

Medical  Mutual<sup>SM</sup>

Annual Report

2005



the strength  
OF STABILITY





*“The practice of Emergency Medicine was one of the most challenging specialties in medicine in 2005. Working with the critically ill and injured, oftentimes with incomplete or missing data, is difficult, and frequently adverse outcomes will arise, even despite the best efforts of the best trained providers. Raleigh Emergency Medicine Associates has been fortunate to be covered by Medical Mutual for 17 years. As North Carolina has been flagged by the American Medical Association as a State in crisis as regards professional liability, fewer and fewer companies are left to even consider coverage for Emergency Medicine groups. As a result, we could not continue our practice without the backing and solid presence of Medical Mutual.”*

Damian McHugh, MD  
• Emergency Medicine Physician  
• Raleigh Emergency Medicine Associates  
• Raleigh, NC



## TO OUR MEMBERS

On October 24, 2005, Medical Mutual proudly celebrated 30 years of continuously offering professional liability insurance to its physician owners. Borne of necessity by physician leaders in 1975, Medical Mutual has never strayed from its original mission of providing stable, affordable professional liability insurance to its physician owners, while also promoting quality healthcare for all patients. Professional liability insurance is a dynamic and volatile business and, as a result, the company has experienced many significant challenges. Through your support, and the capable leadership of our physician Board of Directors, our Community Advisory Boards, and our experienced management team, every challenge has been successfully met. Today, Medical Mutual stands tall among the community of professional liability insurance companies. We are widely recognized for our commitment to our core mission, and the financial discipline we have employed to provide long term security to our members. Medical Mutual continues to exemplify the power of physicians when they work collaboratively.

Primed with a rich history of success, we stand poised to look to the future. “What is my company doing for me today?” is a fair question from our owners. Marked changes in today’s practice of medicine dictate that every product and service you use and depend on changes as well. The clinical, economic and regulatory pressures you face each day have never been greater or more burdensome. We know that you need partners

who understand this environment and proactively help you address these pressures. We also know you need partners who bring you the most efficient products and services possible.

At Medical Mutual, we have created a professional liability insurance model that makes sense today and in the future. It involves operating the company around seven basic principles:

- Controlling our operating and overhead expenses to the lowest level possible
- Providing innovative, comprehensive insurance coverage to those physicians who meet strict underwriting guidelines
- Educating physicians about proven ideas and techniques that mitigate the likelihood of being sued for malpractice
- Aggressively defending claims presented against our insured members
- Pursuing investment opportunities that provide superior returns balanced against appropriate levels of risk
- Achieving operating results that provide long term financial stability
- Providing customer service that exceeds expectations

*continued on page 2*

## OPERATING HIGHLIGHTS:

*A. M. Best confirms Medical Mutual’s “A” Excellent financial rating.*

*The total number of physicians insured by the Company surpasses 8400, another record high.*

*Written premiums increase 16% to \$132.2 million.*

*The Company’s operating expense ratio drops to 8.4%—among the lowest, if not the lowest, in the medical malpractice insurance industry.*

*Net income of the Company is \$13 million, which allows the Company to maintain financial ratios necessary to support its industry and regulatory ratings.*

*Subsidiary operations of the company contribute an aggregate of \$2.8 million in income to support core insurance operations.*



MAINTAINING RISK /  
EDUCATING MEMBERS:

*Nearly 500 physicians are awarded  
Level 1 Continuing Medical Education  
Credits, totaling 900 credit hours.*

*Risk Consultants assess 400 physicians  
and their practices through the office-  
based Risk Assessment Program.*

*A new feature is added to the  
Risk Assessment Program: a post-  
assessment follow-up visit by a Risk  
Consultant. This demonstrates a move  
toward compliance measurement  
with 83% of practices implementing  
recommended strategies.*

*Seminars to office staff occur in prac-  
tices undergoing a Risk Assessment,  
reaching nearly 500 participants.*

*Risk Management resources added to  
the Medical Mutual website include  
procedure-specific consent forms and  
a disaster plan for medical offices.*

*Risk Management collaborates with  
nationally recognized speakers to  
educate physicians in five geographic  
areas on communication and behav-  
ioral skills known to decrease the risk  
of medical malpractice claims.*

With a laser focus and commitment to excel in each of these areas, we believe we can protect the profes- sional liability exposure of your practice better than anyone else. Our team of professionals is continuously developing new and innovative ways of doing just that. We have high expectations for ourselves—and so should you.

