



The Millers' Penn

Penn Millers Insurance Company July 2009

THE PRESIDENT'S MESSAGE

As we reach mid-year, the insurance market, the stock market and the economy all seem to be searching for ways to return to solid footing. As is often the case in transitions, the positive signs are there... but just as often, bad news pops up overshadowing progress in other areas. These transitional markets provide the greatest opportunity for companies, agents and brokers who can separate good from bad and seize opportunities overlooked by their competitors.

Penn Millers has worked hard to position ourselves to take advantage of opportunities that exist in today's difficult market. Our first quarter results and accomplishments demonstrate just how successful we have been in accomplishing our goal.

Our total direct written premiums were up 1.1%, with strong written premium growth in Agribusiness and a decline in our Commercial Business segment. These results reflect the different nature of the markets we operate in. The Agribusiness market in several states has hardened somewhat, while the Commercial Business market remains intensely competitive in virtually all of the states we operate in. We also terminated relationships with several Commercial Business agencies late in 2008 due to ongoing loss ratio problems that were impacting our bottom line. Their premiums were running off in the first quarter.

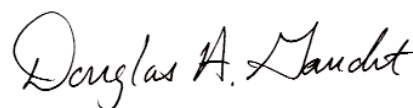
Net written premiums were down 6%, due to changes in our reinsurance program. We ceded more exposure to reinsurers and they also moved their rates up in 2009. Here is another sign of the mixed nature of this market -- reinsurers have been successful in obtaining rate increases, while primary companies haven't had great success, largely due to a few undisciplined carriers who continue to drive down pricing.

Profitability in Agribusiness for the first quarter was not as strong as it was at year-end 2008, but quarter-to-quarter volatility in this segment is normal. Commercial Business has shown great improvement, as our profit improvement efforts directed at poor performing agencies and classes of business has begun to produce results. The total company result was a statutory combined ratio of 99.9%, which compares favorably with an industry statutory combined ratio of 100.6%.

Industry results continue to indicate that we are at, or near, the bottom of the soft market. Operating earnings resulting from combined ratios in excess of 100% in the current weak investment environment do not produce acceptable returns. In the first quarter, total industry surplus declined by 4.2%, as a result of poor underwriting and investment results. Penn Millers' statutory surplus grew by 1.6% in the first quarter, not an acceptable result but still better than the industry.

Penn Millers' greatest accomplishment in the first quarter was the launch of our Penn Edge product, now available in 6 of our Commercial Business states. Our intention is to file this throughout our operating territory, including our 33 Agribusiness states, to enable us to write targeted middle market business. It is a difficult market for launching a new product, but we believe it is important to continue to build our capabilities for the long-term rather than sacrificing the future for short-term gains. Our investment in this product will be a source of profitable growth for Penn Millers and will allow us to write a greater share of the business written by our partner agents and brokers.

We are relatively pleased with our results in 2009. We have been managing our way through the troubled times of the last year, but have kept our eye on the future. As you will read later in this issue, Penn Millers has adopted a plan of conversion from a mutual holding company to a stock company form. The additional capital we will raise in a public offering will be utilized to continue to build our capabilities and support the growth in Penn Millers' premium writings. We will have the capital, the products, the people and the relationships with our agents, brokers and policyholders to position us well for the long-term.



DOUGLAS A. GAUDET, CPCU
PRESIDENT & CEO



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PENN MILLERS MUTUAL HOLDING COMPANY ADOPTS PLAN OF CONVERSION

"up to 6,771,469 shares of common stock of the Holding Company will be sold in a public offering expected to commence in the third quarter of 2009."



May 26, 2009 -- Penn Millers Mutual Holding Company (the "Company"), a Pennsylvania mutual holding company for Penn Millers Insurance Company ("PMIC") and its subsidiaries, headquartered in Wilkes-Barre, Pennsylvania, today announced that its Board of Directors adopted a Plan of Conversion from Mutual to Stock Form (the "Plan"). In connection with the Company's decision to convert, the Plan of Minority Stock Offering adopted on October 22, 2008 by its stock holding company subsidiary, PMHC Corp., was terminated.

