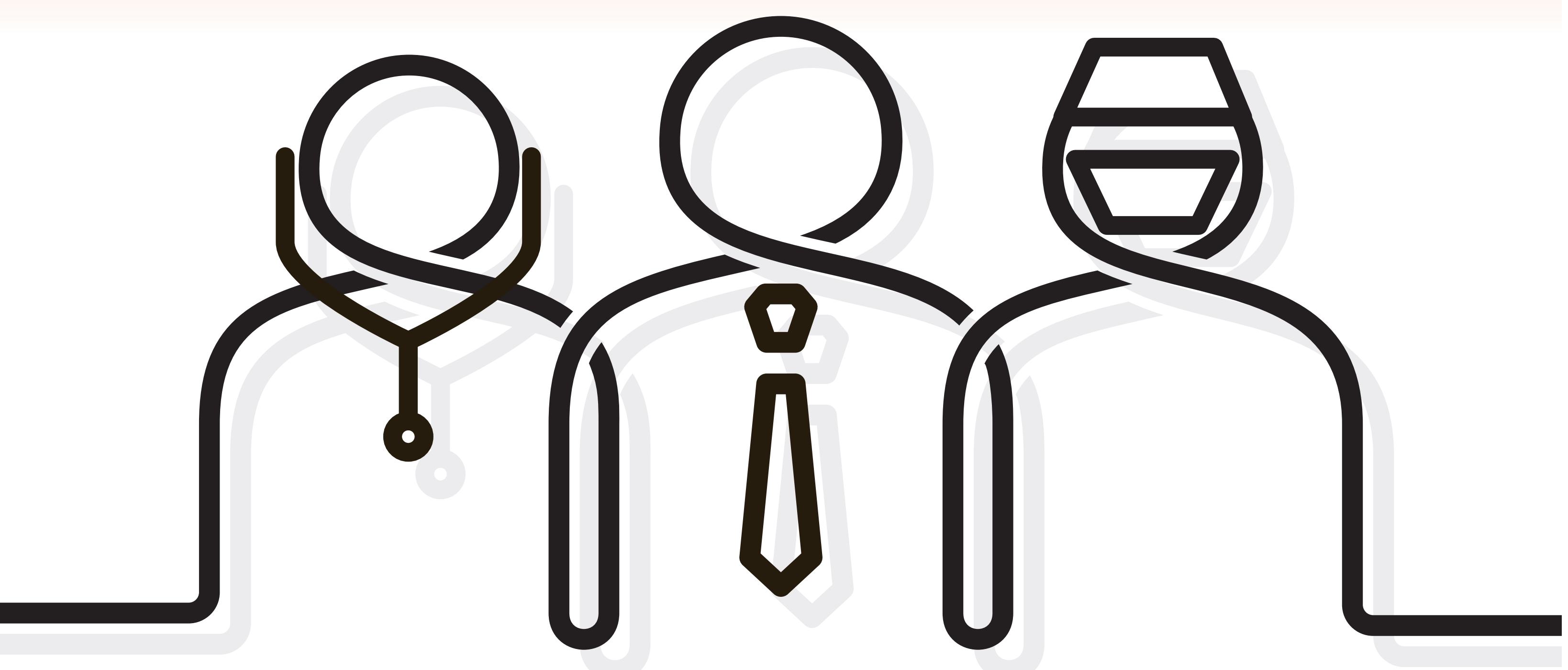
A YEAR OF STRENGTHENING RELATIONSHIPS

Annual Report 2016



Medical Mutual
INSURANCE COMPANY OF MAINE

A YEAR OF STRENGTHENING RELATIONSHIPS

From our annual Listening Tour to attending state advisory committee meetings to speaking at state and specialty-specific medical associations, we actively solicit information and feedback directly from you, our insureds, to better understand the challenges you face and the environment in which you operate.

