



**Medical Mutual**<sup>SM</sup>  
PROTECTING OUR PROFESSION



ANNUAL REPORT 06



"I have worked closely with Medical Mutual's senior management team while serving on the Company's Triad Community Board. I am continually impressed by their collegiality, transparency and accessibility while running my insurance company. Medical Mutual is proactive in providing risk management tools that reduce physicians' exposure to lawsuits, as evidenced by their Anticoagulation Therapy Toolkit and in-office Risk Assessment program. While doing all of this, they have offered competitive pricing, maintained overhead expenses of less than 9%, and held rates to a zero percent increase for 2007. For all of these reasons, I stand committed as a member of Medical Mutual Insurance Company now and in the years ahead."

## John W.F. Mann, MD, FACS

General Surgeon  
Salem Surgical Associates  
Winston-Salem, NC



# Annual letter to our policyholders

We appreciate the opportunity to share with you the activities and operating results achieved by your Company in 2006. As you will see in the following pages, 2006 was an exceptional year for Medical Mutual. Record financial results were achieved in virtually every area. Innovative new programs and ideas that enhance our ability to protect you and your practice were introduced. Collaborative efforts continued between our physician insureds and Company employees. Many more physicians joined the Medical Mutual family, bringing our insured count to a record high. And, for the first time in over fifteen years, the Company announced that there would be no increase in our base rate premiums for 2007.

The outstanding results achieved during 2006 are attributable to not one, but many factors. First, and foremost, we saw a renewed emphasis by our policyholders on practicing quality medicine in a manner that maximizes patient safety. More and more practices embraced quality improvement measures through educational and risk management programs designed by us to enhance patient satisfaction in clinical care. The growing acceptance and integration of electronic medical record systems in physician practices has dramatically improved documentation and reduced variability in follow-up care, referrals, tracking of outsourced testing, and medication management. Internally, we expanded our services by introducing a new version of our well known and widely used in-office risk assessment program, and by creating toolkits designed to help you with complex patient care issues like management of anti-coagulants. We maintained our aggressive stance of vigorously defending lawsuits against members by trying a record 38 cases to jury verdict during the year. We strengthened our relationships with our outstanding team of defense attorneys, and the next generation of talented and skilled younger attorneys is emerging under the tutelage of our Diamond Defense senior mentors. We have invested significantly in the training and education of these younger litigators to ensure our (and your) future success in the courtroom.

We continued to apply stringent underwriting criteria as new physicians joined your Company. Overhead and operating expenses were strictly controlled and now represent less than 9% of the premiums collected — the lowest among our peer companies. Our investments produced record returns. Clearly, 2006 was a year where many factors came together, once again demonstrating that physicians working together can indeed make a difference.

The strong economic results achieved by the Company continue to provide us with stability, flexibility and strength for the future. Your Board of Directors intends to use a portion of the income generated during 2006 to fund the repayment of \$10 million we borrowed in the form of a surplus note in 2003, and we will use the

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## Operating Highlights

A. M. Best confirms Medical Mutual's "A" Excellent financial rating for the fourth consecutive year.

The total number of physicians insured by the Company surpasses 8600, setting another record high.

Written premiums increase 5% to \$138.6 million.

The Company's operating expense ratio drops to less than 9%, the lowest in the medical malpractice insurance industry.

Net income reaches \$24 million, allowing the Company to maintain the financial ratios necessary to support its strong industry and regulatory ratings.

Subsidiary operations of the Company contribute an aggregate of \$4.0 million in income to support core insurance operations.

## Maintaining Risk / Educating Members

Risk Management launches STARS, a new version of the office-based Risk Assessment program. The custom-designed program provides the most accurate and detailed measurement of risk exposures to date.

Risk Consultants assess 430 physicians and their practices, and reach more than 400 attendees at medical staff seminars presented in conjunction with the Risk Assessment.