Under the Plan, the Company formed a new holding company called Penn Millers Holding Corporation (the "Holding Company") that will hold all of the outstanding shares of the Company after its conversion from a mutual to a stock form of organization. Upon the conversion of the Company, up to 6,771,469 shares of common stock of the Holding Company will be sold in a public offering expected to commence in the third quarter of 2009. The number of shares to be offered will be based on an independent appraisal of the estimated market value of the Company on a consolidated basis. The proceeds from the offering will be used for general corporate purposes and to position PMIC for future growth.

Under the Plan, a subscription offering will be made in the following priorities to: (i) all policyholders of PMIC as

of April 22, 2009; (ii) the Company's Employee Stock Ownership Plan, which may purchase up to 9.99% of the total number of common stock shares sold in the offering; and (iii) the directors, officers and employees of the Company. All shares not subscribed for in the subscription offering will be offered for sale in a community offering with the Company in its discretion giving preference to: (i) insurance agents and brokers appointed by or under contract with the Company; (ii) named insureds who became policyholders after April 22, 2009; and (iii) residents of Lackawanna or Luzerne County, Pennsylvania.

The mutual to stock conversion of the Company contemplated by the Plan is subject to the approval of the Pennsylvania Department of Insurance, pursuant to the Pennsylvania Insurance Commissioner's 1998 order approving the creation of the Company's current mutual holding company structure.

A registration statement relating to the Holding Company common stock was filed with the Securities and Exchange Commission on April 30, 2009 but has not yet become effective. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. The offering will be made only by means of a prospectus in accordance with the Securities Act of 1933, as amended, and all applicable state securities laws. For a prospectus, contact Griffin Financial Group LLC at 620 Freedom Business Center, Suite 210, P.O. Box 61926, King of Prussia, Pennsylvania 19406.

EXCELLENCE AT WORK

A BIG congratulations goes out to recent Excellence at Work recipients Kelly McDonough and Todd Glover!

Kelly joined Penn Millers in 2005 as an Accounting Supervisor, Financial Services. She has spent the last several months involved in the sale of Penn Software and EIG, in addition to working on Penn Millers' public offering. Despite many late nights and auditor requests, Kelly kept her projects on track and still managed to maintain a sense of humor!

Kelly holds a B.S. in Accounting from Wilkes University and resides in Scranton, PA with her husband, Ed. **Thank you, Kelly, we appreciate all that you do for Penn Millers!**

Todd joined Penn Millers in 2006 as a Large Loss Adjuster. He contributes to Penn Millers' success by providing direct on-site expertise and claim service to Agribusiness accounts impacted by large losses.

We frequently receive feedback on Todd's knowledge and professionalism in handling large property losses.

Todd possesses a B.S. in Agriculture Business from Arkansas Technical University. He resides in Hot Springs, Arkansas with his wife Leslie and their son Jackson. **Thank you, Todd, for the fine job you do for Penn Millers!**

To nominate a Penn Millers employee for a job well done, go to www.pennmillers.com and click on Employee Recognition Program.

DAY OF CARING 2009



From left:
Employees Dale Rattigan, Stephanie Smith, Maureen Gilbert, Theresa Vetack and Ed Pikul.

Several dedicated Penn Millers employees recently participated in the United Way of Wyoming Valley's "Day of Caring" at Wyoming Valley Children's Association (WVCA), Forty Fort, PA.

Day of Caring is a one-day effort where hundreds of volunteers throughout the Wyoming Valley come together to build a better community, one project, one day at a time. The annual event offers participating employees the opportunity to make a positive impact in the community through direct interaction and allows volunteers the chance to learn, first-hand how their contributions benefit the community.

Wyoming Valley Children's Association is a non profit agency serving local children and their families. Their primary mission is to provide therapy and early childhood education for children, age five or younger, who demonstrate developmental and neurological disabilities.

Thank you to our Penn Millers team for spending a wonderful day with the children at WVCA and for making a difference!

