



# Maine Employers' Mutual Insurance Company

Financial Statements (Statutory Basis)

December 31, 2015 and 2014

**MEMIC**

# Maine Employers' Mutual Insurance Company

## Index

December 31, 2015 and 2014

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To the Board of Directors of  
Maine Employers' Mutual Insurance

We have audited the accompanying statutory basis statements of Maine Employers' Mutual Insurance Company ("the Company"), which comprise the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2015, and the related statutory statements of income and changes in capital and surplus, and cash flows for the year then ended and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the Maine Bureau of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these statutory basis financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Maine Bureau of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***2015 Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2015, or the results of its operations or its cash flows for the year then ended.

***2015 Opinion on Regulatory Basis of Accounting***

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company as of December 31, 2015, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 2.

***Other Matter – 2014 Financial Statements***

The statutory basis financial statements of the Company as of and for the year ended December 31, 2014, were audited by another auditor, who on March 20, 2015, expressed an adverse opinion on those statements on U.S. Generally Accepted Accounting Principles and an unmodified opinion on those statements on the basis of accounting described in Note 2.

***Other Matter - Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Summary Investment Schedule and Supplemental Investment Risks Interrogatories of the Company as of December 31, 2015 and for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements, but are supplementary information required by the Maine Bureau of Insurance. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "Johnson Lambert LLP". The signature is written in black ink and is positioned in the lower-left quadrant of the page.

Atlanta, Georgia

March 25, 2016

**Maine Employers' Mutual Insurance Company**  
**Statements of Admitted Assets, Liabilities and Capital and Surplus**  
**(Statutory Basis)**  
**December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Admitted Assets</b>		
Invested assets		
Bonds, at carrying value (NAIC fair value: \$477,829,909 and \$481,277,586 at December 31, 2015 and 2014, respectively)	\$ 462,927,310	\$ 457,618,093
Common stocks, at NAIC fair value (cost: \$70,186,784 and \$64,247,258 at December 31, 2015 and 2014, respectively)	118,215,984	117,920,075
Common stocks of affiliates	144,453,856	140,496,615
Other invested assets	34,322,187	32,510,372
Cash and short-term investments	<u>13,393,080</u>	<u>12,783,503</u>
Total cash and invested assets	773,312,417	761,328,658
Premium balances receivable	48,643,505	45,384,935
Investment income due and accrued	4,387,762	4,477,917
EDP equipment (net of accumulated depreciation of \$4,286,039 and \$3,930,874 in 2015 and 2014, respectively)	1,630,096	757,640
Reinsurance recoverable on paid loss and loss adjustment expenses	580,619	761,154
Federal income tax recoverable	7,179,874	5,639,115
Net deferred income taxes	12,883,749	11,427,134
Due from affiliates	<u>2,211,026</u>	<u>655,979</u>
Total admitted assets	<u>\$ 850,829,048</u>	<u>\$ 830,432,532</u>
<b>Liabilities</b>		
Loss reserves	\$ 304,131,102	\$ 293,646,012
Loss adjustment expense reserves	44,044,489	41,241,516
Unearned premium reserves	70,603,461	65,822,466
Reinsurance premiums payable	1,098,104	777,035
Commissions payable	7,236,628	5,491,871
Advance premium	1,622,915	1,424,820
Premium taxes and assessments payable	2,040,829	1,768,217
Amounts withheld for others	1,797,434	2,189,147
Other liabilities	<u>24,894,769</u>	<u>24,213,043</u>
Total liabilities	<u>457,469,731</u>	<u>436,574,127</u>
Commitments and contingencies (Note 13)		
<b>Capital and Surplus</b>		
Capital contributions	3,180,808	3,180,808
Deferred gain	1,422,712	2,018,100
Unassigned surplus	<u>388,755,797</u>	<u>388,659,497</u>
Total capital and surplus	<u>393,359,317</u>	<u>393,858,405</u>
Total liabilities and capital and surplus	<u>\$ 850,829,048</u>	<u>\$ 830,432,532</u>

The accompanying notes are an integral part of these financial statements.

**Maine Employers' Mutual Insurance Company**  
**Statements of Income**  
**(Statutory Basis)**  
**Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Underwriting income</b>		
Premiums earned, net	\$ 143,667,494	\$ 139,421,100
<b>Loss and underwriting expenses</b>		
Losses incurred, net	90,735,331	84,584,947
Loss adjustment expenses incurred, net	16,648,837	18,423,162
<b>Underwriting expenses</b>		
Commissions	11,982,903	10,053,008
Premium taxes	2,710,906	2,504,293
Guarantee fund, rating bureau and other assessments	1,324,895	1,352,471
Supervision, acquisition and collection expense	7,779,112	10,166,200
Loss control expenses	3,659,028	4,200,868
General expenses	3,186,304	2,895,623
Total underwriting expenses	<u>30,643,148</u>	<u>31,172,463</u>
Total loss and underwriting expenses	<u>138,027,316</u>	<u>134,180,572</u>
Net underwriting income	<u>5,640,178</u>	<u>5,240,528</u>
<b>Investment income</b>		
Net investment income	19,069,241	19,307,149
Net realized capital gains less capital gains tax of \$1,420,336 and \$3,464,974, respectively	3,629,067	10,149,014
Total investment income	<u>22,698,308</u>	<u>29,456,163</u>
<b>Other income (expense)</b>		
Bad debt expense	(39,133)	(103,266)
Service fee income	186,384	193,150
Other expense	-	(5,000)
Net other income	<u>147,251</u>	<u>84,884</u>
Income before dividends and federal income taxes	28,485,737	34,781,575
Dividends to policyholders	18,000,000	18,006,331
Income after dividends, before federal income taxes	10,485,737	16,775,244
Provision for federal income taxes	(585,749)	(1,543,402)
Net income	<u>\$ 11,071,486</u>	<u>\$ 18,318,646</u>

The accompanying notes are an integral part of these financial statements.

**Maine Employers' Mutual Insurance Company**  
**Statements of Changes in Capital and Surplus**  
**(Statutory Basis)**  
**Years Ended December 31, 2015 and 2014**

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	<u>2015</u>	<u>2014</u>
<b>Capital and surplus at beginning of year</b>	\$ 393,858,405	\$ 370,882,332
Capital contributions returned	-	(777)
Net income	11,071,486	18,318,646
Decrease in net deferred income taxes	(1,580,179)	(1,351,431)
Increase in nonadmitted assets	(4,945,064)	(1,903,306)
(Decrease) increase in deferred gain on capital contributions	(595,388)	56,979
(Decrease) increase in net unrealized appreciation of invested assets (net of deferred taxes of \$(3,036,794) and \$194,622 at December 31, 2015 and 2014, respectively)	(4,449,943)	7,855,962
Change in capital and surplus	<u>(499,088)</u>	<u>22,976,073</u>
<b>Capital and surplus at end of year</b>	<u>\$ 393,359,317</u>	<u>\$ 393,858,405</u>

The accompanying notes are an integral part of these financial statements.

**Maine Employers' Mutual Insurance Company**  
**Statements of Cash Flows**  
**(Statutory Basis)**  
**Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash from operations</b>		
Premiums collected, net	\$ 145,244,435	\$ 139,142,387
Investment income received, net	20,662,547	21,383,126
Other income	147,251	84,885
Cash provided from operations	<u>166,054,233</u>	<u>160,610,398</u>
Benefit and loss related payments	(80,069,706)	(80,905,300)
Commissions and expenses paid	(42,129,443)	(45,944,811)
Dividends paid to policyholders	(17,999,961)	(18,006,331)
Federal income taxes recovered	<u>(2,375,346)</u>	<u>(4,218,813)</u>
Cash used in operations	<u>(142,574,456)</u>	<u>(149,075,255)</u>
Net cash provided from operations	<u>23,479,777</u>	<u>11,535,143</u>
<b>Cash from investing activities</b>		
Proceeds from investments sold, matured or repaid		
Bonds	109,888,270	69,375,192
Common and preferred stocks	<u>17,645,156</u>	<u>29,681,567</u>
Total investment proceeds	<u>127,533,426</u>	<u>99,056,759</u>
Costs of investments acquired		
Bonds	(116,000,487)	(87,024,482)
Common and preferred stocks	(26,107,087)	(20,630,403)
Other invested assets	<u>(1,000,000)</u>	<u>(3,712,233)</u>
Total cost of investments acquired	<u>(143,107,574)</u>	<u>(111,367,118)</u>
Net cash used in investments	<u>(15,574,148)</u>	<u>(12,310,359)</u>
<b>Cash from financing and miscellaneous sources</b>		
Capital contributions returned	-	(777)
Other (uses) sources	<u>(7,296,052)</u>	<u>1,118,058</u>
Net cash (used in) provided from financing and miscellaneous sources	<u>(7,296,052)</u>	<u>1,117,281</u>
Net change in cash	609,577	342,065
<b>Cash and short-term investments</b>		
Beginning of year	<u>12,783,503</u>	<u>12,441,438</u>
End of year	<u>\$ 13,393,080</u>	<u>\$ 12,783,503</u>
<b>Noncash transaction</b>		
Contribution of bonds	<u>\$ -</u>	<u>\$ (13,818,544)</u>
Contribution of property	<u>\$ -</u>	<u>\$ (3,712,233)</u>

The accompanying notes are an integral part of these financial statements.



# Maine Employers' Mutual Insurance Company

## Notes to Financial Statements

### (Statutory Basis)

#### December 31, 2015 and 2014

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#### 1. Organization

Maine Employers' Mutual Insurance Company (the "Company") was established through a legislative action by the State of Maine on November 13, 1992 and commenced business effective January 1, 1993. The Company was established to replace the State of Maine Workers' Compensation Residual Market Pool. The Company is a mutual insurance company and is not a state agency or instrument of the State of Maine for any purpose. The Company is the parent of the MEMIC Group which comprises the following legal entities: MEMIC Indemnity Company ("MEMIC Indemnity"), a 100% owned property and casualty insurance subsidiary domiciled in New Hampshire, MEMIC Casualty Company ("MEMIC Casualty"), a 100% owned property and casualty insurance company domiciled in New Hampshire, MEMIC Services, Inc ("MEMIC Services"), a 100% owned non-insurance subsidiary which provides agency services to the MEMIC Group and Casco View Holdings, LLC ("CVH"), a 100% owned non-insurance limited liability company formed for the management and ownership of current and future investments in real estate for the Company, who is the single member.

The Company is licensed in fifteen states and writes workers' compensation insurance and employers' liability insurance incidental to and written in connection with workers' compensation coverage for employers in twelve states. The Company writes its business primarily through independent agents and brokers. Approximately 95% of premium written during 2015 was for Maine workers' compensation and employment practices liability insurance policies.

In 1996, the Company obtained approval from the Maine Bureau of Insurance (the "Insurance Department") and established a wholly-owned subsidiary, MEMIC Services, which provided agency services during 2015 and 2014.

In 1999, the Company obtained approval from the New Hampshire Insurance Department to form a subsidiary, MEMIC Indemnity to write workers' compensation insurance in New Hampshire. The Company is the sole shareholder for MEMIC Indemnity. MEMIC Indemnity commenced writing business September 1, 2000 and is licensed to write workers' compensation and or employers' liability insurance in 50 states and the District of Columbia with approximately 86% of premium written in the States of Connecticut, Florida, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Vermont and Virginia. In 2000, the Company capitalized MEMIC Indemnity with a \$12,000,000 investment and supplemented its original investment by contributing an additional \$72,000,000 between 2001 and 2013. An additional \$6,000,000 and \$14,000,000 was contributed during 2015 and 2014, respectively. The \$6,000,000 during 2015 was a cash contribution. The \$14,000,000 capital contribution to MEMIC Indemnity, noted as a change in common stock, include a \$13,848,544 non-cash contribution of bonds along with \$181,456 in cash during 2014. As a result of the contribution of the fixed income securities at fair value, the Company recognized a deferred gain in surplus since the realized component of the difference between the fair value and book/adjusted carrying value as of the date of transfer cannot be recognized under SSAP No. 25 until the transferred securities mature or are sold by MEMIC Indemnity. A portion of this deferred gain remains on the statements of admitted assets, liabilities and capital and surplus as deferred gain as of December 31, 2015 and 2014. To date, the Company has contributed \$104,000,000 to MEMIC Indemnity.