Risk Consultants perform six-month Risk Assessment follow-up visits at 70 practice locations. 91% score substantially or fully compliant with priority recommendations.

Risk Management introduces a state of the art Anticoagulation Therapy Toolkit and provides it to more than 200 practices. Providers praise the toolkit for its usefulness in managing this complex and high-risk area of patient care.

More than 500 physicians are awarded Level 1 Continuing Medical Education (CME) Credits totaling approximately 1100 credit hours.

balance of the income to stabilize premiums for as many months into the future as possible. Your Board also voted to pay out a record \$730,000 to holders of the Company's Guaranty Capital. A.M. Best recently reaffirmed the "A" rating of Medical Mutual for the fourth consecutive year, signifying that our financial health is indeed strong and vibrant for the future.

As we look to 2007 and beyond, we see opportunities to better serve your needs. Many of you responded to our recent customer satisfaction survey with helpful ideas and suggestions for improving our service. Our physician and practice administrator Boards across our market continue to offer valuable input and guidance regarding the needs of our members. And within the company, we have a team of devoted professionals who are constantly developing strategies and ideas to enhance the products and resources we offer to our members. We adhere to a popular and contemporary adage that "Amateurs work until they get it right; professionals work until they cannot get it wrong." We strive to be those professionals, working for you and with you every day.

We enjoy featuring various members of the Medical Mutual family in your Annual Report each year. This year, we are pleased to include the comments of several members regarding their relationships and experiences with the Company. We hope that many of you share similar thoughts about your experiences with Medical Mutual.

Over the next several months, we believe that the professional liability insurance market will continue to soften, with many carriers entering the market and offering what appear to be attractive premium rates. They will tell you that there is no difference between their company and Medical Mutual. Nothing could be further from the truth. We remain the only physician-owned company that has operated continuously in North Carolina for 32 years. We have and will continue to set the standards in the marketplace for claims handling, risk management services, and an array of services and products that help you and your practice succeed. Your interests are and will be our first and only priority.

Thank you for placing your trust and confidence in Medical Mutual. We sincerely appreciate the opportunity to serve you each and every day.



Henry J. Carr, Jr., MD  
Chairman



A. Dale Jenkins  
Chief Executive Officer



"I was named in a lawsuit several years ago and my experience with Medical Mutual throughout the case was nothing short of stellar. From my first contact with my claims representative until I was dismissed from the case, I always felt that Medical Mutual was 100% committed to me. I had complete confidence in my attorney and I always felt that I had the support of the Medical Mutual associates who were with me in court.

"I will never forget the court-appointed mediator trying to convince me that it would be much easier to settle the case than take it to trial. Medical Mutual allowed me and my counsel to remain in the 'driver's seat' and I was ultimately dismissed from the case. I am convinced it was because of our willingness to stick to principles and not settle.

"During and since this experience, I have felt that Medical Mutual was 'with me all the way.' The investment in Medical Mutual is the best you can make. Hopefully, you will never need to use your medical malpractice coverage, but if you do you will be glad that Medical Mutual is your provider."

## Christopher C. Thomas, MD

Radiologist  
Eastern Radiologists  
Greenville, NC

"I have worked with Medical Mutual for more than 10 years and have found them to be an exceptional company. It's a given to say that they provide great service – they are responsive to requests and provide the best defense available. However, it's the unexpected that makes them exceptional. Medical Mutual doesn't just listen to their customers; they solicit our suggestions and feedback through their Community and Advisory Board meetings across the state. As an administrator in the high-risk field of neurosurgery, I've found Medical Mutual's risk management services to be a great partner for our practice.

"Medical Mutual also looks beyond its primary responsibility of insuring health care professionals by contributing significant support to the North Carolina Medical Group Managers. The Company's support provides educational opportunities and enhances the leadership skills of managers across the state. Medical Mutual has a unique understanding of the importance of the administrator's role in a medical practice, and NCMGM greatly appreciates their commitment to our managers."