Claims Corner

Medicare Secondary Payer Act

By Kevin Higgins -- Senior Vice President, Claims

Enacted in 1980, 42 USC 1395y and 42 CFR 411 established Medicare as a secondary payer wherever a primary payer of medical care exists. The goal was to rightly have medical care processed through more appropriate sources of coverage when available, leaving Medicare as the provider of last resort. However, enforcement was lax and the impact to the Property and Casualty industry was limited primarily to Medicare set-asides on applicable workers compensation claims. All of that is about to change.

On December 29, 2007, the Medicare, Medicaid, and SCHIP Extension Act was signed into law creating new requirements that will broadly impact the Property and Casualty insurance industry. By law, Medicare has a priority right of recovery from any party involved in paying or receiving payment for medical treatment. Casualty claims staff will be required to determine the Medicare beneficiary status on all injured parties and to electronically report all settlements, judgments and awards involving such beneficiaries to the Secretary of Health. Penalties of \$1,000 per day, per claim will encourage strict compliance. Testing is scheduled to commence in July 2009 and reporting will commence in the second quarter of 2010.

The direct impact of this law will be felt by all those who handle claims involving a bodily injury regardless of the line of business – workers compensation, general liability, auto liability, no-fault, medical pay, UM/UIM, etc. Whenever an injured party seeks recovery under our policy, on a first or third party basis, we will be required to determine their status under Medicare. Simply making that determination in an age of privacy laws and protection presents its own unique challenges. If eligible, we must then report to Medicare at the time of settlement. Medicare will use this information to check payments they may have issued and deem related to this claim to determine if money is owed them. They will also have our claim on record in the event a future benefit is awarded to a claimant that may be associated with a prior settled claim.

If we are agreeing to settle a third party claim, the carrier will be viewed as having a primary payer status under the act, even though most liability claims are settled on a compromise basis without a legal determination of liability. Claims settled to include future medical care may be considered as having an 'ongoing medical responsibility' in the eyes of Medicare. Claims where future medical care is statutorily protected for the lifespan of the claimant such

as in certain PIP or workers compensation scenarios, will be considered 'open' in the eyes of Medicare. Claim files we may have 'closed' due to lack of care or activity, may be open in the realm of Medicare. Release language may have little bearing on how Medicare views our responsibility as to past or future medical costs.

The character of liability insurance is not especially conducive to a simple cross application into the world of direct beneficiary coverage as in group health care. There have been numerous industry sponsored meetings to date, both with and without Medicare officials, to try to sort through the realm of impact this act will have on the handling, reporting and settling of bodily injury claims. Many questions remain unanswered, such as the responsibilities associated with joint settlements involving multiple carriers, de minimis settlements, mass torts, exposure and injury date definitions, cumulative injuries, self-insured retentions, policy limit scenarios and a host of other challenges which do not fit neatly into the definitions or context of the Medicare world.

One thing is certain -- the cost to process and settle these claims will increase. The electronic reporting requirements are complex, causing carriers to scramble to build the means to exchange detailed data in the exact format required under the Act. And there is no doubt that Medicare will become the eight hundred pound gorilla in the room in future settlement negotiations. The onus to satisfy Medicare liens and future treatment appears to rest primarily upon the claimant and/or their attorney, but if it affects their settlement payout, we can expect push-back to the carrier. If Medicare benefits are sought at a future time and the settlement money is spent, it appears possible that the carrier can be called back on the hook at a later date.

Our Federal government has invested heavily into this program with an expectation of significant recovery and cost reduction to the Medicare tab. As taxpayers, we can applaud the proper shifting of payer responsibility and projected reduction in government spending. As casualty claims professionals, we are preparing to shoulder an increase in workload and expense.

HAPPY ANNIVERSARY

Congratulations to our agent partners celebrating an anniversary with Penn Millers!