During 2007, the Company obtained approval from the Insurance Department to write employment practices liability insurance ("EPLI") for State of Maine policies only. The Company commenced writing policies for this line of business in 2008.

# Maine Employers' Mutual Insurance Company

## Notes to Financial Statements (Statutory Basis)

### December 31, 2015 and 2014

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On October 19, 2009, the Company formed Casco View Holdings, LLC, ("CVH"), a Maine limited liability company for the management and ownership of current and future investments in real estate. On January 4, 2010, the Company transferred its entire interest in the property located at 245-253 Commercial Street, Portland, Maine, which comprises certain income producing property along with a capital contribution of \$500,000 and related tenant security deposits of \$86,485 to CVH. As consideration for the said transfer of real estate, the Company received all of the membership interests in CVH. On March 1, 2011, the Company invested an additional \$5,100,000 in CVH. CVH invested 100% of the \$5,100,000 in its wholly owned subsidiary, Casco View Holdings II, LLC ("CVHII") for the purchase of the home office building of the Company which had previously been under a long-term lease with an unrelated party. On November 18, 2013, the Company invested an additional \$2,500,000 in CVH by contributing property located in Portland, Maine valued at \$2,106,778 and \$393,222 in cash. CVH invested 100% of the \$2,500,000 in a new wholly owned subsidiary, Casco View Holdings III, LLC ("CVHIII"). During 2014, the Company invested an additional \$3,712,233 in CVH by contributing another commercial real estate property located in Portland, Maine, of which CVH invested the entire contribution into CVHIII. On October 14, 2015, the Company invested an additional \$1,000,000 in CVH for the sole benefit of investing in CVHIII. CVHIII used this additional capital contribution to service, in part, a mortgage note to a local bank whose principal balance was due in full in October 2015. To date, the Company has invested \$18,106,501 in CVH, CVHII and CVHIII. The Company records its membership interests in CVH, CVHII and CVHIII in other invested assets.

The Company owns 100% of the common stock of MEMIC Casualty, a property/casualty insurance company domiciled in New Hampshire. MEMIC Casualty changed its state of domicile from Vermont to New Hampshire effective January 1, 2015. The Vermont Department of Financial Regulation, acting as rehabilitator, converted the former Granite Manufacturers' Mutual Indemnity Company ("GMMIC") to a stock company and on December 12, 2011 the Company purchased GMMIC. In conjunction with the transaction, GMMIC was renamed to MEMIC Casualty Company. There are no outstanding liabilities associated with this former incorporation. MEMIC Casualty is licensed to write workers' compensation insurance in Florida, Maryland, New Hampshire, New York, North Carolina, Pennsylvania, South Carolina, Vermont and Virginia and commenced writing policies in May 2012. The Company contributed capital of \$4,622,576 and a \$561,375 bond towards its original investment in MEMIC Casualty during 2011. In December 2013, the Company contributed additional capital of \$4,000,000 in fixed income securities and cash noted as a change in common stock. The \$4,000,000 capital contribution to MEMIC Casualty includes a \$3,849,683 non-cash contribution of bonds and \$150,317 cash in 2013. As a result of the 2013 contribution of the fixed income securities at fair value, the Company recognized a deferred gain in surplus since the realized component of the difference between the fair value and book/adjusted carrying value as of the date of transfer cannot be recognized under SSAP No. 25 until the transferred securities mature or are sold by MEMIC Casualty. A portion of this deferred gain remains on the statements of admitted assets, liabilities and capital and surplus as deferred gain as of December 31, 2015 and 2014. To date, the Company has contributed \$19,183,951 to MEMIC Casualty.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The financial statements of the Company are prepared in conformity with statutory accounting practices of the National Association of Insurance Commissioners ("NAIC") as prescribed or permitted by the Maine Bureau of Insurance ("statutory accounting").

The Maine Bureau of Insurance recognizes only statutory accounting practices prescribed or permitted by the State of Maine for determining and reporting the financial condition and results of

# Maine Employers' Mutual Insurance Company

## Notes to Financial Statements (Statutory Basis)

### December 31, 2015 and 2014

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operations of an insurance company and for determining its solvency under the Maine Insurance Laws. The NAIC Accounting Practices and Procedures Manual ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of Maine. Prescribed Maine Laws can and do deviate from NAIC SAP and, further, the Commissioner of Insurance has the right to permit other specific practices which deviate from prescribed practices.

Statutory accounting practices differ in certain respects from accounting principles generally accepted in the United States of America ("GAAP"). The effects of such differences on the accompanying financial statements, which could be significant, have not been determined. The most significant differences generally include the following:

- a. Statutory accounting requires that policy acquisition costs such as commissions, premium taxes and other items be charged to current operations as incurred. Under GAAP, policy acquisition costs would be deferred and then amortized ratably over the periods covered by the policies;
- b. The statutory provision for federal income taxes represents estimated amounts currently payable based on taxable income or loss reported in the current accounting period. Deferred income taxes are provided in accordance with SSAP 101, "Income Taxes, A Replacement of SSAP No 10R and SSAP No. 10" ("SSAP 101") and changes in deferred income taxes are recorded through surplus. The realization of any resulting deferred tax asset ("DTAs") is limited based on certain criteria in accordance with SSAP 101. The GAAP provision would include a provision for taxes currently payable, as well as deferred taxes, both of which would be recorded in the statements of income;
- c. Under statutory accounting, certain assets designated as "nonadmitted assets" (principally premiums receivable over 90 days past due, deferred income taxes, prepaid assets, miscellaneous receivables and office furniture and equipment) are charged directly to unassigned surplus. GAAP would require the Company to maintain a reserve for doubtful accounts based on amounts deemed to be uncollectible. Office furniture and equipment would be capitalized and depreciated over the estimated useful lives;
- d. Statutory results of MEMIC Indemnity and MEMIC Casualty are reflected on the statutory equity method. The investment in MEMIC Services is accounted for under GAAP equity adjusted to a statutory basis which results in a net liability on the Company's statements of admitted assets, liabilities, capital and surplus. Adjustments include nonadmitted DTAs, receivables over 90 days past due and furniture and equipment. The results of operations of these subsidiaries are recorded directly in unassigned surplus. Under GAAP, the subsidiary would be consolidated and such amounts would be reported in the financial statements on a consolidated basis;
- e. Under statutory accounting, investments in debt securities are generally carried at amortized cost. Under GAAP, debt securities classified as trading or available-for-sale are valued at fair value, and debt securities classified as held-to-maturity are valued at amortized cost;
- f. Reinsurance balances relating to unpaid loss and loss adjustment expenses are presented as offsets to reserves; under GAAP, such amounts would be presented as reinsurance recoverable; moreover, under statutory accounting, a liability is established for recoverable balances from reinsurers which are not authorized and for overdue paid loss recoverables;

# Maine Employers' Mutual Insurance Company

## Notes to Financial Statements (Statutory Basis)

### December 31, 2015 and 2014

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- g. Under GAAP, the inclusion of a statement of comprehensive income, detailing the income effects of unrealized gains and losses, foreign exchange transactions, and pension liability adjustments is required;
- h. For statutory cash flow purposes, included as cash and cash equivalents are short-term investments which mature within one year as opposed to three months;
- i. A reconciliation of cash flows to the indirect method is not provided under statutory accounting.

#### **Management Estimates**

The preparation of financial statements in conformity with statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Cash and Invested Assets**

Invested assets are valued in accordance with the statutory basis of valuation prescribed by the NAIC. Cash includes cash, cash equivalents and short-term mutual fund investments, which are short-term investments which mature within one year; the carrying value of these investments approximate fair value.

Investment grade non-loan-backed bonds with NAIC designation 1 or 2 are stated at amortized value using the interest method. Non-investment grade non-loan-backed bonds with NAIC designations of 3 through 6 are stated at the lower of amortized value or fair value. U.S. government agency loan-backed and structured securities are valued at amortized value. Other loan-backed and structured securities are valued at either amortized value or fair value, depending on many factors including: the type of underlying collateral, whether modeled by an NAIC vendor, whether rated (by either NAIC approved rating organization or NAIC Securities Valuation Office), and relationship of amortized value to par value and amortized value to fair value. The Company utilizes the prospective adjustment methodology to value mortgage-backed bonds. Credit related declines in the fair value of loan-backed or structured securities are to be reflected as a realized loss in the income statement. Refer to Note 17 for the Company's evaluation of SSAP 43R on these financial statements.

Unaffiliated common and preferred stocks are generally stated at the fair value. The fair values of common and preferred stocks are based on quoted market prices in active markets. Where declines in the value of marketable securities are deemed other-than-temporary, the loss is reported as a component of net realized capital gains (losses). The net unrealized gains and losses on these marketable securities, after deductions of applicable deferred income taxes, are credited or charged directly to policyholders' surplus.

Other invested assets consist of actively traded mutual funds, nonmarketable alternative equity investments and an investment in a wholly owned real estate subsidiary, CVH. The fair values of the mutual funds are based on quoted market prices in active markets. Nonmarketable alternative equity investments consist of venture capital funds that are also included in other invested assets and are carried at fair value based upon the Company's proportionate interest in the underlying fund's net asset value, which is deemed to approximate fair value. The current carrying value of this fund is zero. The investments are not publicly traded and, accordingly, quoted market prices are not available. The investment in CVH is measured on the equity basis under GAAP.

# Maine Employers' Mutual Insurance Company

## Notes to Financial Statements (Statutory Basis)

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The investment in the affiliate MEMIC Indemnity is stated at the net asset value of the affiliate determined on a statutory basis excluding surplus notes issued (Note 10) and the investment in the affiliate MEMIC Casualty is stated at the net asset value of the affiliate determined on a statutory basis. Changes in net asset value of these affiliates are charged or credited directly to unassigned surplus.

Investment income is recorded on an accrual basis. Realized capital gains and losses are reported, net of tax, in operating results based on the specific identification of investments sold. Unrealized capital gains and losses from the valuation of investments at fair value are credited or charged directly to unassigned surplus, net of federal income taxes, unless determined to be other-than-temporary and included as a component of net realized capital gains and losses. Specific impairments are determined based on a continual review of investment portfolio valuations.

#### **Premiums and Unearned Premium Reserves**

Direct and assumed premiums, net of amounts ceded to other insurance companies, are earned on a monthly pro rata basis over the in force period and ceded premiums are written and earned concurrently for the workers' compensation line of business. Ceded premiums for employment practices liability insurance are earned on a monthly pro rata basis over the inforce period. Accordingly, unearned premium reserves are established for the pro rata portion of direct and assumed premiums written for workers' compensation and employment practices liability insurance direct and ceded premium which are applicable to the unexpired terms of the policies in force, net of reinsurance. Premium adjustments resulting from retrospective rating plans and/or audits are immediately recorded as written and earned premiums once such amounts can be reasonably estimated. When the anticipated losses, loss adjustment expenses, commissions, and other acquisition and maintenance costs exceed the recorded unearned premium reserve, and any future installment premiums on existing policies, a premium deficiency reserve should be recognized by recording an additional liability for the deficiency, with a corresponding charge to operations. The Company does not anticipate investment income when evaluating the need for any premium deficiency reserve.