Frank Lavoie, MD, MBA | President & CEO

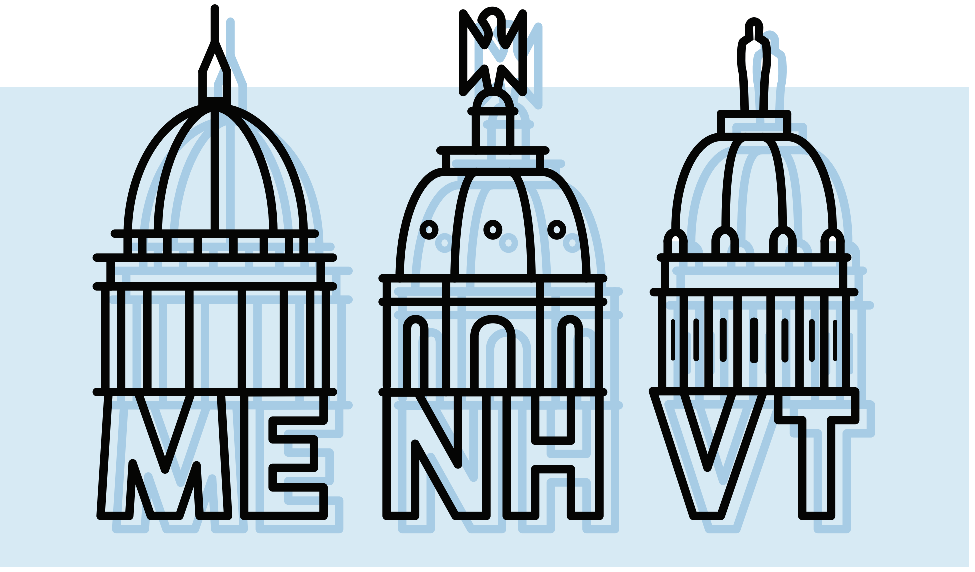
Relationships are an important part of what makes Medical Mutual such a successful and trusted partner to the medical providers we insure. Our member-policyholders place significant importance on the fact that when they have questions about coverage or billing or, God forbid, a claim, they typically know someone within the Company they can contact directly who can either provide the answer right away, or is willing to track it down and respond in a timely manner. If you're a client of Medical Mutual, that kind of relationship is indicative of the fact that we are always here for you.

Here, and also there, for you

Yes, being here for you is something we take seriously. Perhaps even more important, though, we also emphasize being there for you. That is, we also subscribe to the philosophy that the first secret of success is understanding what it's like on the front line. Which is why senior management at Medical Mutual devotes considerable time each year getting out to meet with member-policyholders and their representatives. It's part of our commitment to being accessible to you both here and out there in the field. From our annual Listening Tour to attending state advisory committee meetings to speaking at state and specialty-specific medical associations, we actively solicit information and feedback directly from you, our insureds, to better understand the challenges you face and the environment in which you operate. The year 2016 was no exception.

2016 Listening Tour

As a young man, I was responsible for keeping our family home in Lewiston protected with a solid coat of paint. To do so, I painted one side of the house every summer, then started over again every fifth year. We employ a similar strategy with our annual Listening Tour, where we visit hospitals we insure to touch base with administrators and get a feel for the local care environment. And so, during the course of the past year, Company VP of Marketing & Administration, John Doyle, and I hit the road to visit with administrators at nine — roughly a third — of our insured hospitals. Two had new CEOs, so it was a good opportunity for us to get to know each other and hear about their priorities. The other five were members of the Eastern Maine Health System, so it was a chance to get feedback on their early experience with the Company's risk management services and overall assessment as member-policyholders of Medical Mutual. By periodically visiting with our complex hospital and health system members, we can best determine how to structure coverage and make a positive impact for all Medical Mutual policyholders.



Different states, different challenges

As Medical Mutual Chairman, William Medd, MD, summarizes here in this annual report, the potential repeal of the Affordable Care Act would affect healthcare access throughout the Company's service territory. As sweeping a challenge as that could present, we know from the discussions held with our state Advisory Committees that Maine, New Hampshire and Vermont are each also facing challenges unique to their healthcare communities.

In 2016, the state Advisory Committees reviewed the impacts of state-specific events and legislation on providers. For example, Maine legislators considered the establishment of a Patient Compensation System, which would have drastically changed the structure of the medical liability system. Its significant internal inconsistencies and high probability of marked cost increases were a great concern. [The bill was opposed by both Medical Mutual and the state medical associations, and was defeated.] New Hampshire's greatest challenges in 2016 included its hospital taxing and redistribution system – a challenge that may also be revisited in 2017. And, in Vermont, perhaps the biggest issue considered was structure and approval of the state's groundbreaking "all-payer" system, a state-wide voluntary ACO model that sets all fees for all services for care covered by all insurers, whether private, Medicare or Medicaid.

Clearly, as you can see, each state within the Medical Mutual service territory experiences unique challenges, and our recently-enacted state Advisory Committees are proving to be an important and valuable vehicle for helping us understand those challenges, so we can both add our voice and lend our support to local efforts aimed at enhancing the care environment.