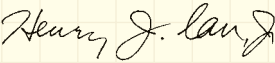
In our report this year, we highlight some of the more significant accomplishments of 2005. The financial results for 2005 were excellent. Operating results met our expectations, and net income was enhanced by approximately \$4 million, due to the realization of a gain on the sale of a subsidiary operation, and the proceeds from the settlement of a contractual dispute. These results allowed us to maintain key financial leverage ratios that are important for regulatory and rating agen- cies. Consequently, A.M. Best has already reaffirmed our “A” rating for 2006. There is no better indication that Medical Mutual is indeed a strong financial part- ner for you—one that you can count on to be here for the long term.

For the last several years, we have included in our report comments from your colleagues regarding their experiences with Medical Mutual. During the year, we had the good fortune to meet with hundreds of Medical Mutual members. We sincerely appreciate the thoughtful feedback, constructive criticisms, and ideas that you shared with us. We wish that space would permit us to include more of your comments in the report. Learning firsthand about your practices,

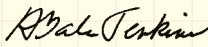
listening to your ideas, and refining our products and services based on this information has been and will continue to be critical to our long term success.

Protecting you and your practice is our business every minute of every day. We take this responsibility seri- ously. We sincerely appreciate your support and look forward to serving you for many years to come.

Sincerely yours,



Henry J. Carr, Jr., MD  
Chairman and President



A. Dale Jenkins  
Chief Executive Officer

*“Twenty-five years ago when I came to  
North Carolina to practice cardiovascular  
surgery, the medical community in  
Asheville was still scrambling to cover  
the gap left by St. Paul’s departure. My  
senior partners reminded me of the  
services that Medical Mutual offered  
such as practice evaluation, education  
of office staff and managers, regional  
boards, and experienced defense attor-  
neys. There were limited choices, and  
no other company was physician-owned,  
was more financially sound, and pro-  
vided a greater variety of services to  
their customers.*

*“Through the efforts of Medical Mutual  
and our medical society, physicians were  
able to turn an impending liability crisis  
in Western North Carolina. To maintain  
this, we have become more politically  
involved, and can shape our future and  
access to care for our patients.”*

Harry G. Burton, III, MD  
• Vascular Surgeon  
• Asheville Cardiovascular & Thoracic Surgeons  
• Asheville, NC





*“I’ve been at Guilford Neurosurgical for 12 years and have always felt like Medical Mutual was a partner with this group. The employees of Medical Mutual are easily approachable, always available and consistently offer reasonable advice. They are supportive of our physicians, are always collegial and have been our loyal advocates in a challenging malpractice environment.*

*“Additionally, Medical Mutual has been a tremendous supporter of the North Carolina Medical Group Managers. They finance and present the ‘Administrator of the Year’ award each spring. The financial support and educational expertise provided to the membership has been greatly appreciated.*

*“When asked, I am extremely proud to say Guilford Neurosurgical Associates has Medical Mutual as our carrier.”*

Amy Robson, RN, BSN, CMPE  
• Practice Administrator  
• Guilford Neurosurgical Associates  
• Greensboro, NC



## BALANCE SHEET

| ASSETS                         | December 31, 2005 | December 31, 2004 |
|--------------------------------|-------------------|-------------------|
| Invested Assets                | \$ 273,670,948    | \$ 232,248,055    |
| Accrued Investment Income      | 2,234,574         | 1,886,273         |
| Premiums Receivable            | 39,010,265        | 32,635,796        |
| Information Technology Systems | 244,371           | 290,998           |
| Federal Income Tax Recoverable | 0                 | 411,743           |
| Net Deferred Tax Asset         | 5,368,032         | 4,182,398         |
| Other Assets                   | 979,375           | 672,375           |

|                     |                       |                       |
|---------------------|-----------------------|-----------------------|
| <b>Total Assets</b> | <b>\$ 321,507,565</b> | <b>\$ 272,327,638</b> |
|---------------------|-----------------------|-----------------------|