#### **Equities and Deposits in Pools**

The Company is required to participate in involuntary pools in several states where it writes workers' compensation business. The Company participates in underwriting results, including premiums, losses, expenses and other operations of involuntary pools, based on the Company's proportionate share of similar business written in the state. The National Council on Compensation Insurance, ("NCCI"), services the majority of the states where the Company participates in involuntary pools. The loss reserves that are reported to NCCI by the servicing carriers are gross of loss discounting. By application of incurred loss development and tail development factors, any discount included in the case reserves reported by servicing carriers is factored out (or unwound). NCCI also provides each participating company with an estimate of its share of discounted liabilities. The discounting assumptions include a 3.5% discount rate for incurred but not reported loss and loss adjustment expense reserves and the mortality table used is the 2007 U.S. Life Table. Underwriting results are accounted for on a gross basis whereby the Company's portion of premiums, losses, expenses and other operations of the pool are recorded separately in the financial statements rather than netted against each other. Premiums receivable on involuntary pool business are recorded in premium balances receivable on the statements of admitted assets, liabilities and capital and surplus.

**Maine Employers' Mutual Insurance Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
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**Loss and Loss Adjustment Expense Reserves**

Losses and loss adjustment expenses are recorded as incurred so as to match such costs with premiums over the contract periods. Loss reserves are established for losses and loss adjustment expenses based upon claim evaluations and include an estimated provision for both reported and unreported claims incurred and related expenses. The assumptions used in determining loss and loss adjustment expense reserves have been developed after considering the experience of the Company, industry experience and projections by independent actuaries. The ultimate loss and loss adjustment expense reserves may vary from the amounts reflected in the accompanying financial statements. The methods utilized in estimating and establishing the reserves are continually reviewed and updated and any adjustments are reflected in current operating results. Allowances for subrogation recoveries are included in the Company's estimate of loss reserves. See the summary of reserve development in Note 6.

**Nonadmitted Assets**

The following nonadmitted assets were excluded from the statements of admitted assets, liabilities and capital and surplus as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Premium balances receivable over 90 days past due	\$ 1,653,754	\$ 1,185,522
Intercompany receivable	445,180	544,979
Fixed assets, net of accumulated depreciation	8,337,399	3,552,755
Prepays and other assets	<u>1,289,419</u>	<u>1,497,432</u>
Total nonadmitted assets	<u>\$ 11,725,752</u>	<u>\$ 6,780,688</u>

Depreciation expense on nonadmitted fixed assets was \$525,492 and \$398,056 in 2015 and 2014, respectively.

**Federal Income Taxes**

The Company files a consolidated tax return with MEMIC Indemnity, MEMIC Casualty, MEMIC Services, and CVH. Under this "tax sharing" agreement, the provision for federal income taxes is recorded based upon amounts expected to be reported as if the Company filed a separate federal income tax return. Additionally, under this agreement, the Company will be reimbursed for the utilization of tax operating losses, tax credits and capital loss carryforwards to the extent the Companies would have utilized these tax attributes on a separate return basis.

The provision for federal income taxes includes amounts currently payable or recoverable and deferred income taxes, computed under the asset/liability method, which results from temporary differences between the tax basis and book basis of assets and liabilities. SSAP No. 101, "Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10" outlines the statutory accounting principles for current and deferred federal and foreign income taxes and current state income taxes. SSAP No. 101, (1) restricts the ability to use the 3 years/15 percent of surplus admission rule to those entities that meet a new modified risk based capital ratio threshold; (2) outlines the recognition threshold for recording tax contingency reserves from a probable liability standard to a more-likely-than-not liability standard; (3) requires the disclosure of tax planning strategies that relate to reinsurance; and, (4) requires consideration of reversal patterns of DTAs and deferred tax liabilities ("DTLs") in determining the extent to which DTLs could offset DTAs on the statements of admitted assets, liabilities and capital and surplus.

# Maine Employers' Mutual Insurance Company

## Notes to Financial Statements (Statutory Basis)

### December 31, 2015 and 2014

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The Company files federal income tax returns and therefore the disclosures required by ASC 740, *Accounting for Uncertain Tax Positions*, pursuant to uncertain tax positions are included in these statutory financial statements. Refer to Note 5 - Income Taxes.

#### **EDP Equipment**

EDP equipment is stated at cost, net of accumulated depreciation. Depreciation is computed principally using the straight-line method based on the estimated useful lives of assets, which is generally three to five years. Depreciation expense for the years ended December 31, 2015 and 2014 was \$374,416 and \$403,319, respectively. Expenditures for maintenance and repairs relating to EDP equipment and certain fixed assets which are nonadmitted are charged to expense as incurred. When property is sold or retired, the cost of the property and the related accumulated depreciation are removed from the statement of admitted assets, liabilities and capital and surplus and any gain or loss on the transaction is reflected in current operating results.

#### **Reclassifications**

Certain prior year amounts have been reclassified to conform to current year presentation.

### **3. Capital Contributions and Surplus Restrictions**

As authorized by specific provisions of Maine state law, the Company was established as a special purpose workers' compensation insurer without any initial capital or surplus. To provide capital, the Company's policyholders were required to make capital contributions based upon a percentage of their final audited premiums for policies with effective dates prior to January 1, 1996. Capital contributions were based on the estimated annual premium and are subsequently adjusted, as necessary, based upon cancellations and premium audits. In 1998, the Company received approval from the Insurance Department to return capital contributions to the extent authorized by the Board of Directors and the Insurance Department. The Company returned \$0 and \$777, of capital contributions in 2015 and 2014, respectively, net of related write-offs. Cumulative capital contributions remaining are \$3,180,808 as of December 31, 2015 and 2014.

There are no advances to surplus not repaid or other surplus restrictions other than the capital contribution portion of surplus discussed above, dividend restrictions discussed in Note 4 or statutory deposits in Note 9.

### **4. Dividend Restrictions**

The Company is subject to regulatory limitations with respect to statutory surplus levels and dividends. Under these regulations, annual dividends cannot exceed the greater of 10% of the insurer's surplus as of the prior year end or the net gain from operations for the twelve month period ended in the prior year. The maximum amount of dividends which can be paid by the Company to policyholders without prior approval of the Superintendent of Insurance during 2015 and 2014 was \$39,385,841 and \$37,088,233, respectively. Dividends to policyholders amounted to \$18,000,000 and \$18,006,331 in 2015 and 2014, respectively. The 100% participating mutual dividend declared during 2015 of \$18,000,000 was based on policy year 2012 for eligible policyholders.

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**5. Income Taxes**

The components of the net deferred tax asset / (liability) at December 31 are as follows:

	<b>December 31, 2015</b>		
	<b>1</b>	<b>2</b>	<b>3</b>
	<b>Ordinary</b>	<b>Capital</b>	<b>(Col 1+2) Total</b>
a. Gross deferred tax assets	\$ 27,000,082	\$ 2,461,989	\$ 29,462,071
b. Statutory valuation allowance adjustment	-	-	-
c. Adjusted gross deferred taxes (1a - 1b)	27,000,082	2,461,989	29,462,071
d. Deferred tax assets nonadmitted	-	-	-
e. Subtotal net admitted deferred tax asset (1c - 1d)	27,000,082	2,461,989	29,462,071
f. Deferred tax liabilities	864,506	15,713,816	16,578,322
g. Net admitted deferred tax assets/(net deferred tax liability) (1e - 1f)	<u>\$ 26,135,576</u>	<u>\$ (13,251,827)</u>	<u>\$ 12,883,749</u>
	<b>December 31, 2014</b>		
	<b>4</b>	<b>5</b>	<b>6</b>
	<b>Ordinary</b>	<b>Capital</b>	<b>(Col 4+5) Total</b>
a. Gross deferred tax assets	\$ 27,927,688	\$ 2,874,456	\$ 30,802,144
b. Statutory valuation allowance adjustment	-	-	-
c. Adjusted gross deferred taxes (1a - 1b)	27,927,688	2,874,456	30,802,144
d. Deferred tax assets nonadmitted	-	-	-
e. Subtotal net admitted deferred tax asset (1c - 1d)	27,927,688	2,874,456	30,802,144
f. Deferred tax liabilities	589,524	18,785,486	19,375,010
g. Net admitted deferred tax assets/(net deferred tax liability) (1e - 1f)	<u>\$ 27,338,164</u>	<u>\$ (15,911,030)</u>	<u>\$ 11,427,134</u>
	<b>Change</b>		
	<b>7</b>	<b>8</b>	<b>9</b>
	<b>(Col 1-4) Ordinary</b>	<b>(Col 2-5) Capital</b>	<b>(Col 7+8) Total</b>
a. Gross deferred tax assets	\$ (927,606)	\$ (412,467)	\$ (1,340,073)
b. Statutory valuation allowance adjustment	-	-	-
c. Adjusted gross deferred taxes (1a - 1b)	(927,606)	(412,467)	(1,340,073)
d. Deferred tax assets nonadmitted	-	-	-
e. Subtotal net admitted deferred tax asset (1c - 1d)	(927,606)	(412,467)	(1,340,073)
f. Deferred tax liabilities	274,982	(3,071,670)	(2,796,688)
g. Net admitted deferred tax assets/(net deferred tax liability) (1e - 1f)	<u>\$ (1,202,588)</u>	<u>\$ 2,659,203</u>	<u>\$ 1,456,615</u>



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**Admission calculation components:**

	December 31, 2015		
	1	2	3
	Ordinary	Capital	(Col 1+2) Total
a. Federal income taxes paid in prior years recoverable through loss carrybacks	\$ 2,117,113	\$ -	\$ 2,117,113
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation. (The lesser of 2(b)1 and 2(b)2 below:	15,101,200	-	15,101,200
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	15,101,200	-	15,101,200
2. Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	-
c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) & 2(b) above) offset by gross deferred tax liabilities	9,165,657	3,078,101	12,243,758
d. Deferred tax assets admitted as the result of application of SSAP 101 Total 2(a)+2(b)+2(c)	<u>\$ 26,383,970</u>	<u>\$ 3,078,101</u>	<u>\$ 29,462,071</u>
	December 31, 2014		
	4	5	6
	Ordinary	Capital	(Col 4+5) Total
a. Federal income taxes paid in prior years recoverable through loss carrybacks	\$ -	\$ 1,010,622	\$ 1,010,622
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation. (The lesser of 2(b)1 and 2(b)2 below:	14,393,383	-	14,393,383
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	14,393,383	-	14,393,383
2. Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	17,558,758
c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) & 2(b) above) offset by gross deferred tax liabilities	13,534,305	1,863,834	15,398,139
d. Deferred tax assets admitted as the result of application of SSAP 101 Total 2(a)+2(b)+2(c)	<u>\$ 27,927,688</u>	<u>\$ 2,874,456</u>	<u>\$ 30,802,144</u>
	Change		
	Ordinary	Capital	Total
a. Federal income taxes paid in prior years recoverable through loss carrybacks	\$ 2,117,113	\$ (1,010,622)	\$ 1,106,491
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation. (The lesser of 2(b)1 and 2(b)2 below:	707,817	-	707,817
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	707,817	-	707,817
2. Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	17,558,758
c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) & 2(b) above) offset by gross deferred tax liabilities	(4,368,648)	1,214,267	(3,154,381)
d. Deferred tax assets admitted as the result of application of SSAP 101 Total 2(a)+2(b)+2(c)	<u>\$ (1,543,718)</u>	<u>\$ 203,645</u>	<u>\$ (1,340,073)</u>