A renewed relationship

After a three-year break, the New Hampshire Medical Society once again endorsed Medical Mutual as a preferred medical professional liability insurer for its more than 2,200 member physicians, residents and medical students. The endorsement became official effective January 1, 2016. The NHMS had endorsed Medical Mutual continuously from 1997 to 2012, when a new Society-sponsored venture prevented it from providing an official endorsement due to conflicting goals. Recent resolution of that conflict cleared the way for the NHMS and Medical Mutual to resume our close collaboration and we are thrilled to be working together again in support of New Hampshire's medical community.

Maintaining another important relationship

Aside from the specific relationship-building discussed here, this annual message I write affords me the opportunity to report directly to you as a member-policyholder on the state of your Company. While it is decidedly less personal than a face-to-face meeting, à la our Listening Tour, it is our intention here in these pages, as well as in other Company communications, to provide you with the kind of transparent and matter-of-fact information that gives you a window into both the way and level at which we operate on your behalf. It's an important vehicle for helping us demonstrate to you our value as your medical professional liability insurance carrier.

To that end, please know that your Company had another strong year in 2016. We maintained our "Excellent" rating from AM Best, and were able to keep rates flat for the year, while declaring a dividend — our 10th in the last 11 years — of roughly $2 million. While it is a more modest dividend than some over that span, it is the logical result of adjusting to what has become an extended period of both moderated premiums and claims activity. We're proud to say that virtually all eligible member-policyholders have benefitted from those dividends, regardless of their location, as we remain the only carrier in the region to pay dividends to policyholders beyond our home state.

On a more cautionary note, claims activity for the year had a bit of a different feel, with mixed and somewhat unusual results. Claims frequency (or total number of claims) for the year was more uneven than what we have been experiencing over the last decade. A relative surge of claims in the first half of the year abated significantly in the 4th quarter. In the end, the number of hospital claims was still toward the higher end of recent experience, though the total was fortunately not as high as the early 2016 trend had been indicating. As for physician and surgeon claims, we can thankfully report that they remained squarely in the mid-range for the past 10 years.

Beyond the uncertainty of the claims frequency outlook, there have also been signs of increasing severity (or cost per claim) in the claims we have had to handle. Not to mention that the costs to defend them have also risen somewhat.

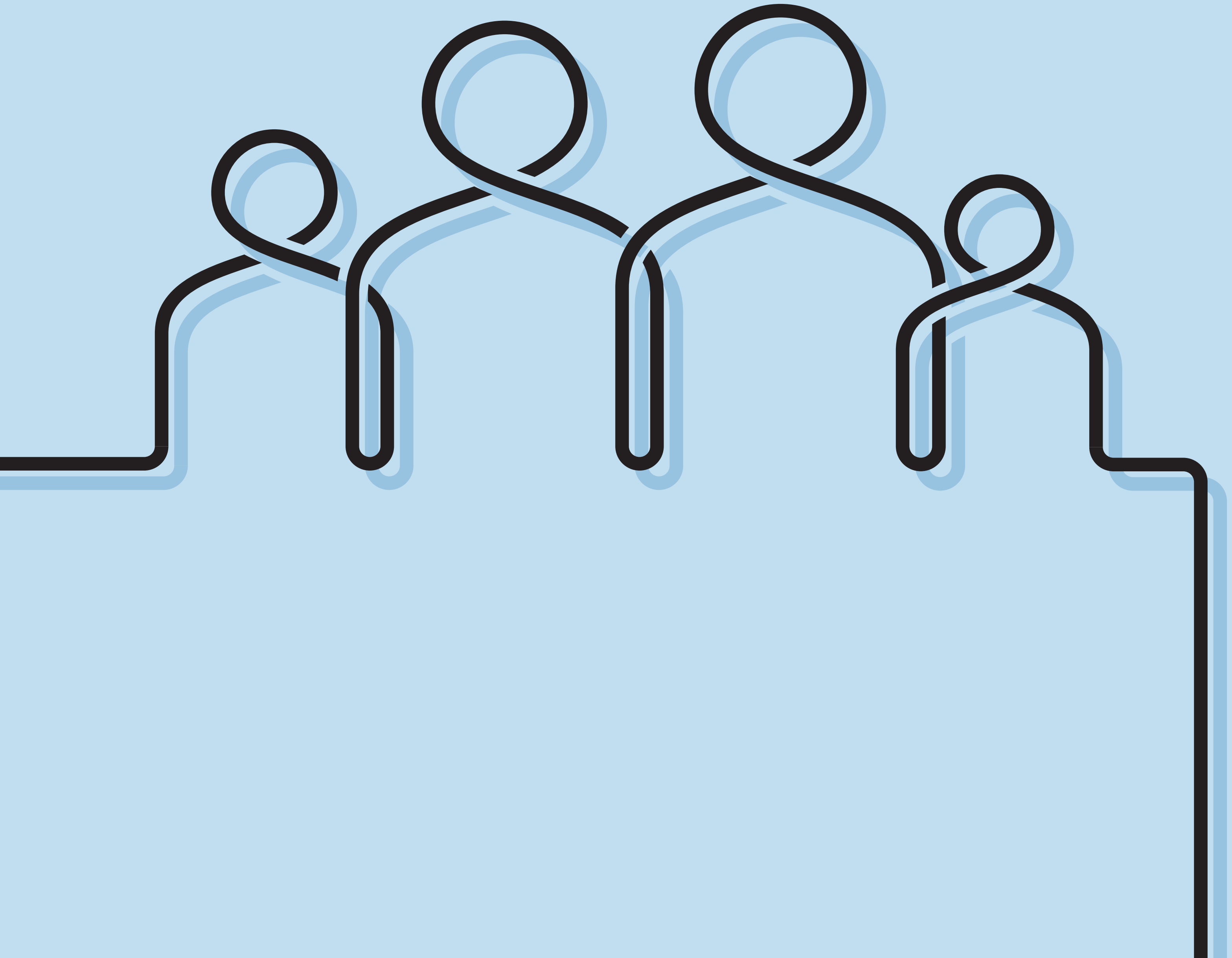
Viewed from above, it is too early to tell if the claims tide is turning in any meaningful way. That said, our industry has historically been characterized by volatility. So as always, we will continue to watch these and other claims metrics very closely and remain prepared for any significant changes.