## LIABILITIES AND POLICYHOLDERS’ SURPLUS

|                              |                |                |
|------------------------------|----------------|----------------|
| Liabilities                  |                |                |
| Loss and LAE Reserves        | \$ 143,000,000 | \$ 126,000,000 |
| Unearned Premium Reserves    | 46,934,419     | 36,638,856     |
| Reinsurance Balances Payable | 29,382,211     | 25,280,493     |
| Federal Income Tax Payable   | 2,077,756      | 0              |
| Other Liabilities            | 8,894,142      | 8,274,519      |

|                          |                       |                       |
|--------------------------|-----------------------|-----------------------|
| <b>Total Liabilities</b> | <b>\$ 230,288,528</b> | <b>\$ 196,193,868</b> |
|--------------------------|-----------------------|-----------------------|

|                        |               |               |
|------------------------|---------------|---------------|
| Policyholders’ Surplus | \$ 91,219,037 | \$ 76,133,770 |
|------------------------|---------------|---------------|

|  |                |                |
|--|----------------|----------------|
| Total Liabilities and Policyholder’s Surplus | \$ 321,507,565 | \$ 272,327,638 |
|--|----------------|----------------|

## MAINTAINING FINANCIAL STRENGTH:

*Total assets of the Company grow to \$322 million.*

*The Company’s capital and surplus increases to over \$91 million due to the operating results of the Company and its subsidiaries.*

*The Company again demonstrates its conservative and financially prudent reserving methodology by setting aside \$143 million to pay claims that have been reported to the Company—another record high.*

*The Company sees its net written premiums to surplus ratio climb slightly to 99.3%, which remains in line with the industry benchmark of 100%.*

*The Company’s combined ratio, which is the ratio of claims and expenses incurred compared to earned premiums, drops to 85.1% which is far below the industry average.*

S T R E N G T H E N I N G   Y O U R   C O M P A N Y



DEFENDING CLAIMS:

849 incidents, claims and suits are reported against Medical Mutual members—an increase of 142 from the number reported during 2004.

The Company pays total claims and claim related expenses of \$54.2 million—an increase of \$4 million from the amount paid in 2004 and the highest aggregate number in the Company's history.

75 claims are each paid for an amount exceeding \$100,000; 7 claims are each paid for an amount exceeding \$1 million.

The Company tries 26 cases to a jury verdict, losing only 4.

INCOME STATEMENT

|   | December 31, 2005 | December 31, 2004 |
|---|-------------------|-------------------|
| Direct Written Premiums                   | \$ 132,233,994    | \$ 113,807,413    |
| Assumed Premiums                          | 792,975           | 689,904           |
| Ceded Reinsurance Premiums                | (42,463,406)      | (35,608,376)      |
| Net Written Premiums                      | 90,563,563        | 78,888,941        |
| Change in Unearned Premium Reserve        | (10,295,563)      | (6,849,135)       |
| Net Earned Premiums                       | \$ 80,268,000     | \$ 72,039,806     |
| Commission (Expense)                      | 494,445           | (91,456)          |
| Loss and Loss Adjustment Expense Incurred | (66,245,670)      | (62,284,875)      |
| Premium Taxes                             | (2,877,208)       | (2,564,947)       |
| Other Underwriting Expenses               | (4,867,642)       | (5,042,233)       |
| Underwriting Gain/(Loss)                  | 6,771,925         | 2,056,295         |
| Net Investment Income                     | 6,899,646         | 5,731,200         |
| Other Income                              | 4,954,768         | 554,381           |
| Operating Income                          | 18,626,339        | 8,341,876         |
| Realized Capital Gains                    | 2,572,050         | 1,688,607         |
| Federal Income Tax                        | (8,162,000)       | (3,199,000)       |
| Net Income                                | 13,036,389        | 6,831,483         |

“Having been in practice in North Carolina for over thirty years, I’ve seen insurance companies come and go – mostly go. As orthopaedic surgeons, we are well aware of the liability insurance crisis. It’s a great comfort to be with Medical Mutual, a stable company that is owned by and focused on physicians, is proactive in prevention, and on whom you can depend to stand by you with the best advice and attorneys should the need arise.”