**Maine Employers' Mutual Insurance Company**  
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**Other admissibility criteria:**

	<u>2015</u>	<u>2014</u>
a. Ratio percentage used to determine recovery period and threshold limitation amount	1016%	1126%
b. Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)2 above	\$378,845,472	\$ 381,673,631

**Impact on tax planning strategies:**

	<u>2015</u>		<u>2014</u>		<u>Change</u>	
	1	2	3	4	5	6
	<u>Ordinary</u>	<u>Capital</u>	<u>Ordinary</u>	<u>Capital</u>	<u>(Col. 1-3)</u>	<u>(Col. 2-4)</u>
					<u>Ordinary</u>	<u>Capital</u>
a. Determination of adjusted gross DTAs and net admitted DTAs, by tax character, as a percentage.						
1. Adjusted gross DTAs amount from Note 5A1(c).	27,000,082	2,461,989	27,927,688	2,874,456	(927,606)	(412,467)
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies	0.0%	15.7%	0.0%	17.4%	0.0%	-1.7%
3. Net Admitted Adjusted Gross DTAs amount from Note 5A1(e)	27,000,082	2,461,989	27,927,688	2,874,456	(927,606)	(412,467)
4. Percentage of net admitted adjusted from DTAs by tax character admitted because of the impact of tax planning strategies	0.0%	15.7%	0.0%	17.4%	0.0%	-1.7%
b. Does the company's tax planning strategies include the use of reinsurance?					Yes [ ]	No [ X ]

**Current and deferred income taxes**

**Current income taxes:**

	<u>2015</u>	<u>2014</u>	<u>Change</u>
a. Federal	\$ (979,294)	\$ (1,233,045)	\$ 253,751
b. Provision to return	(170,001)	(310,357)	140,356
c. Additional tax - 2012 amended in current year	563,546	-	563,546
e. Subtotal	(585,749)	(1,543,402)	957,653
f. Federal income tax on net capital gains	1,420,336	3,464,974	(2,044,638)
i. Federal and foreign income taxes incurred	\$ 834,587	\$ 1,921,572	\$ (1,086,985)

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**Deferred Tax Assets**

	<u>2015</u>	<u>2014</u>	<u>Change</u>
a. Ordinary:			
Discounting of unpaid losses	\$ 14,391,904	\$ 15,329,274	\$ (937,370)
Unearned premium reserves	4,911,394	4,707,310	204,084
Compensation and benefits accrual	6,559,723	6,398,965	160,758
Other (including items < 5% of total ordinary tax assets)	1,137,061	1,492,139	(355,078)
Subtotal	<u>27,000,082</u>	<u>27,927,688</u>	<u>(927,606)</u>
b. Statutory Valuation allowance adjustment	-	-	-
c. Nonadmitted	-	-	-
d. Admitted ordinary deferred tax assets (2a99-2b-2c)	<u>27,000,082</u>	<u>27,927,688</u>	<u>(927,606)</u>
e. Capital:			
Investments	2,461,989	2,874,456	(412,467)
Subtotal	<u>2,461,989</u>	<u>2,874,456</u>	<u>(412,467)</u>
f. Statutory Valuation allowance adjustment	-	-	-
g. Nonadmitted	-	-	-
h. Admitted capital deferred tax assets (2e99-2f-2g)	<u>2,461,989</u>	<u>2,874,456</u>	<u>(412,467)</u>
i. Admitted deferred tax assets (2d+2h)	<u>\$ 29,462,071</u>	<u>\$ 30,802,144</u>	<u>\$ (1,340,073)</u>

**Deferred Tax Liabilities**

a. Ordinary:			
Investments	\$ 418,971	\$ 382,374	\$ 36,597
Fixed Assets	445,535	207,150	238,385
Subtotal	<u>864,506</u>	<u>589,524</u>	<u>274,982</u>
b. Capital:			
Investments	15,713,816	18,785,486	(3,071,670)
Subtotal	<u>15,713,816</u>	<u>18,785,486</u>	<u>(3,071,670)</u>
c. Deferred tax liabilities (3a99+3b99)	<u>\$ 16,578,322</u>	<u>\$ 19,375,010</u>	<u>\$ (2,796,688)</u>
Net Deferred Tax Assets/Liabilities (2i-3c)	<u>\$ 12,883,749</u>	<u>\$ 11,427,134</u>	<u>\$ 1,456,615</u>

**Change in net deferred income taxes**

	<u>2015</u>	<u>2014</u>	<u>Change</u>
a. Adjusted gross deferred tax assets	\$ 29,462,071	\$ 30,802,144	\$ (1,340,073)
b. Total deferred tax liabilities	16,578,322	19,375,010	2,796,688
c. Net deferred tax assets (liabilities)	<u>\$ 12,883,749</u>	<u>\$ 11,427,134</u>	<u>\$ 1,456,615</u>
d. Tax effect of change in unrealized gains (losses)			\$ 3,036,794
e. Total change in net deferred income tax			<u>(1,580,179)</u>
			<u>\$ 1,456,615</u>

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There were no deferred tax liabilities that were not recognized.

Reconciliation of Federal Income Tax Rate to Actual Effective Rate:

Among the more significant book to tax adjustments were the following:

	<b>2015</b>	<b>Effective Tax Rate (%)</b>
Provision computed at statutory rate	\$ 4,251,767	34%
Change in nonadmitted assets	(224,858)	-2%
Prior year true-up (to current)	(170,001)	-1%
Rate differential	329,120	3%
Permanent differences	(2,130,247)	-18%
Other	358,985	3%
Totals	<u>\$ 2,414,766</u>	<u>19%</u>
Federal and foreign income taxes incurred	(585,749)	-5%
Realized capital gains (losses) tax	1,420,336	11%
Change in net deferred income taxes	<u>1,580,179</u>	<u>13%</u>
Total statutory income taxes	<u>\$ 2,414,766</u>	<u>19%</u>

As of December 31, 2015 and 2014, the Company does not have any investment tax credits, net operating loss or capital loss carryforwards available to offset against future taxable income. The amount of federal income taxes incurred in the current year and each proceeding year available for recoupment in the event of future net losses is \$278,465 and \$1,838,648 for 2015 and 2014, respectively. There are no deposits admitted under Section 6603 of the Internal Revenue Code.

As of December 31, 2015 and 2014, the Company has no uncertain tax positions requiring disclosure in these financial statements. Had the Company identified such positions, these amounts would be evaluated and disclosed or accrued. Liabilities would be reflected on the statements of admitted assets, liabilities and capital and surplus and the related interest and penalties would be included on the statements of income as underwriting expenses. As of December 31, 2015, the Company incurred AMT of \$0 on a stand-alone basis and consolidated basis.

The Company is included in a consolidated federal income tax return with the following entities:

Casco View Holdings, LLC, a 100% owned noninsurance entity,  
MEMIC Indemnity Company, a 100% owned Property/Casualty insurance subsidiary,  
MEMIC Casualty Company, a 100% owned Property/Casualty insurance subsidiary, and  
MEMIC Services, Inc., a 100% owned insurance services subsidiary.

The Company has a written agreement which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidation. Pursuant to this agreement, the Company has a right to recoup federal income taxes paid in prior years in the event of future net losses, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

The Company does not have any tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date.

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**6. Liabilities for Loss Reserves and Loss Adjustment Expense Reserves**

Activity in the liabilities for loss reserves and loss adjustment expense reserves for the years ended December 31, 2015 and 2014 is summarized as follows:

	<u>2015</u>	<u>2014</u>
<b>Net balances at January 1</b>	<b>\$ 334,887,528</b>	<b>\$ 326,248,848</b>
Incurred related to		
Current year	113,375,523	110,498,230
Prior years	<u>(5,991,355)</u>	<u>(7,490,121)</u>
Total incurred	<u>107,384,168</u>	<u>103,008,109</u>
Paid related to		
Current year	30,188,747	32,278,492
Prior years	<u>63,907,358</u>	<u>62,090,937</u>
Total paid	<u>94,096,105</u>	<u>94,369,429</u>
<b>Net balances at December 31</b>	<b>\$ 348,175,591</b>	<b>\$ 334,887,528</b>

The liabilities for loss and loss adjustment expense reserves are based upon assumptions which consider the experience of the Company, industry experience, and projections by independent actuaries. However, the reserve process is inherently subjective, and the ultimate loss and loss adjustment expense reserves may vary from the amounts recorded in the financial statements. At the end of 2015 and 2014, the amount of reserve credit recorded for high deductibles on unpaid losses was zero and the amounts billed and recoverable for collateralized high deductible policies was also zero.

During 2015, the Company's incurred losses related to prior years decreased by \$5,991,355 as a result of favorable loss development principally in the 2007 and 2012 accident years. This favorable decrease is the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. There was no impact on reserves or surplus as a result of development of retrospectively rated policies.

During 2014, the Company's incurred losses related to prior years decreased by \$7,490,121 as a result of favorable loss development principally in the 2006, 2008 and 2011 accident years. This favorable decrease is the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. There was no impact on reserves or surplus as a result of development of retrospectively rated policies.

**7. Reinsurance**

In 1998, the Company obtained approval from the Bureau to assume business from other insurance carriers through a quota share reinsurance agreement for workers' compensation. This contract was terminated at the end of 2004. This business could only be assumed when the Company wrote a policy for the insured in Maine. The assumed business related to this contract occurred between the 1998 and 2004 policy years.

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There were no loss reserve or loss adjustment expenses incurred during 2015 or 2014, however, loss reserves and loss adjustment expenses outstanding for reinsurance assumed under these contracts are as follows:

	<u>2015</u>	<u>2014</u>
Loss and loss adjustment expense reserves	\$ 1,389,937	\$ 1,446,734

In 2015 and 2014, the Company wrote policies in the States of Connecticut, New Hampshire, Massachusetts, Vermont and Virginia and is therefore required to participate in the National Workers' Compensation Reinsurance pool and the Massachusetts Reinsurance Pool (the "Pools") as it relates to those states. Participation requires that the Company share in the losses and expenses of the Pool. Pool results are accounted for on a gross basis whereby the Company's portion of premium, losses, expenses and other operations of the Pool are recorded separately in the financial statements. The difference between discounted and undiscounted incurred but not reported loss and loss adjustment expense liabilities for NCCI are \$27,441 and \$21,058 for 2015 and 2014, respectively. All amounts are recorded as assumed business. Amounts added to premiums, reserves and expense for reinsurance assumed from pools are as follows:

	<u>2015</u>	<u>2014</u>
Premiums earned	\$ 859,718	\$ 829,930
Loss and loss adjustment expenses incurred	382,334	309,036
Unearned premiums	276,180	252,718
Loss and loss adjustment expense reserves	1,039,571	850,783
Underwriting expenses incurred	205,250	212,776

The Company reinsures portions of risks with other insurance companies through excess of loss reinsurance agreements. Such agreements serve to limit the Company's maximum loss on catastrophes and large losses. To the extent that any reinsurer might be unable to meet its obligations, the Company would be liable for such defaulted amounts.

Under the Company's excess of loss agreement, the Company's net retention for losses on a per occurrence basis is \$5,000,000 for 2015 and 2014 with reinsurance coverage up to \$50,000,000 subject to its net retention. In addition, for 2015 and 2014, the Company maintains additional coverage up to \$100,000,000 on a per occurrence basis.

The Company also has aggregate excess of loss coverage for policies effective 1999 to 2002 whereby the Company can recover losses exceeding 71% of direct workers' compensation premiums earned but not exceeding 86% of direct workers' compensation premiums earned. The Company had an additional aggregate excess of loss coverage for policies effective in 1998 that was commuted during 2015. There was an immaterial loss of \$27,950 during 2015 as a result of this commutation.