In sum, suffice it to say your Company is solid, secure, and performing very well. You have every reason to feel confident that we will be here — and there — for you to help enhance the care environment in which you practice, and to protect your assets and reputation, should the need arise, well into the future.

Please know that your Company had another strong year in 2016. We were able to keep rates flat for the year, while declaring a dividend — our 10th in the last 11 years — of roughly $2 million.

THOUGHTS ON HEALTHCARE ACCESS AND REPEAL OF THE ACA

Nobody believes the effort to repeal the ACA is dead. And that concerns me because, absent a very different looking replacement plan, repeal will negatively impact peoples' access to healthcare and most definitely be detrimental to the communities we serve.

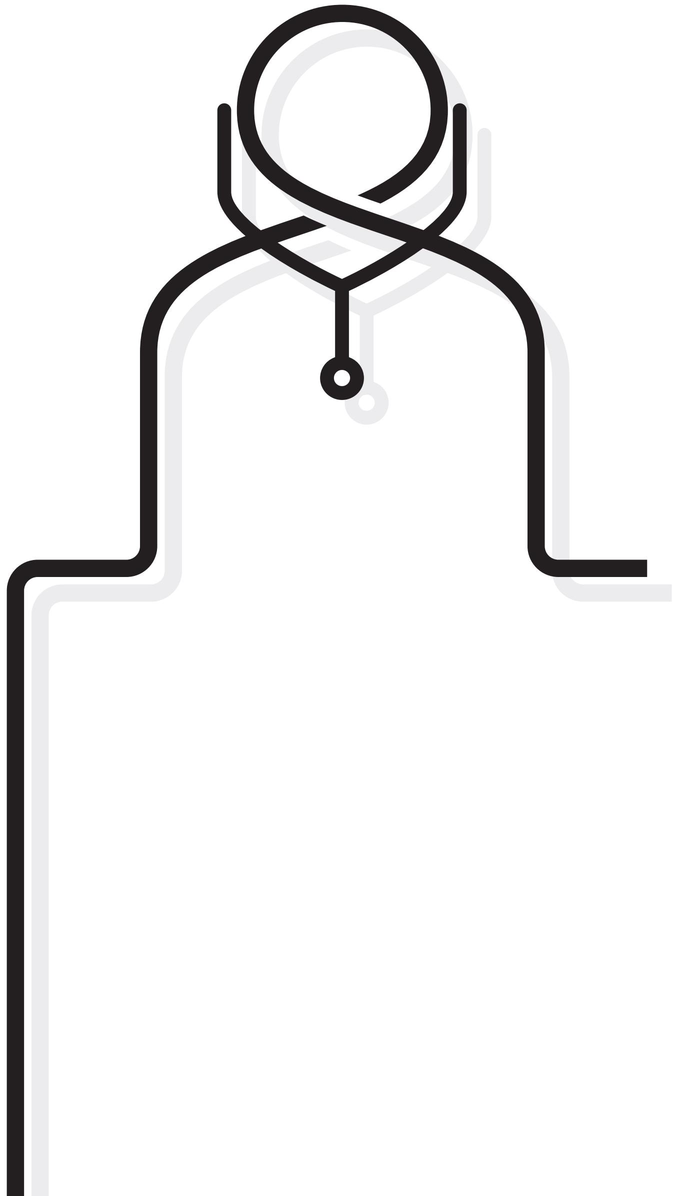


William L. Medd, MD | Chairman of The Board

As a medical professional liability insurance carrier, Medical Mutual's primary mission is to protect the assets and reputations of our member-policyholders. But when you layer on top of that the fact that we are a mutual company founded — and, to this day, led — by physicians and healthcare administrators, our mission stretches beyond fiduciary responsibilities of providing insurance coverage. In our Company credo, we specifically state that our responsibility extends to our communities and that we will provide leadership to improve healthcare quality and access.

Today, as Chairman of this Company, I find myself worrying about healthcare access. There is plenty to debate when it comes to the Affordable Care Act (ACA), but one thing is sure. So far, the plans that have been considered for replacing the ACA would negatively impact healthcare access. The independent Congressional Budget Office estimated that 24 million people would lose their insurance coverage under the proposal that led the Speaker of The House to withdraw the repeal bill.

Still, nobody believes the effort to repeal the ACA is dead. And that concerns me because, absent a very different looking replacement plan, repeal will negatively impact peoples' access to healthcare and most definitely be detrimental to the communities we serve.



Why insurance exists

The fundamental premise of insurance is to pool risk and spread the cost of actuarially-anticipated claims so that all policyholders can pay affordable premiums to indemnify any claims at prescribed levels. It's what we do in the medical professional liability insurance market. And like it or not, it's what the ACA has done. As a result, millions of people were added to the insurance rolls under the ACA, thereby gaining access to broad coverage. Again, you may or may not agree with the details of what was covered, the use of subsidies and how it all affected premiums, but the fact that it enhanced access is undeniable.

So what is at risk given recent efforts to repeal the ACA?

Loss of subsidies, repeal of insurance requirement