## Mary Cloninger, CMPE

Executive Director  
Carolina Neurosurgery and Spine Associates  
Charlotte, NC



## Balance Sheet

<b>Assets</b>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Invested Assets	\$ 320,906,583	\$ 273,670,948
Accrued Investment Income	2,749,914	2,234,574
Premiums Receivable	40,002,029	39,010,265
Information Technology Systems	143,763	244,371
Federal Income Taxes	1,152,743	0
Other Assets	6,339,077	6,347,407
<b>Total Assets</b>	<b>\$ 371,294,109</b>	<b>\$ 321,507,565</b>
<b>Liabilities And Policyholders' Surplus</b>		
Liabilities		
Loss and LAE Reserves	\$ 159,500,000	\$ 143,000,000
Unearned Premium Reserves	47,671,789	46,934,419
Reinsurance Balances Payable	26,390,234	29,382,211
Other Liabilities	10,014,828	10,971,898
<b>Total Liabilities</b>	<b>\$ 243,576,851</b>	<b>\$ 230,288,528</b>
Policyholders' Surplus	\$ 127,717,258	\$ 91,219,037
<b>Total Liabilities and Policyholder's Surplus</b>	<b>\$ 371,294,109</b>	<b>\$ 321,507,565</b>

## Maintaining Financial Strength

Total assets of the Company grow to \$371 million.

The Company's capital and surplus increases to over \$127 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 \$160 million to pay claims that have been reported to the Company — another record high.

The Company's net written premiums to surplus ratio decreases to 72%, which remains in line with the industry benchmark for companies with an "A" rating from A.M. Best.

The Company's combined ratio, which is the ratio of claims and expenses incurred compared to earned premiums, drops to 75.2% — well below the industry average.

## Defending Claims

796 incidents, claims and suits are reported against Medical Mutual members — a decrease of 53 from the number reported during 2005.

The Company pays total claims and claim-related expenses of \$49.2 million — a decrease of \$5 million from the amount paid in 2005.

62 claims are paid in amounts of more than \$100,000 or greater, but less than \$1 million each. Seven claims each are paid in amounts of \$1 million or greater.

The Company tries a record 38 cases. 32 resulted in a defense verdict, 5 resulted in a plaintiff's verdict and one resulted in a hung jury.

## Income Statement

	December 31, 2006	December 31, 2005
Direct Written Premiums	\$ 138,569,959	\$ 132,233,994
Assumed Premiums	717,222	792,975
Ceded Reinsurance Premiums	(47,345,258)	(42,463,406)
<b>Net Written Premiums</b>	91,941,923	90,563,563
Change in Unearned Premium Reserve	(737,370)	(10,295,563)
<b>Net Earned Premiums</b>	\$ 91,204,553	\$ 80,268,000
Commission (Expense)	964,492	494,445
Loss and Loss Adjustment Expense Incurred	(62,289,331)	(66,245,670)
Premium Taxes	(2,791,234)	(2,877,208)
Other Underwriting Expenses	(5,044,827)	(4,867,643)
<b>Underwriting Gain/(Loss)</b>	22,043,653	6,771,924
Net Investment Income	9,582,517	6,899,646
Other Income	516,239	4,954,769
Operating Income	32,142,409	18,626,339
Realized Capital Gains	5,579,881	2,572,050
Federal Income Tax	(13,463,000)	(8,162,000)
<b>Net Income</b>	24,259,290	13,036,389

A man with short dark hair, wearing a white dress shirt and a patterned tie, is smiling slightly and looking towards the camera. He is positioned in front of a large green circular graphic that is partially cut off by the left edge of the page. The background behind him is a light-colored wall with a subtle grid pattern.