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Amounts deducted from premiums, reserves and expenses for reinsurance ceded to other companies for excess of loss workers compensation and employers' liability were as follows:

	<u>2015</u>	<u>2014</u>
Premiums earned	\$ 2,984,297	\$ 2,382,044
Loss and loss adjustment expenses incurred	-	1,280,000
Loss and loss adjustment expense reserves	14,673,200	15,966,226

The Company cedes risk to another insurance company through an 85% quota share reinsurance agreement for policy year 2011-2015 and 100% quota share reinsurance agreement for policy years 2008-2010 for its EPLI line of business. In the event this quota share reinsurance treaty was cancelled, an immaterial amount of ceding commissions would be returned. Amounts deducted from premiums, reserves and expenses for reinsurance ceded to other companies for EPLI were as follows:

	<u>2015</u>	<u>2014</u>
Premium earned	\$ 2,102,615	\$ 2,016,371
Loss and loss adjustment expenses incurred	1,471,830	(755,658)
Unearned premiums	979,207	947,604
Loss and loss adjustment expense reserves	5,118,598	4,155,390
Ceding commissions	279,583	269,769

Of the 2015 and 2014 ceded loss and loss adjustment expense case and incurred but not reported reserves above for all lines of business, 100% of the balances are comprised of amounts with three reinsurance carriers.

The Company had unsecured reinsurance recoverables for paid and unpaid loss and loss adjustment expenses, including incurred but not reported reserves, from a reinsurer that exceeded 3% of capital and surplus at December 31, 2015 as follows:

General Reinsurance Corp.	\$ 15,018,054
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The Company has no reinsurance contracts that contain the following features (a) a contract term longer than two years and that is noncancellable by the Company during the contract term; (b) a limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer; (c) aggregate stop loss reinsurance coverage; (d) a unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party; (e) a provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or (f) payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. The Company has neither ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement it recorded a positive or negative underwriting result greater than 5% of prior year end surplus as regards to policyholders or the reported calendar year written premium ceded or year end loss and loss expense reserves ceded greater

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than 5% of prior year end surplus as regards to policyholders nor has the Company ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statements and accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles. Additionally, the Company has not ceded any risk under any reinsurance contract where (a) the written premiums ceded to the reinsurer represents 50% or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statements or (b) 25% or more of the written premium ceded to the reinsurer has been retroceded back to the Company in a separate reinsurance contract. Accordingly, the Company has not included the Supplemental Schedule of Reinsurance Disclosures.

In November 2015, the Company commuted an aggregate excess of loss reinsurance contract on the 1998 treaty year with SCOR. Proceeds from this commutation were \$330,000. The outstanding reserve position on this treaty prior to commutation was \$357,950 resulting in an immaterial loss of \$27,950 to the Company. In January 2014, the Company commuted a 2006 reinsurance treaty with General Reinsurance for a net cash value of \$5,952,268. The Company adjusted reserves in anticipation of this treaty commutation as of December 31, 2013. An immaterial gain was recorded by the Company during 2014 as a result of this commutation. A second excess of loss treaty was commuted during 2014 with General Reinsurance for treaty year 2006. There were no associated case or incurred but not reported losses or loss adjustment expenses incurred and therefore no gain or loss recorded.

**8. Premiums Written and Earned**

During the years ended December 31, 2015 and 2014, direct, assumed and ceded premiums were as follows:

	<b>2015</b>		<b>2014</b>	
	<b>Written</b>	<b>Earned</b>	<b>Written</b>	<b>Earned</b>
Direct	\$ 152,683,824	\$ 147,894,688	\$ 144,647,146	\$ 142,995,585
Assumed	883,180	859,718	904,036	823,930
Ceded	<u>(5,118,515)</u>	<u>(5,086,912)</u>	<u>(4,441,346)</u>	<u>(4,398,415)</u>
Net premiums	<u>\$ 148,448,489</u>	<u>\$ 143,667,494</u>	<u>\$ 141,109,836</u>	<u>\$ 139,421,100</u>

**9. Statutory Deposits**

Various regulatory authorities require that securities be placed on deposit. At December 31, 2015 and 2014, the Company had fixed income securities on deposit with a carrying value of \$3,704,726 and \$3,697,296, respectively, included in bonds on the statements of admitted assets, liabilities and capital and surplus. The amounts on deposit with the states, all of which are admitted, represent .43% of total admitted assets at the end of 2015.



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**10. Investments**

The cost and fair value, of investments in equity securities, excluding investments in affiliates, were as follows:

	<b>Cost</b>	<b>Gross Unrealized</b>		<b>Fair Value</b>
		<b>Gains</b>	<b>Losses</b>	
<b>At December 31, 2015</b>				
Common stocks	\$ 70,186,784	\$ 50,737,017	\$ (2,707,817)	\$ 118,215,984
Other invested assets	14,251,890	102,509	-	14,354,399
<b>At December 31, 2014</b>				
Common stocks	\$ 64,247,258	\$ 54,340,418	\$ (667,601)	\$ 117,920,075
Other invested assets	13,373,625	768,085	-	14,141,710

The cost and equity value, in investments in common stocks of affiliates, were as follows:

	<b>Cost</b>	<b>Gross Unrealized</b>		<b>Equity Value</b>
		<b>Gains</b>	<b>Losses</b>	
<b>At December 31, 2015</b>				
Common stocks of affiliates	\$ 123,407,480	\$ 21,642,663	\$ (596,287)	\$ 144,453,856
<b>At December 31, 2014</b>				
Common stocks of affiliates	\$ 117,407,480	\$ 23,478,360	\$ (389,225)	\$ 140,496,615

The Company owns 100% of the common stock of MEMIC Services at a cost of \$223,529. As a result of the guarantee between the Company and MEMIC Services, the Company recorded a liability of \$364,770 and \$531,215 as of December 31, 2015 and 2014, respectively, for the statutory equity. Such amounts have been charged directly to unassigned surplus and are included in other liabilities on the statement of admitted assets, liabilities and capital and surplus.

During 2004, MEMIC Indemnity issued \$6,000,000 of surplus notes ("the Note") that were recorded as an increase to capital and surplus at December 31, 2004. The Company's common stock investment in MEMIC Indemnity recorded in the December 2014 statements of admitted assets, liabilities and capital and surplus excludes the \$6,000,000 of the Note issued by MEMIC Indemnity during 2004. The Note held by MEMIC Indemnity was discharged in February 2015. In conjunction with the discharge of the Note, the Company contributed additional capital of \$6,000,000 to MEMIC Indemnity. MEMIC Indemnity received approval from the New Hampshire Insurance Department on January 29, 2015 for discharge of the indenture and cancellation of the \$6,000,000 Note issued in 2004.

The Company owns 100% of the common stock of MEMIC Casualty at a cost of \$19,183,951 as of December 31, 2015 and 2014, respectively.

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Summary financial data for common stock of affiliates which includes, MEMIC Indemnity and MEMIC Casualty, is as follows:

	<u>2015</u>	<u>2014</u>
Admitted assets	\$ 426,539,210	\$ 358,668,396
Liabilities	282,085,354	212,171,781
Capital and surplus	144,453,856	146,496,615
Statutory net income	369,140	5,527,881

The carrying value and fair values of bonds at December 31, 2015 and 2014 are as follows:

	<u>2015</u>			
	<u>Carrying Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government & government agencies & authorities	\$ 20,129,395	\$ 1,151,734	\$ (47,214)	\$ 21,233,915
States, territories & possessions	60,684,525	3,562,665	(205,223)	64,041,967
Political subdivisions of states	105,929,840	6,374,326	(42,647)	112,261,519
Industrial & miscellaneous	122,884,030	4,229,002	(1,990,986)	125,122,046
Asset backed securities	153,299,520	2,915,073	(1,044,131)	155,170,462
Total bonds	<u>\$ 462,927,310</u>	<u>\$ 18,232,800</u>	<u>\$ (3,330,201)</u>	<u>\$ 477,829,909</u>
	<u>2014</u>			
	<u>Carrying Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government & government agencies & authorities	\$ 33,542,039	\$ 1,401,198	\$ (135,886)	\$ 34,807,351
States, territories & possessions	71,868,632	4,729,338	(67,456)	76,530,514
Political subdivisions of states	114,793,370	7,315,460	(24,527)	122,084,303
Industrial & miscellaneous	113,855,703	6,790,048	(307,932)	120,337,819
Asset backed securities	123,558,349	4,433,190	(473,940)	127,517,599
Total bonds	<u>\$ 457,618,093</u>	<u>\$ 24,669,234</u>	<u>\$ (1,009,741)</u>	<u>\$ 481,277,586</u>

Bonds with a NAIC SVO rating of three to six have been recorded at the lower of cost or fair value in accordance with statutory accounting unless they are a residential mortgage-backed security/commercial mortgage-backed security ("RMBS/CMBS") security with a Securities Valuation Office rating and independently modeled. The model determines the intrinsic price of the security and the price at which the percentage difference between the carrying price and the intrinsic price equals the midpoint between the risk based capital charges for each NAIC designation. This is the maximum price point at which a security can be carried for each NAIC designation. These prices are referred to as break points. The Company utilizes the prospective adjustment methodology to value mortgage-backed bonds. The Company currently does not hold any securities with a NAIC SVO rating of three to six as of December 31, 2015. See note 17.

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The carrying value and fair value of bonds by contractual maturity at December 31, 2015 are as follows:

<b>Maturity</b>	<b>Carrying Value</b>	<b>Fair Value</b>
One year or less	\$ 5,317,021	\$ 5,354,271
Over one year through five years	102,260,291	106,716,346
Over five years through ten years	71,623,314	75,646,129
Over ten years through twenty years	62,460,962	65,301,337
Over twenty years	67,966,202	69,641,364
Asset backed securities (principally ten through twenty years)	153,299,520	155,170,462
	<u>\$ 462,927,310</u>	<u>\$ 477,829,909</u>

Bonds subject to early or unscheduled prepayments have been included above based upon their contractual maturity dates. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Proceeds from the sales of investments in debt and equity securities and the gross realized gains and losses on those sales for the years ended December 31, 2015 and 2014, are summarized as follows:

	<b>2015</b>		
	<b>Proceeds</b>	<b>Gross Realized</b>	
	<b>From Sales</b>	<b>Gains</b>	<b>Losses</b>
Bonds	\$ 77,787,720	\$ 1,502,626	\$ (416,295)
Common stock	16,887,664	4,410,952	(933,357)
	<u>\$ 94,675,384</u>	<u>\$ 5,913,578</u>	<u>\$ (1,349,652)</u>
		<b>2014</b>	
	<b>Proceeds</b>	<b>Gross Realized</b>	
	<b>From Sales</b>	<b>Gains</b>	<b>Losses</b>
Bonds	\$ 42,939,468	\$ 1,992,776	\$ (116,358)
Common stock	29,195,267	11,651,774	(450,522)
	<u>\$ 72,134,735</u>	<u>\$ 13,644,550</u>	<u>\$ (566,880)</u>

At December 31, 2015 and 2014, the Company owned securities that were in an unrealized loss position that management determined was other-than-temporary and given current market conditions would recover. The Company recorded no impairment during 2015. The Company recorded \$232,051 in impairment during 2014 on a single fixed income security which was sold during 2015.