Repealing the ACA will likely result in tens of millions of people losing their coverage. Without government subsidies, the cost of insurance will once again become prohibitive for many — even with the tax credits proposed in the replacement plan that got withdrawn — and others will only be able to afford so-called catastrophic care policies that history has shown leads to many people forgoing needed care due to its expense. For many, that loss of coverage and access to affordable insurance could very well be permanent.

Pre-existing conditions

For those with pre-existing conditions — that is, conditions that require ongoing medical treatment — coverage for that needed care could very well cease immediately depending on their current insurance. And once lost, it is very likely that they will never be able to gain coverage for that condition — or perhaps even *any coverage* — again.

Reversal of Medicaid expansion

As part of the ACA legislation, adults under age 65 whose income falls below 133 percent of the Federal poverty level — in other words, some of our community's most vulnerable people — became eligible for Medicaid in 2014. It was the first time many low-income adults without children qualified for state Medicaid programs. All repeal discussions to date have included a reversal of this expansion, leaving those that had gained coverage for fundamental healthcare needs to fend for themselves without such coverage.

Young adults

Many families have benefitted from the provision in the ACA that allows young adults to remain on their parents' policies until age 26. Repeal of that provision will surely result in many young adults who are early in their careers, some with significant college loan debt, to risk living without coverage at all.

Lifetime caps

Finally, without the ACA, many, if not most, Americans could be subject to lifetime caps on insurance benefits. Therefore, any serious accident or illness that exceeds their insurance company's prescribed limits could effectively leave them without coverage, yet with large and ongoing debts for medical bills.

Effects on providers — the dilemma of uncompensated care

In that hospitals are obligated to provide emergency care to any individual who presents themself at the door, these negative impacts to normal healthcare access will surely lead to a rise in uncompensated care. Even individual providers who rightly feel a duty to treat uncovered patients based on their Hippocratic oath will likely be burdened with a rise in uncompensated care.

The impact in Northern New England

So what can we expect here in the states Medical Mutual serves? According to ACASignups.net, a website dedicated to tracking enrollments to the Affordable Care Act, 57,000 in Maine, 79,000 in New Hampshire and 43,000 in Vermont would lose their insurance coverage if the ACA is repealed. These numbers include 50,000 low-income adults in New Hampshire and 15,000 in Vermont who would lose coverage based on the reversal of Medicaid expansion. Maine never did adopt the expansion.