"When I was served with a wrongful death malpractice suit in 2002, Medical Mutual provided me with a top-notch lawyer and more moral support than I could have ever imagined. My claims representative was in the courtroom most days during the trial, always offering emotional support and a reassuring hug while we were waiting for the verdict. That dedication and support meant even more to me than the winning verdict we secured in 2006. I hope that I am never faced with another medical malpractice suit, but it is very reassuring to know that Medical Mutual is with me every step of the way. For that, the Pinehurst Medical Clinic and I are truly grateful. The practice of medicine is arduous and unfortunately, our society is very litigious, but it is reassuring to know that physicians have a friend in Medical Mutual."

## Philip Mondi, MD

Internist  
Pinehurst Medical Clinic  
Pinehurst, NC

"I have been a member of Medical Mutual since I arrived in North Carolina eight years ago. In this era of instability in the healthcare marketplace, Medical Mutual has been a stable foundation for its members. The staff is willing to help me at any time with questions about individual concerns and general questions regarding medical liability. They have been leaders in promoting meaningful medical liability reform in our state. They have always been honest about pricing and are constantly working to keep costs down through wise financial decisions and practice guidelines that minimize risk and improve patient care. As a doctor-owned company, the leaders actively listen to physicians in the community and use that feedback to help us practice safely in a sometimes hostile medical-legal environment. I appreciate everything Medical Mutual does to help me perform my duties as a physician on a daily basis."

## Peter G. Mangone, MD

Orthopaedic Surgeon  
Blue Ridge Bone & Joint  
Asheville, NC



## Board of Directors

Henry J. Carr, Jr., MD  
*Chairman & President*

Thomas H. McCoy, MD  
*Vice-Chairman &  
First Vice-President*

H. David Bruton, MD  
*Secretary*

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

## Community Board Members

### Coastal:

Millard F. Banker, IV, MD  
Jessica Burkett, MD  
William A. Crafford, Jr., MD  
J. William Eakins, MD  
Brian Gilmore, MD  
James Hundley, MD  
Michael Moulton, MD  
David Weatherford, MD

### Triangle:

Robert Bilbro, MD  
Paul Burroughs, III, MD  
Robert Frere, MD  
Joan T. Jordan, MD  
Jeff Kobs, MD  
Robert Littleton, MD  
Robert McConville, MD  
Jim Palombaro, MD

Jerome Parnell, MD  
H. Cliff Patterson, MD  
Robert Peyton, MD  
John W. Rusher, MD

### Triad:

Chuck Clark, MD  
Greg Cregan, MD  
Greg Hayes, MD  
Slade Howell, MD  
Haywood Ingram, MD  
John W.F. Mann, MD  
Robert Nudelman, MD  
Brian Sumner, MD  
Robert Wainer, MD  
Virgil Willard, II, MD

### Metrolina:

Akinyele O. Aluko, MD

Allen Dobson, Jr., MD  
Hunter Dyer, MD  
Michael Frye, MD  
Paul Galentine, MD  
Steve G. Justus, MD  
Johnson Kelly, MD  
Robert Petrilli, MD  
Clifford Roemer, MD  
Frank Stranick, MD  
Paul Vadnais, MD  
Kristin Wagner, MD  
Kevin Weiss, MD  
W. Lee Young, MD

### Mountain:

Harry Burton, MD  
Steven A. Chamberlain, MD  
Ted Humble, MD  
Harry Lipham, MD

Peter G. 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  
Joseph Zocco, MD

## Community Involvement

Our Community and Advisory Boards meet twice a year in nine communities. Input and counsel from their physician and administrator members continue to provide valuable benefits to the Company.

John S. Nosek, MPA, CMPE, a Greensboro practice administrator, is named the North Carolina Medical Group Managers' Administrator of the Year, an award funded and presented by the Company each year.

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

Medical Mutual participates in community service projects for Meals on Wheels, the Susan G. Komen Breast Cancer Foundation, Special Olympics, the Food Bank of North Carolina, Urban Ministries Food Pantry, the Raleigh Rescue Mission, the American Red Cross, and the Wake County Department of Human Services.



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