5 Years:

Commercial Coverage, Inc
Saratoga Springs, NY

R. Marcil Associates
Schenectady, NY

National Penn Insurance
Doylestown, PA

Reisen Agency, Inc.
Drexel Hill, PA

S.I.G. Agency
Stamford, CT

Stamford Insurance Group, Inc.
Cheshire, CT

Sunbelt Insurance Group
Chattanooga, TN

Tennessee Valley Insurance Services, Inc.
Chattanooga, TN

10 Years:

The Roland Dumont Agency, Inc.
Bristol, CT

15 Years:

John T. Costa Agency, Inc.
Wayne, NJ

Millin Insurance Agency
Warrington, PA

National Assoc- Doylestown
Doylestown, PA

20 Years:

BB&T Huffaker Trimble
Chattanooga, TN

The Beyrent Agency
Tamaqua, PA

Joseph J. Joyce Associates
Pittston, PA

30 Years:

Association Benefits Insurance Agency
Boston, MA

40 Years:

Clauss Bovard Agency
Olyphant, PA

COMMERCIAL BUSINESS RISK OF THE QUARTER



Risk: Quality Inn & Suites

Class: Hotel

Location: Wytheville, VA

Agency: BB&T-KDC Insurance Services

Coverage includes Property, Liability and EPL.

Thank you BB&T-KDC!

AGRIBUSINESS RISK OF THE QUARTER



Risk: Famo Feeds Inc.

Class: Feed Milling Operation

Location: Locations in Freeport, MN and West Union, MN

Total Property Values: \$10.3 Million

Coverages: Property, Crime, Liability, Inland Marine, Commercial Auto, Umbrella and Equipment Breakdown

Broker: Ag States -- St Paul, MN

Thank you, Ag States, for this excellent Agribusiness submission!

WELCOME ABOARD

Penn Millers is pleased to welcome the following agencies to our family:

A+ Insurance Agency
Jackson, TN

Axia Insurance Services, Inc.
Springfield, MA

Dougherty Insurance Agency, Inc.
Stratford, CT

ESI Associates
Bridgeville, PA

Arthur J. Gallagher RMS, Inc.
Brentwood, TN

Greater Pittsburgh Insurance Consultants
Charleroi, PA

Heritage Insurance Agency, Inc.
Vineland, NJ

Horner Insurance Agency
Latrobe, PA

JKH Insurance Agency, Inc.
Rillton, PA

Kemmons Wilson Insurance Group
Memphis, TN

Lignelli Agency
Monongahela, PA

Jeffrey Maloy Agency
Latrobe, PA

Northeast Financial Group, LLC.
East Lyme, CT

Richard Pitts Financial Group
Meadville, PA

Remco Insurance Services
Southampton, PA

Ross Insurance
Clarksville, TN

Sanford Insurance
Midlothian, VA

Simpson McCrady, LLC
Pittsburgh, PA

The 4 I Insurance Group
Carnegie, PA

WMP Laughlin Insurance Agency, Inc.
Rochester, PA

**COMMERCIAL BUSINESS AGENTS
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Let us know what's going on in the marketplace – please contact your Advisory Council member with your comments or concerns.

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DONALD A. PIZER
JOINS BOARD OF DIRECTORS

Penn Millers Mutual Holding Company has elected Donald A. Pizer to its Board of Directors.

Mr. Pizer is retired from Ernst and Young LLP where he held various positions, most recently Partner and Associate Director, Financial Services Industry Services. He presently serves as Director and Audit Committee Chair of Philadelphia Insurance Company and Philadelphia Indemnity Insurance Company and is chair of the Abington Memorial Hospital Foundation, Abington, PA.

Mr. Pizer holds M.S. and B.S. degrees from The Pennsylvania State University. He and his wife, Marcia Herr Pizer, reside in Jenkintown, PA.

In addition to Mr. Pizer, members of Penn Millers' Board of Directors include Heather M. Acker; F. Kenneth Ackerman, Jr.; Dorrance R. Belin, Esq.; John L. Churnetski; John M. Coleman; Douglas A. Gaudet, CPCU; Kim E. Michelstein; Robert A. Nearing, Jr.; James M. Revie and J. Harvey Sproul, Jr.

We are delighted to welcome Mr. Pizer to Penn Millers!

NEW HIRES



Amber Evans
Property Claims
Examiner Trainee



Tom Kucenski
Loss Control
Representative,
New England



Sharon Monie
Director of
Compliance



**Amy Redington
Riley**
Litigation Claims
Specialist



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