The totals above represent 4.3 percent of Maine's population (excludes those who would have been eligible for coverage under Medicaid expansion), 5.9 percent of New Hampshire's population and 6.9 percent of Vermont's. In some contexts, such percentages may sound low. But when you think about how you access the healthcare system and consider that one of 23 real people in Maine, one of 16 in New Hampshire and one of 15 in Vermont will simply be without coverage to see a physician for their illnesses or injuries, it's a sobering thought with the specter of real health consequences for people. Not to mention that the Urban Institute estimates the numbers of people who will lose coverage to be even higher under a partial-repeal scenario that has been floated here in early 2017.*

Clearly, losing the ACA would put the healthcare of many in our communities at risk. Not to mention that it would likely have negative financial impacts for virtually every provider we insure.

How Medical Mutual supports access

In short, access to healthcare matters. It matters to our communities. It matters to our providers. And it matters to us. That's why Medical Mutual has always supported measures that promote greater healthcare access. It is an important part of our ethos as a Company that was founded, and continues to be led, by physicians.

There are three key ways we support healthcare access:

Underwriting

From our founding, we have pledged to provide insurance for all specialties, thus helping to support access to comprehensive care in the communities we serve.

Program Structure

From innovative slot coverage for groups and hospitals to choices in deductibles and other risk-sharing strategies, Medical Mutual strives to make program structure flexible and affordable for our providers, thereby supporting their financial viability and their patients' access to care.

Association Involvement and Political Advocacy

Our active involvement and financial support of medical associations throughout our service area help support their advocacy for healthcare access, in addition to helping to protect and preserve a practice environment that fosters quick, fair resolution of claims, which in turn helps to maintain market stability and access.

Whichever side of the political aisle you identify with, it seems clear that repeal of the ACA will negatively affect healthcare access. I would love nothing more than for someone to step forward with a proposal that successfully addresses the negative impacts on access that will result should the ACA be repealed. For now, I can only voice my concern and hope that someone smarter than me can find the answer — for the sake of you, our member-policyholders, and especially for those we have all pledged to serve.

** Estimates as of February 13, 2017*

MEDICAL MUTUAL INSURANCE COMPANY OF MAINE

MANAGEMENT'S DISCUSSION AND ANALYSIS

MMIC's policyholders' surplus increased by $8,265 (5.2%) in 2016 due to net income of $6,763, as well as an increase of $2,757 in unrealized gains in the equity investment portfolio.

Barbara Sinclair, CPA, MBA | Chief Financial Officer

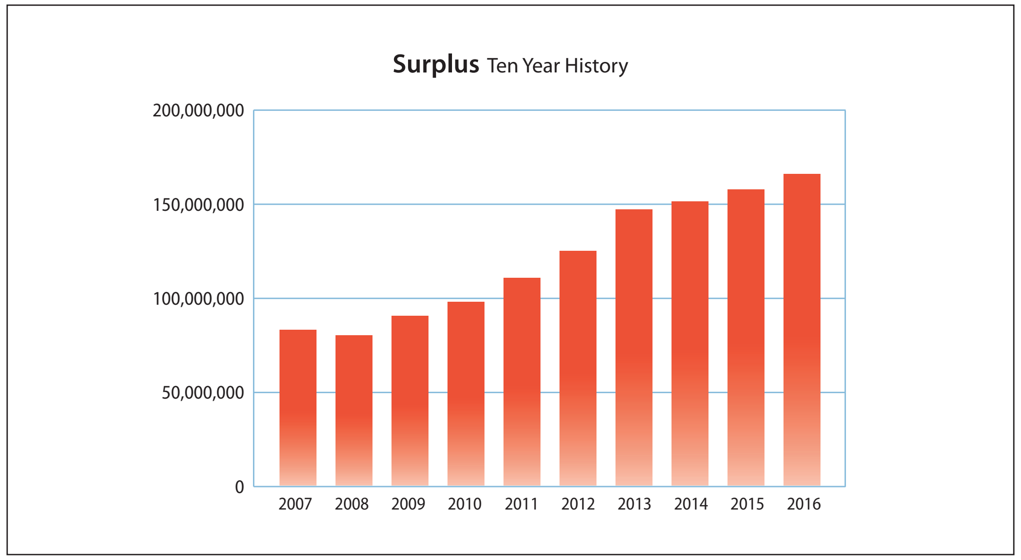
(In thousands of dollars)