James D. Hundley, MD  
• Orthopaedic Surgeon  
• Wilmington Orthopaedic Group  
• Wilmington, NC





*“My wife and I relocated from Boston, Massachusetts in 2004 and founded Progressive Medical Associates, PC, a private Internal Medicine practice in Huntersville, NC. From the outset, I have been quite impressed with the service and the attention I have received from Medical Mutual. I have been especially impressed with my account executive who has always been available, courteous, professional, and extremely knowledgeable, taking care of all of our insurance needs and concerns. Given that the company includes its physicians as shareholders is a testimony to the fact that this company has the physician’s interests at heart. I am certainly proud to be part of Medical Mutual and look forward to many years of our future working relationship.”*

C. Peter Le, MD  
• Internal Medicine Physician  
• Progressive Medical Associates  
• Huntersville, NC



BOARD OF DIRECTORS

Henry J. Carr, Jr., MD  
Chairman

Thomas H. McCoy, MD  
Vice Chairman

H. David Bruton, MD  
Secretary

Charles C. Crowell, III, MD  
A. Dale Jenkins  
Rachel H. Ross, MD  
Robert E. Schaaf, MD  
Chris M. Teigland, MD

*In Memoriam:*  
*John L. McCain, MD (1927-2005)*  
*Dr. McCain served on the Medical Mutual Board of Directors from 1975 until 1995.*  
*He was one of the founding directors.*

COMMUNITY BOARDS

Coastal:

Millard F. Banker, IV, MD  
Jessica Burkett, MD  
William A. Crafford, Jr., MD  
Thaddeus Dunn, MD  
J. William Eakins, MD  
James Hundley, MD  
Michael Moulton, MD

Triangle:

Robert Bilbro, MD  
Paul Burroughs, III, MD  
Russ Fisher, MD  
Joan T. Jordan, MD  
Jeff Kobs, MD  
Robert Littleton, MD  
Robert McConville, MD  
Jim Palombaro, MD  
H. Cliff Patterson, MD

Earl Ransom, MD  
John W. Rusher, MD  
  
**Triad:**  
Greg Hayes, MD  
Slade Howell, MD  
John Mann, MD  
Robert Nudelman, MD  
Brian Sumner, MD  
Charles V. Taft, MD  
Robert Wainer, MD  
Virgil Willard, II, MD  
Kyle Young, MD  
Peter Young, MD

Metrolina:

Akinyele O. Aluko, MD  
Allen Dobson, Jr., MD  
Hunter Dyer, MD

Paul Galentine, MD  
Winston Godwin, Jr., MD  
Steve G. Justus, MD  
Johnson Kelly, MD  
Robert Petrilli, MD  
Clifford Roemer, MD  
Frank Stranick, MD  
Kevin Weiss, MD  
W. Lee Young, MD

Mountain:

Harry Burton, MD  
Steven A. Chamberlain, MD  
Ted Humble, MD  
Harry Lipham, MD  
Peter Mangone, MD  
James Montgomery, MD  
Edward Plyler, MD  
William Snoddy, MD

Virginia:

Anthony Cetrone, MD  
Thomas Clifford, MD  
William Dichtel, MD  
Howard Fraunce, MD  
John Kowalski, MD  
John McConnell, MD  
Barry Rothman, MD

COMMUNITY INVOLVEMENT:

*Our Community and Administrator Advisory Boards meet twice annually; their input and counsel continue to provide valuable benefits to the Company. Through our Community Boards, we reach roughly 44% of all Medical Mutual insured practices.*

*Linda Wooten, a Winston-Salem practice administrator, is the recipient of the North Carolina Medical Group Managers’ Administrator of the Year Award, an award annually funded and presented by the Company.*

*Amy Robson, practice administrator for Guilford Neurosurgical Associates, and Nancy Skelton, practice administrator for Guilford Neurologic Associates, meet with Medical Mutual associates during a special Town Hall presentation to discuss the role and responsibilities of a practice administrator.*

*Medical Mutual celebrates 30 years of protecting and promoting physicians in North Carolina at the Medical Group Managers’ fall conference in Asheville.*

*The Company and our employees donate over \$30,000 to the local United Way.*



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Medical  Mutual<sup>1SM</sup>