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The fair value and gross unrealized loss of investment securities and the amount of time the security has been in an unrealized loss position as of December 31, 2015 is as follows:

	<b>2015</b>					
	<b>Less Than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Bonds (NAIC 1-2)						
U.S. Government & government agencies & authorities	\$ 3,218,985	\$ (15,158)	\$ 3,970,996	\$ (32,056)	\$ 7,189,981	\$ (47,214)
States, territories & possessions	4,335,940	(205,223)	-	-	4,335,940	(205,223)
Political subdivisions of states	2,182,308	(42,647)	-	-	2,182,308	(42,647)
Industrial & miscellaneous	48,916,404	(1,990,986)	-	-	48,916,404	(1,990,986)
Asset backed securities	80,554,525	(771,143)	7,991,884	(272,988)	88,546,409	(1,044,131)
Common stocks - unaffiliated	13,383,490	(2,195,600)	1,780,193	(512,217)	15,163,683	(2,707,817)
	<b>\$ 152,591,652</b>	<b>\$ (5,220,757)</b>	<b>\$ 13,743,073</b>	<b>\$ (817,261)</b>	<b>\$ 166,334,725</b>	<b>\$ (6,038,018)</b>

	<b>2014</b>					
	<b>Less Than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Bonds (NAIC 1-2)						
U.S. Government & government agencies & authorities	\$ 3,012,881	\$ (2,169)	\$ 12,834,133	\$ (133,717)	\$ 15,847,014	\$ (135,886)
States, territories & possessions	-	-	2,933,850	(67,456)	2,933,850	(67,456)
Political subdivisions of states	2,357,633	(10,260)	1,017,940	(14,267)	3,375,573	(24,527)
Industrial & miscellaneous	9,998,994	(142,016)	11,462,314	(165,916)	21,461,308	(307,932)
Asset backed securities	5,414,625	(26,979)	28,524,767	(446,961)	33,939,392	(473,940)
Bonds (NAIC 3-6)						
Political subdivisions of states	1,162,845	(99,645)	-	-	1,162,845	(99,645)
Common stocks - unaffiliated	5,506,185	(443,476)	739,343	(224,125)	6,245,528	(667,601)
	<b>\$ 27,453,163</b>	<b>\$ (724,545)</b>	<b>\$ 57,512,347</b>	<b>\$ (1,052,442)</b>	<b>\$ 84,965,510</b>	<b>\$ (1,776,987)</b>

Unrealized losses on investment grade securities (NAIC 1-2) principally relate to changes in interest rates.

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The major categories of net investment income are summarized as follows:

	<u>2015</u>	<u>2014</u>
Bonds	\$ 17,042,705	\$ 17,451,994
Common and preferred stocks	2,774,281	2,681,243
Cash and short-term investments	7,424	9,154
Other income	499,514	683,025
Total investment income	<u>20,323,924</u>	<u>20,825,416</u>
Less: Investment expenses	<u>(1,254,683)</u>	<u>(1,518,267)</u>
Net investment income	<u>\$ 19,069,241</u>	<u>\$ 19,307,149</u>

**11. Fair Value of Financial Instruments**

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Valuation techniques used to derive fair value of investment securities are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent resources such as active markets or nationally recognized pricing services. Unobservable inputs reflect comparable securities or valuations received from various broker or dealer quotes.

Items Measured and Reported at Fair Value by Levels 1, 2 and 3

The Company has categorized its assets and liabilities that are reported on the statements of admitted assets, liabilities and capital and surplus at fair value into three-level fair value hierarchy as reflected in the table below. The three-level fair value hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows:

Level 1 - Quoted Prices in Active Markets for Identical Assets and Liabilities: This category, for items measured at fair value on a recurring basis, includes exchange-traded preferred and common stocks. The estimated fair value of the equity securities within this category are based on quoted prices in active markets and are thus classified as Level 1.

Level 2 - Significant Other Observable Inputs: This category is for items measured at fair value on a recurring basis includes bonds, which are not exchange-traded. The estimated fair values of some of these items were determined by independent pricing services using observable inputs. Others were based on quotes from markets which were not considered actively traded.

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Level 3 - Significant Other Unobservable Inputs: The Company has no assets or liabilities measured at fair value in this category. There are no Level 3 fair value assets which were transferred in or out during 2015. Transfers to and from Level 3 would be recognized when a purchase, sale or settlement increases or decrease an asset previously valued as a Level 3 or when an investment is purchased which is carried at fair market value and does not have an observable input for valuation.

	2015			Total
	Level 1	Level 2	Level 3	
Assets on statements of admitted assets, liabilities and capital and surplus at fair value				
Common stocks				
Industrial & miscellaneous	\$ 118,215,984	\$ -	\$ -	118,215,984
Mutual funds	14,354,399			14,354,399
Total common stocks	132,570,383	-	-	132,570,383
Other - short-term investments	4,351,341			4,351,341
Total assets	<u>\$ 136,921,724</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136,921,724</u>

	2014			Total
	Level 1	Level 2	Level 3	
Assets on statements of admitted assets, liabilities and capital and surplus at fair value				
Bonds				
Political subdivisions of states	\$ -	\$ 1,162,845	\$ -	\$ 1,162,845
Total bonds	-	1,162,845	-	1,162,845
Common stocks				
Industrial & miscellaneous	\$ 117,920,075	\$ -	\$ -	\$ 117,920,075
Mutual funds	14,141,709			14,141,709
Total common stocks	132,061,784	-	-	132,061,784
Other - short-term investments	3,810,231			3,810,231
Total assets	<u>\$ 135,872,015</u>	<u>\$ 1,162,845</u>	<u>\$ -</u>	<u>\$ 137,034,860</u>

At the end of each reporting period, the Company evaluates whether or not any event has occurred or circumstances have changed that would cause an instrument to be transferred between Levels 1 and 2. This policy also applies to transfers into or out of Level 3. The Company has no derivative assets or liabilities or assets carried at fair value on a nonrecurring basis.

The table below reflects the fair values and admitted assets and liabilities that are financial instruments excluding those accounted for under the equity method (subsidiaries, joint ventures and ventures) as of December 31, 2015 and 2014. The fair values are also categorized into the three-level fair value hierarchy as described above.

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Type of Financial Instrument	2015					
	Aggregate Fair Value	Admitted Value	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Bonds						
U.S. Government & government agencies & authorities	\$ 21,233,915	\$ 20,129,395	\$ -	\$ 21,233,915	\$ -	\$ -
States, territories & possessions	64,041,967	60,684,525	-	64,041,967	-	-
Political subdivisions of states	112,261,519	105,929,840	-	112,261,519	-	-
Industrial & miscellaneous	125,122,046	122,884,030	-	125,122,046	-	-
Asset backed securities	155,170,462	153,299,520	-	155,170,462	-	-
Common stocks	118,215,984	118,215,984	118,215,984	-	-	-
Cash, cash equivalents & short-term investments	13,393,080	13,393,080	13,393,080	-	-	-
Other invested assets	14,354,399	14,354,399	14,354,399	-	-	-
<b>Total assets</b>	<b>\$ 623,793,372</b>	<b>\$ 608,890,773</b>	<b>\$ 145,963,463</b>	<b>\$ 477,829,909</b>	<b>\$ -</b>	<b>\$ -</b>

Type of Financial Instrument	2014					
	Aggregate Fair Value	Admitted Value	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Bonds						
U.S. Government & government agencies & authorities	\$ 34,807,351	\$ 33,542,039	\$ -	\$ 34,807,351	\$ -	\$ -
States, territories & possessions	76,530,514	71,868,632	-	76,530,514	-	-
Political subdivisions of states	122,084,303	114,793,370	-	122,084,303	-	-
Industrial & miscellaneous	120,337,819	113,855,703	-	120,337,819	-	-
Asset backed securities	127,517,599	123,558,349	-	127,517,599	-	-
Common stocks	117,920,075	117,920,075	117,920,075	-	-	-
Cash, cash equivalents & short-term investments	12,783,503	12,783,503	12,783,503	-	-	-
Other invested assets	14,141,709	14,141,709	14,141,709	-	-	-
<b>Total assets</b>	<b>\$ 626,122,873</b>	<b>\$ 602,463,380</b>	<b>\$ 144,845,287</b>	<b>\$ 481,277,586</b>	<b>\$ -</b>	<b>\$ -</b>

**12. Employee Benefit Plans**

The Company has adopted a qualified defined contribution discretionary, 401(k) and profit sharing plan (the "Plan") covering substantially all full-time employees who meet the plans' eligibility requirements. If approved by the Board of Directors, this discretionary component of the defined contribution plan is determined to be 3-6% of the covered employees' annual eligible compensation. Employees become eligible to participate upon completion of three months of service and are fully vested in the plan after three years of service. The amount expensed for the discretionary portion for the Plan was approximately \$1,175,707 and \$1,135,004 in 2015 and 2014, respectively.

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The 401(k) and profit sharing portion of the Plan provides for a tax deferred profit sharing contribution by the Company and an employee elective contribution with a matching provision. In 2015 and 2014, with respect to the 401(k) component of the Plan, the Company will contribute an amount up to 100% of the employees' 401(k) contributions to a maximum of 5% of an employee's annual compensation. An employee's contribution may not exceed 60% of their annual salary or the maximum amount allowed as determined by the Internal Revenue Code. These Company contributions become fully vested after five years. The Company incurred approximately \$967,193 and \$854,552 of expense related to the 401(k) component of the Plan in 2015 and 2014, respectively. With respect to the profit sharing component of the Plan, each eligible participant may receive a profit sharing contribution in an amount to be determined by the Board of Directors not to exceed 6% plus an additional allocation for employees earning in excess of the taxable wage base. The Company incurred approximately \$1,235,986 and \$932,607 of expense related to the profit sharing component of the Plan in 2015 and 2014, respectively.

The Company sponsors a non-qualified, deferred compensation plan (the "Compensation Plan") and trust for certain key executives providing for payments upon retirement, death or disability. The Compensation Plan permits eligible officers to defer a portion of their compensation. The Compensation Plan provides that, in the event of liquidation of the Company, all assets of the Compensation Plan will be available to meet the obligations of the Company. Included in both other invested assets and other liabilities are amounts of \$14,354,399 and \$14,141,709 at December 31, 2015 and 2014, respectively, related to the Compensation Plan. In accordance with NAIC SAP, the increase or decrease in market value of the assets of the Plan are recorded into income or expense to the Company. The Company incurred approximately \$567,677 and \$1,195,460 of expense related to the Compensation Plan in 2015 and 2014, respectively.

The Company also maintains an Incentive Compensation Plan (the "ICP") for certain members of senior management. Under the terms of the ICP, participants are awarded "surplus shares" at the discretion of the Executive Committee of the Board of Directors. Four classes of surplus shares have been awarded under the ICP, however, as of December 31, 2015, a total of 300 Class B shares were all that remained unexpired under the Plan. The value of each class of surplus share is determined based on excess capital and surplus as defined in the ICP. Shares become fully vested over a 10 year period or a shorter period, under certain conditions. The Company has incurred approximately \$92,371 and (\$20,560) of expense related to the ICP in 2015 and 2014, respectively.

A Long Term Incentive Plan ("LTIP") was established by the Compensation Committee of the Board of Directors (the "Committee") effective January 1, 2007 for certain members of management and highly compensated individuals (participants). Participants are granted a fixed dollar base award (the "Award") contingent upon the anticipated growth of imputed surplus. The final earned amount of the Award is based on the actual growth levels of imputed surplus and is calculated upon imputed surplus as compared to Target, Threshold and Maximum Growth levels for an applicable performance period, generally three years. The actual earned amount of the Award can range from 0% to 150% of the fixed dollar base Award. Participants vest in the plan over three years, or a shorter period, under certain established conditions. The Company has incurred \$597,070 and \$1,373,421 of expense related to the LTIP in 2015 and 2014, respectively.