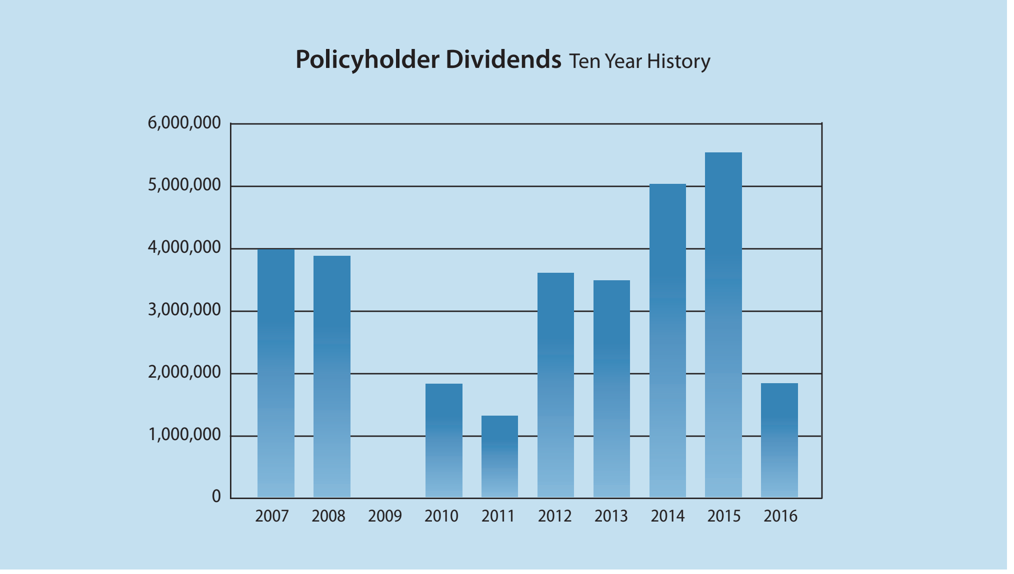
Medical Mutual Insurance Company of Maine's ("MMIC") business continues to focus on medical professional liability insurance ("MPLI") coverage, which is provided both on a direct basis and through authorized agents. In 2016, Physicians and Surgeons professional liability premiums accounted for 60% of net premiums written and Hospital professional liability premiums comprised 35% of net premiums written for the year.

Due to the complexity inherent in MPLI claims, there is often a significant period between the time an incident is reported, or a claim filed, and ultimate resolution. Because of this, estimates relative to the ultimate values at which claims will settle materially impact operating results. As time elapses, ultimate projected loss estimates become more accurate due to the availability of sufficient data to enable a more informed analysis. Changes in projections of ultimate losses for prior report years can significantly impact reported results for the current year, either positively or negatively.

At year-end 2016, MMIC had one subsidiary company, Specialty Insurance Placement Services, LLC ("SIPS"), actively operating. SIPS provides access to select insurance products, not underwritten by MMIC, to MMIC's direct written book of business. MMIC sponsored the creation of a risk retention group, BeaconHarbor Mutual Risk Retention Group, in 2012, primarily for the purpose of providing cross-border coverage for insureds in states in which MMIC is not admitted.

The following discussion and analysis is provided to help the reader evaluate MMIC's financial position and operating results. Information presented is reflective of insurance company operations since the net result of operations for the subsidiary company is included in realized capital gains for all years presented.





Financial Position

Total admitted assets increased 5.6% from 2015 ($281,576) to 2016 ($297,223), mainly due to the increase in Bonds, which increased by 6.2%, to $207,695.

At December 31, 2016 and 2015, the market value of MMIC's bond portfolio was greater than book value (amortized cost) by $4,589 and $7,391, respectively. The quality of the bond portfolio remains high, with 99.3% of the portfolio invested in high quality bond and short-term investments.

At year-end 2016 and 2015, respectively, the equity portfolio included $17,622 and $15,049 of net aggregate unrealized gains, and fixed income securities included $0 and $183, respectively, of unrealized losses. In accordance with regulatory accounting requirements, the change in the recorded net unrealized gain in the investment portfolio was recognized as an increase (-decrease) to policyholders' surplus for 2016 ($2,757) and 2015 ($-1,097).

Unpaid losses and loss adjustment expenses ("LAE") are stated at the company's estimate of the ultimate cost, net of ceded reinsurance, of settling all incurred but unpaid claims. This estimate takes into consideration the historical experience of MMIC and the industry, as well as legislative, economic, and social factors that are highly variable and not susceptible to accurate prediction. Reserves for unpaid losses and LAE aggregated $91,366 and $83,189 at year-end 2016 and 2015, respectively. The increase in reserves is reflective of actuarial computations of expected ultimate loss experience and reflects better-than-expected loss development on report years prior to 2016. Reserves are recorded on an undiscounted basis and are net of reinsurance and high deductible recoverables on anticipated losses.

MMIC's policyholders' surplus increased by $8,265 (5.2%) in 2016 due to net income of $6,763, as well as an increase of $2,757 in unrealized gains in the equity investment portfolio, partially offset by an increase in net deferred income tax of $1,241 mainly resulting from the increase in net unrealized gains in the equity portfolio.

