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

Matthew P. Cote, CPCU
Vice President, Marketing & Business Development

Derek J. Hochradel
Vice President, Commercial Lines

John B. Herweh, SPHR, SHRM-SCP
Vice President, Human Resources

Timothy W. Vernon, SCLA
Vice President, Property Claims, Loss Control & Governmental Affairs

Douglas R. Hazlett
Vice President, Product Management

Stacy L. Shaw
Vice President, Chief Information Officer

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

Financial Strength Comparative Balance Sheet

	12/31/17	12/31/16
Admitted Assets		
Total Admitted Assets	276,645,456	262,103,546
Liabilities		
Total Liabilities	177,343,332	164,667,551
Policyholder Surplus	99,302,124	97,435,995
Total Liabilities & Surplus	276,645,456	262,103,546

TWO YEAR INCOME STATEMENT

	12/31/17	12/31/16
Underwriting Gain / (Loss)	(4,715,171)	(3,825,467)
Net Investment Income	6,517,491	6,346,658
Total Other Income	879,324	1,002,889
Net Income Before Income Taxes	2,681,644	3,524,080
Net Income	2,219,350	3,494,676
Change in Surplus	1,866,129	2,956,218
Surplus End of Period	99,302,124	97,435,995

Comparative Results

	Written Premium	Policyholder Surplus	Admitted Assets	Combined Ratio
2017	193,408,226	99,302,124	276,645,456	101.97%
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%

Protecting your piece of the world®



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