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**13. Commitments and Contingent Liabilities**

The Company leases office space, various office equipment and vehicles under lease arrangements through 2020. Future minimum lease payments under operating leases at December 31, 2015 are as follows:

2016	\$ 1,446,377
2017	1,400,223
2018	1,251,073
2019	1,058,884
2020	<u>930,150</u>
Total future minimum lease payments	<u>\$ 6,086,707</u>

Total rent and lease expense to all related and unrelated parties was \$1,336,440 and \$1,236,025 for the years ended December 31, 2015 and 2014, respectively. Included in future minimum lease payments are the future rents due through 2020 from the Company to CVH and CVHII.

On March 1, 2011, the Company invested an additional \$5,100,000 in its wholly owned subsidiary, CVH. CVH invested 100% of the \$5,100,000 in its wholly owned subsidiary, CVHII for the purchase of the home office building of the Company which had previously been under a long-term lease with an unrelated party. CVHII assumed a mortgage note payable "the Note" from the previous owner from a local bank on March 1, 2011. CVHII is the borrower on the Note that was assumed and the Company is a limited corporate guarantor. The corporate guaranty was between the Company and the local bank. The local bank would have held the Company in default if CVHII could not have met its debt obligations. CVHII assumed a remaining principal balance of \$3,892,481 on the Note on March 1, 2011 and made all principal and interest payments due on the Note timely until the Note matured in September 2015 and was paid in full on October 14, 2015. The Company is not bound to contribute any additional funds for the payment of expenses or other obligations of CVH aside from the Note which was paid in full in October 2015.

The Company had not recorded a liability for any amounts due on this Note as the borrower had met all principal and interest obligations through the payoff date and since the Company is the sole tenant for CVHII and has adequate resources to meet its lease obligations. The equity value of CVH, which is included in other invested assets on the statements of admitted assets, liabilities and capital and surplus, reflects the GAAP equity of CVH.

The Company also has commitments/guarantees regarding all operations of MEMIC Services. The Company has recorded all related liabilities of MEMIC Services in other liabilities on the statement of admitted assets, liabilities and capital and surplus.

From time to time, the Company may purchase annuities to settle claims. Certain types of annuities provide annuitants with recourse against the Company in the event that the insurer fails to pay under the annuities as agreed. Under these arrangements, the Company remains contingently liable to the annuitant.

The Company is involved in litigation with respect to claims arising in the ordinary course of business, which is taken into account in establishing loss and loss adjustment expense reserves. The Company periodically reviews its overall loss and loss adjustment expense reserve position as well as its provision for reinsurance. The Company's management believes the resolution of such litigation is not expected to have a material adverse effect on the financial position or the operating results of the Company.

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#### December 31, 2015 and 2014

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The Company is subject to guaranty funds and other assessments by states in which it has direct written premium. Guaranty fund assessments should be accrued at the time of insolvencies. Certain assessments that are unknown to the Company are accrued at the time of assessment. In the case of premium based assessments, the expense is accrued at the time the premiums are written, or, in the case of loss based assessments, at the time the losses are incurred.

The Company has recorded an expense for guaranty fund and other assessments of \$232,067 and \$64,548 at December 31, 2015 and 2014, respectively. Of these amounts, the Company has accrued a net liability at December 31, 2015 and 2014 of \$1,300,355 and \$1,170,726, respectively. This amount represents management's best estimate of its liability for assessments based on information received from the states in which the Company writes business and may change due to many factors, including the Company's share of the ultimate cost of current insolvencies and other factors related to the funding requirements of the various assessments. The Company does not have the ability to recover assessments through policyholder surcharges so no related asset is recorded on the statements of assets, liabilities and capital and surplus or statements of income.

#### 14. Workers' Compensation Board Assessments

The State of Maine Workers' Compensation Board (the "Board") assesses insurance companies, associations, and self-insured employers amounts based upon their written premium levels. At December 31, 2015 and 2014, the assessment was 2.49% and 2.75%, respectively, of written premium. To fund this amount, the Company is required to assess its policyholders these amounts and submit amounts collected to the Board on a quarterly basis. The balance of \$788,448 and \$1,170,647 represents amounts due to the Board as of December 31, 2015 and 2014, respectively, and are included in amounts withheld for others on the statements of assets, liabilities and capital and surplus.

#### 15. Related Party Transactions

The Company owns 100% of the common stock of its insurance services subsidiary, MEMIC Services. The Company paid the affiliate, MEMIC Services, \$31,298 and \$31,325 during 2015 and 2014, respectively, for agency services provided to the Company. The terms of intercompany management and service arrangements between the Company and MEMIC Services changed effective January 1, 2013. Loss control and managed care services were previously provided by MEMIC Services but are now provided by the Company.

The Company charges management fees and other services to MEMIC Indemnity in the normal course of business and in accordance with the terms of certain cost sharing agreements. The Company charged MEMIC Indemnity \$18,098,366 and \$11,702,421 for underwriting, claims, loss control, managed care and investment management fees and was charged \$359,236 and \$325,753 for audit and other claims services that were provided from MEMIC Indemnity for 2015 and 2014, respectively. Certain other direct costs are paid by the Company and charged back to MEMIC Indemnity.

The Company is the sole member of CVH. CVH is the sole member of CVH II and CVH III. The Company records all member contributions to CVH in other invested assets. CVH paid the Company \$45,000 for management services during 2015 and 2014. In addition, the Company leased office space from CVH and paid \$164,114 and \$48,423 for rent and parking during 2015 and 2014, respectively. In addition, the Company leased office space from CVHII and paid \$858,870 and \$844,950 for rent and parking during 2015 and 2014, respectively. The Company was also charged \$39,270 for parking from CVHIII during 2015.

**Maine Employers' Mutual Insurance Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2015 and 2014**

The Company charges management fees and other services to MEMIC Casualty in the normal course of business and in accordance with the terms of certain cost sharing agreements. The Company charged MEMIC Casualty approximately \$981,885 and \$179,731 for underwriting, claims, loss control, managed care and investment management fees during 2015 and 2014, respectively. Certain other direct costs are paid by the Company and charged back to MEMIC Casualty.

At December 31, 2015 and 2014, the Company reported a net receivable of \$2,211,026 and \$655,979, respectively, in net admitted amounts due from affiliates. These amounts are settled periodically in accordance with the terms of certain cost sharing agreements. The amounts due (from) affiliates as of December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
MEMIC Indemnity Company	\$ 2,346,394	\$ 807,379
MEMIC Services, Inc.	-	-
MEMIC Casualty Company	(123,301)	(129,235)
Casco View Holdings, LLC	<u>(12,067)</u>	<u>(22,165)</u>
	<u>\$ 2,211,026</u>	<u>\$ 655,979</u>

**16. Subprime Mortgage Related Risk Exposure**

The Company considers its exposure to subprime mortgage risk based on the likelihood of future cash flows, unrealized losses, potential write-downs and the likelihood that an impairment is other-than-temporary. The Company regularly reviews the ratings of all subprime mortgage risk securities. Differentiation between changes in asset values due to unrealized losses or changes in asset values due to less than anticipated future cash flows are not necessary since the subprime holdings are not material to the overall portfolio. The Company does not rely on investing in subprime mortgages in its overall investment strategy. The Company mitigates its overall exposure with a predominantly fixed income portfolio in other than subprime mortgage-backed securities.

The Company has the following exposure related to other investments with subprime exposure at December 31, 2015:

	<u>Actual Cost</u>	<u>Book/ Adjusted Carrying Value (Excluding Interest)</u>	<u>Fair Value</u>	<u>Other-Than- Temporary Impairment to Date</u>
Residential mortgage-backed securities	\$ 49,839	\$ 50,169	\$ 50,561	\$ -
Structured securities	-	-	-	-
	<u>\$ 49,839</u>	<u>\$ 50,169</u>	<u>\$ 50,561</u>	<u>\$ -</u>

The Company does not have any underwriting exposure to subprime mortgage risk through mortgage guaranty or financial insurance guaranty coverage.

**Maine Employers' Mutual Insurance Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2015 and 2014**

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The Company does not have any investments in collateralized debt obligations, structured securities, equity investments in subsidiary, controlled or affiliated entities with significant subprime mortgage related risk exposure, and subprime mortgage loans. Also, the Company does not provide mortgage guaranty or financial guaranty insurance coverage.

**17. Loan-Backed Securities**

The Company has elected to use the prospective method of determining prepayment assumptions. Prepayment assumptions are derived primarily from projected cash flow information obtained from recognized external sources. Where projected cash flow information is not publicly available the information is obtained from external asset managers or by internal estimates. The Company uses IDC Corporation in determining the market value of its loan-backed securities. There have been no changes from the retrospective to the prospective adjustment methodology due to negative yield on specific securities.

The Company has no loan-backed securities that have a recognized other-than-temporary impairment ("OTTI") where the Company either has the intent to sell; or does not have the ability or intent to retain the investment for a period of time to recover any unadjusted amortized cost basis.

The following table summarizes unrealized losses on loan-backed securities by the length of time that the securities have continuously been in unrealized loss positions.

<b>Aggregate amount of unrealized loss</b>	
Less than twelve months	\$ 771,143
Twelve months or longer	<u>272,988</u>
Total	<u>\$ 1,044,131</u>
<b>Aggregate fair value of securities with unrealized loss</b>	
Less than twelve months	\$ 80,554,525
Twelve months or longer	<u>7,991,884</u>
Total	<u>\$ 88,546,409</u>

There is no additional information necessary to describe the general categories of information that the Company considered in reaching the conclusion that the impairments are not other-than-temporary. The Company asserts that it has the intent and ability to hold these securities long enough to allow the cost basis of these securities to be recovered.

The Company has no repurchase agreements and/or securities lending transactions or low-income housing tax credits in the current year or prior year. The Company has investments in real estate through its wholly owned subsidiary CVH in the current year. The cumulative amount of credit losses on loan-backed and structured securities still held as of December 31, 2015 and 2014 are immaterial to the Company.

**18. Events Subsequent**

Subsequent events have been considered through March 25, 2016 for these statutory financial statements which are available to be issued March 25, 2016.

## SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage
1. Bonds:						
1.1 U.S. treasury securities.....	12,356,948	1.6	12,356,948		12,356,948	1.6
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies.....		0.0			0	0.0
1.22 Issued by U.S. government sponsored agencies.....		0.0			0	0.0
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities).....		0.0			0	0.0
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations.....	11,893,272	1.5	11,893,272		11,893,272	1.5
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations.....	30,170,353	3.9	30,170,353		30,170,353	3.9
1.43 Revenue and assessment obligations.....	132,323,187	17.1	132,323,187		132,323,187	17.1
1.44 Industrial development and similar obligations.....		0.0			0	0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA.....	13,935,688	1.8	13,935,688		13,935,688	1.8
1.512 Issued or guaranteed by FNMA and FHLMC.....	78,070,111	10.1	78,070,111		78,070,111	10.1
1.513 All other.....		0.0			0	0.0
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA.....	15,267,165	2.0	15,267,165		15,267,165	2.0
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-based securities issued or guaranteed by agencies shown in Line 1.521.....		0.0			0	0.0
1.523 All other.....	46,990,704	6.1	46,990,704		46,990,704	6.1
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities).....	110,186,933	14.2	110,186,933		110,186,933	14.2
2.2 Unaffiliated non-U.S. securities (including Canada).....	11,732,949	1.5	11,732,949		11,732,949	1.5
2.3 Affiliated securities.....		0.0			0	0.0
3. Equity interests:						
3.1 Investments in mutual funds.....		0.0			0	0.0
3.2 Preferred stocks:						
3.21 Affiliated.....		0.0			0	0.0
3.22 Unaffiliated.....		0.0			0	0.0
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated.....	144,453,856	18.7	144,453,856		144,453,856	18.7
3.32 Unaffiliated.....	118,215,984	15.3	118,215,984		118,215,984	15.3
3.4 Other equity securities:						
3.41 Affiliated.....		0.0			0	0.0
3.42 Unaffiliated.....		0.0			0	0.0
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated.....		0.0			0	0.0
3.52 Unaffiliated.....		0.0			0	0.0
4. Mortgage loans:						
4.1 Construction and land development.....		0.0			0	0.0
4.2 Agricultural.....		0.0			0	0.0
4.3 Single family residential properties.....		0.0			0	0.0
4.4 Multifamily residential properties.....		0.0			0	0.0
4.5 Commercial loans.....		0.0			0	0.0
4.6 Mezzanine real estate loans.....		0.0			0	0.0
5. Real estate investments:						
5.1 Property occupied by company.....		0.0			0	0.0
5.2 Property held for production of income (including \$.....0 of property acquired in satisfaction of debt).....		0.0			0	0.0
5.3 Property held for sale (including \$.....0 property acquired in satisfaction of debt).....		0.0			0	0.0
6. Contract loans.....		0.0			0	0.0
7. Derivatives.....		0.0			0	0.0
8. Receivables for securities.....		0.0			0	0.0
9. Securities lending (Line 10, Asset Page reinvested collateral).....		0.0		XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments.....	13,393,080	1.7	13,393,080		13,393,080	1.7
11. Other invested assets.....	34,322,187	4.4	34,322,187		34,322,187	4.4
12. Total invested assets.....	773,312,417	100.0	773,312,417	0	773,312,417	100.0



## SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2015

(To be filed by April 1)

Of Maine Employers' Mutual Insurance Company

Address (City, State, Zip Code): Portland ME 04101

NAIC Group Code.....1332

NAIC Company Code.....11149

Employer's ID Number.....01-0476508

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$.....850,829,048

2. Ten largest exposures to a single issuer/borrower/investment.

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	MEMIC INDEMNITY COMPANY.....	Common Stock Subsidiary.....	\$...125,642,663	.....14.767 %
2.02	MEMIC CASUALTY COMPANY.....	Common Stock Subsidiary.....	\$...18,811,193	.....2.211 %
2.03	COMET.....	Long Term Bonds.....	\$...12,951,838	.....1.522 %
2.04	PENNSYLVANIA ST TURNPIKE COMM.....	Long Term Bonds.....	\$...6,740,560	.....0.792 %
2.05	MET TRANSPRTN AUTH NY REVENUE.....	Long Term Bonds.....	\$...5,365,754	.....0.631 %
2.06	WELLS FARGO & COMPANY.....	Bonds/Common Stock.....	\$...4,556,671	.....0.536 %
2.07	GENERAL ELECTRIC CO.....	Bonds/Common Stock.....	\$...4,242,459	.....0.499 %
2.08	HSBC HOLDINGS PLC.....	Long Term Bonds.....	\$...4,215,225	.....0.495 %
2.09	OREGON ST DEPT OF ADMIN SVCS L.....	Long Term Bonds.....	\$...4,040,551	.....0.475 %
2.10	AUSTIN TX INDEP SCH DIST.....	Long Term Bonds.....	\$...4,039,345	.....0.475 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

	1	2
	Bonds	Preferred Stocks
3.01	NAIC-1.....	\$...419,558,118
3.02	NAIC-2.....	\$...47,720,533
3.03	NAIC-3.....	\$.....
3.04	NAIC-4.....	\$.....
3.05	NAIC-5.....	\$.....
3.06	NAIC-6.....	\$.....
3.07	P/RP-1.....	\$.....
3.08	P/RP-2.....	\$.....
3.09	P/RP-3.....	\$.....
3.10	P/RP-4.....	\$.....
3.11	P/RP-5.....	\$.....
3.12	P/RP-6.....	\$.....

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? If response to 4.01 above is yes, responses are not required for interrogatories 5-10.	Yes [ X ] No [ ]
4.02	Total admitted assets held in foreign investments	\$.....0.000 %
4.03	Foreign-currency-denominated investments	\$.....0.000 %
4.04	Insurance liabilities denominated in that same foreign currency	\$.....0.000 %

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

	1	2
5.01	Countries designated NAIC-1.....	\$.....0.000 %
5.02	Countries designated NAIC-2.....	\$.....0.000 %
5.03	Countries designated NAIC-3 or below.....	\$.....0.000 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

	1	2
Countries designated NAIC-1:		
6.01	Country 1: .....	\$.....0.000 %
6.02	Country 2: .....	\$.....0.000 %
Countries designated NAIC-2:		
6.03	Country 1: .....	\$.....0.000 %
6.04	Country 2: .....	\$.....0.000 %
Countries designated NAIC-3 or below:		
6.05	Country 1: .....	\$.....0.000 %
6.06	Country 2: .....	\$.....0.000 %

7. Aggregate unhedged foreign currency exposure..... \$.....0.000 %

8.	Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:	1	2	
8.01	Countries designated NAIC-1.....	\$.....	0.000 %	
8.02	Countries designated NAIC-2.....	\$.....	0.000 %	
8.03	Countries designated NAIC-3 or below.....	\$.....	0.000 %	
9.	Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:			
	Countries designated NAIC-1:	1	2	
9.01	Country 1: .....	\$.....	0.000 %	
9.02	Country 2: .....	\$.....	0.000 %	
	Countries designated NAIC-2:			
9.03	Country 1: .....	\$.....	0.000 %	
9.04	Country 2: .....	\$.....	0.000 %	
	Countries designated NAIC-3 or below:			
9.05	Country 1: .....	\$.....	0.000 %	
9.06	Country 2: .....	\$.....	0.000 %	
10.	Ten largest non-sovereign (i.e. non-governmental) foreign issues:			
		1	2	
		<u>Issuer</u>	<u>NAIC Designation</u>	
			3	4
10.01	.....	\$.....	0.000 %	
10.02	.....	\$.....	0.000 %	
10.03	.....	\$.....	0.000 %	
10.04	.....	\$.....	0.000 %	
10.05	.....	\$.....	0.000 %	
10.06	.....	\$.....	0.000 %	
10.07	.....	\$.....	0.000 %	
10.08	.....	\$.....	0.000 %	
10.09	.....	\$.....	0.000 %	
10.10	.....	\$.....	0.000 %	
11.	Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:			
11.01	Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.			Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
11.02	Total admitted assets held in Canadian Investments.....	\$.....	0.000 %	
11.03	Canadian currency-denominated investments.....	\$.....	0.000 %	
11.04	Canadian-denominated insurance liabilities.....	\$.....	0.000 %	
11.05	Unhedged Canadian currency exposure.....	\$.....	0.000 %	
12.	Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.			
12.01	Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.			Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
		1	2	3
12.02	Aggregate statement value of investments with contractual sales restrictions..... Largest three investments with contractual sales restrictions:	\$.....	0.000 %	
12.03	.....	\$.....	0.000 %	
12.04	.....	\$.....	0.000 %	
12.05	.....	\$.....	0.000 %	
13.	Amounts and percentages of admitted assets held in the ten largest equity interests:			
13.01	Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.			Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
		1	2	3
		<u>Name of Issuer</u>		
13.02	MEMIC INDEMNITY COMPANY.....	\$...125,642,663	.....14.767 %	
13.03	MEMIC CASUALTY COMPANY.....	\$...18,811,193	.....2.211 %	
13.04	SPDR S&P MIDCAP 400 ETF TRST.....	\$...15,637,969	.....1.838 %	
13.05	ISHARES MSCI EAFE ETF.....	\$...2,608,500	.....0.307 %	
13.06	MICROSOFT CORP.....	\$...2,360,896	.....0.277 %	
13.07	APPLE INC.....	\$...2,004,466	.....0.236 %	
13.08	EXXON MOBIL CORP.....	\$...1,893,951	.....0.223 %	
13.09	JOHNSON & JOHNSON.....	\$...1,802,839	.....0.212 %	
13.10	PROCTOR & GAMBLE CO/THE.....	\$...1,575,971	.....0.185 %	
13.11	AT&T INC.....	\$...1,533,516	.....0.180 %	
14.	Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:			
14.01	Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.			Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
		1	2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities..... Largest three investments held in nonaffiliated, privately placed equities:	\$.....	0.000 %	
14.03	.....	\$.....	0.000 %	
14.04	.....	\$.....	0.000 %	
14.05	.....	\$.....	0.000 %	

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:  
 15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02 Aggregate statement value of investments held in general partnership interests.....		\$.....	0.000 %
Largest three investments in general partnership interests:			
15.03 .....		\$.....	0.000 %
15.04 .....		\$.....	0.000 %
15.05 .....		\$.....	0.000 %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:  
 16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1	2	3
<u>Type (Residential, Commercial, Agricultural)</u>			
16.02 .....		\$.....	0.000 %
16.03 .....		\$.....	0.000 %
16.04 .....		\$.....	0.000 %
16.05 .....		\$.....	0.000 %
16.06 .....		\$.....	0.000 %
16.07 .....		\$.....	0.000 %
16.08 .....		\$.....	0.000 %
16.09 .....		\$.....	0.000 %
16.10 .....		\$.....	0.000 %
16.11 .....		\$.....	0.000 %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	Loans
16.12 Construction loans.....	\$..... 0.000 %
16.13 Mortgage loans over 90 days past due.....	\$..... 0.000 %
16.14 Mortgage loans in the process of foreclosure.....	\$..... 0.000 %
16.15 Mortgage loans foreclosed.....	\$..... 0.000 %
16.16 Restructured mortgage loans.....	\$..... 0.000 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.02 91% to 95%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.03 81% to 90%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.04 71% to 80%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.05 below 70%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:  
 18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate:

	Description	2	3
18.02 .....		\$.....	0.000 %
18.03 .....		\$.....	0.000 %
18.04 .....		\$.....	0.000 %
18.05 .....		\$.....	0.000 %
18.06 .....		\$.....	0.000 %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans.  
 19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets? Yes [X] No [ ]

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

	1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loans.....		\$.....	0.000 %
Largest three investments held in mezzanine real estate loans:			
19.03 .....		\$.....	0.000 %
19.04 .....		\$.....	0.000 %
19.05 .....		\$.....	0.000 %

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-End		At End of Each Quarter		
			1st Qtr	2nd Qtr	3rd Qtr
	1	2	3	4	5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions).....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.02 Repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.03 Reverse repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.04 Dollar repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.05 Dollar reverse repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....



21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors:

	<u>Owned</u>		<u>Written</u>	
	1	2	3	4
21.01 Hedging.....	\$.....	.....0.000 %	\$.....	.....0.000 %
21.02 Income generation.....	\$.....	.....0.000 %	\$.....	.....0.000 %
21.03 Other.....	\$.....	.....0.000 %	\$.....	.....0.000 %

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr	2nd Qtr	3rd Qtr
			3	4	5
22.01 Hedging.....	\$.....	.....0.000 %	\$.....	\$.....	\$.....
22.02 Income generation.....	\$.....	.....0.000 %	\$.....	\$.....	\$.....
22.03 Replications.....	\$.....	.....0.000 %	\$.....	\$.....	\$.....
22.04 Other.....	\$.....	.....0.000 %	\$.....	\$.....	\$.....

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr	2nd Qtr	3rd Qtr
			3	4	5
23.01 Hedging.....	\$.....	.....0.000 %	\$.....	\$.....	\$.....
23.02 Income generation.....	\$.....	.....0.000 %	\$.....	\$.....	\$.....
23.03 Replications.....	\$.....	.....0.000 %	\$.....	\$.....	\$.....
23.04 Other.....	\$.....	.....0.000 %	\$.....	\$.....	\$.....