Results of Operations

Pre-tax operating income (excluding net capital transactions and dividends to policyholders) totaled $9,416 in 2016 and $14,443 in 2015. The majority of the $5,027 decrease from 2015 to 2016 is related to an increase in losses and LAE incurred ($6,973) due to a decrease in the level of actuarially determined reserve drawdowns based on favorable loss and LAE development for report years prior to 2016.

As a mutual company, MMIC is committed to returning funds in excess of those needed to maintain financial stability to its insureds in the event loss and investment experience prove to be better than expected, and after ensuring that the financial stability of the Company will not be compromised. Dividends totaling $1,819 and $5,510 were declared in 2016 and 2015, respectively.

Cash Flow and Liquidity

Primary sources of cash included cash from operations and cash provided from the sale or maturity of invested assets. The primary uses of cash included loss and LAE expenses, operating expenses, the payment of dividends to policyholders, federal taxes, and the purchase of long-term investments. Cash provided by investment activities in 2014 was used to fund the repayment of the $10,000 surplus note in December 2014.

Funds available for investments that exceed the estimated amount required to eventually satisfy liabilities are primarily invested in long-term bonds and common stocks. To meet potential needs in excess of cash provided by operations, MMIC's investment portfolio is structured to generate positive cash flows from maturing and short-term securities and to ensure an adequate level of securities that can be readily converted to cash without incurring a significant loss. The duration of the fixed income portfolio is managed through a mixture of longer-term bonds and short-term investments.

The high quality of MMIC's bond portfolio ensures a ready market for its securities, while the maturity structure mitigates the interest rate risk inherent in the portfolio. At year-end 2016, $194,229 (88.5%) of MMIC's bond portfolio was in the regulatory designation of "highest quality", and $23,754 (10.8%) of the bond portfolio was in the "high quality" designation.

Financial Highlights

At and For the Years Ended December 31, 2016, 2015, and 2014 (Dollars in Thousands)

At December 31,	2016	2015	2014
ADMITTED ASSETS			
Investments-Bonds	$207,695	$195,612	$178,830
Investments-Equities	42,123	39,077	39,282
Cash and Short-Term Investments	24,142	24,548	27,253
Premiums Due from Policyholders Net of Reinsurance Premiums	18,049	18,165	14,275
Accrued Investment Income	1,671	1,693	1,552
Reinsurance Recoverables	374	220	239
Other Assets	3,169	2,261	2,734
Total Admitted Assets	$297,223	$281,576	$264,165
LIABILITIES and POLICYHOLDERS' SURPLUS			
Reserves:			
Unpaid Losses	$62,125	$55,100	$48,367
Loss Adjustment Expenses	29,241	28,089	28,798
Total Reserves	91,366	83,189	77,165
Unearned Premiums	20,339	20,431	17,886
Death, Disability, and Retirement Reserve	1,118	1,206	1,285
Federal Income Tax Payable	1,716	2,114	3,482
Net Deferred Tax Liability	1,766	525	953
Dividends Declared and Unpaid	2,021	3,152	216
Ceded Reinsurance Premiums Payable Net of Ceding Commission	5,988	6,129	4,490
Other Liabilities	7,093	7,279	7,516
Policyholders' Surplus	165,816	157,551	151,172
Total Liabilities and Policyholders' Surplus	$297,223	$281,576	$264,165

For the Year Ended December 31,	2016	2015	2014
OPERATIONS			
Premiums Earned	$36,524	$34,860	$34,578
Net Losses Incurred	17,318	12,779	2,713
Net Loss Adjustment Expenses	8,329	5,895	7,205
Underwriting Expenses	9,219	9,339	10,039
Net Underwriting Gain (Loss)	1,658	6,847	14,621
Net Investment Income Earned	7,704	7,510	7,316
Net Capital Gain (Loss)	750	255	879
Other Income	54	86	47
Income before Taxes and Dividends	10,166	14,698	22,863
Dividends Declared	1,819	5,510	5,008
Income before Taxes	8,347	9,188	17,855
Federal Income Tax Expense	1,584	2,112	5,049
Net Income	$6,763	$7,076	$12,806
Gross Premiums Written	$46,261	$46,864	$42,535
Premiums Ceded	9,917	9,538	8,561
Net Premiums Written	$36,344	$37,326	$33,974
Percent Premiums Retained	79%	80%	80%

MEDICAL MUTUAL BOARD OF DIRECTORS

MedicalMutual
INSURANCE COMPANY OF MAINE

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