



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



ANNUAL REPORT 07



“Medical Mutual has insured Goldsboro Pediatrics for over a quarter of a century. Although we have been presented with various proposals from competitors over the years, we have never considered changing. As a practice, we decided that we needed to be with the best professional liability company, and Medical Mutual clearly is the best. Two lawsuits later, it is obvious that staying with Medical Mutual was one of the smartest business moves we ever made. I had the opportunity to experience, firsthand, the full force of their resources when Medical Mutual successfully and vigorously defended me against malpractice allegations. The company never wavered in their support and spared no expense to prepare my defense. They were genuinely interested in my well being as a physician, in addition to defending me as their client. My attorney, Bob Walker, was available to me seven days a week. He spent untold hours becoming familiar with my case, conducting review sessions, and offering support and reassurance. He was absolutely brilliant. Partnering with a company like Medical Mutual and an attorney like Bob Walker is a very comforting feeling in today’s litigious environment. I couldn’t envision practicing without them.”

**Joseph W. Ponzi, MD**  
Pediatrician  
Goldsboro Pediatrics  
Goldsboro, NC



## Annual letter to our policyholders

As we compile our annual report each year, we take great pride in telling you, our physician owners, about the successes of the company you created more than 30 years ago and still control today. Your Company achieved outstanding results, once again, in 2007. But in this year’s report, we want to tell you not just about the accomplishments of the previous year, but about the successful execution of our long-term strategic plan. In 2003, under the guidance of our physician insureds, Medical Mutual developed an ambitious plan designed to improve our financial strength and enhance our ability to provide you with a stable, reliable source of professional liability insurance for years to come. We are pleased to report that with your help and support, that plan has worked. Medical Mutual achieved every benchmark of our long-term financial plan in 2007, leaving your Company more robust and better poised for the future than at any time in its history. Those accomplishments include:

- **For the first time in Company history, a policyholder dividend will be paid to North Carolina physicians.** Based on economic performance, the Board of Directors declared a \$3 million dividend to be paid to North Carolina physicians upon their next policy renewal. It is our goal to make a dividend payment annually and to expand the dividend program to the other states we serve in the future.
- **There will be no increase in base premium rates for 2008.** This marks the third year in a row that base rates have remained flat. Your commitment to quality care and other factors resulted in an 8% drop in the number of lawsuits filed in 2007 against physicians we insure. We did pay 10 claims that were each \$1 million or more, compared to 7 claims in 2006, and there continues to be an increase in the amounts we pay to settle claims. However, the claim trends we are experiencing are better than we had previously forecasted.
- **With your approval, we will suspend the Guaranty Capital Program.** As many of you know, we have historically required each North Carolina physician to deposit with the Company a minimum of \$2,000 as a condition of being insured. Subject to policyholder vote, we intend to eliminate this requirement and begin to return over \$12 million in Guaranty Capital deposits to North Carolina physicians.
- **Medical Mutual will be debt-free by the end of 2008.** In 2003, we borrowed \$10 million to improve the financial strength of the Company. The financial results achieved over the past few years now allow us to repay this debt by the end of 2008, resulting in the Company having no external debt.
- **Operating expenses of the Company continue to average less than 10% of the premiums we collect, compared to an industry average of 17%.** Controlling our overhead expenses, which include salaries, rent, information technology, communications and similar items, is a priority for us. By operating the Company at an expense level that is approximately 40% better than the industry average, premiums we charge are tied directly to the level of claims we experience — not the level of overhead we incur.

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## Operating Highlights

A.M. Best confirmed Medical Mutual’s “A” Excellent financial rating for the fourth consecutive year.

The total number of physicians insured by the Company surpassed 8,650, setting another record high.

Written premiums increased 1.5% to \$140.6 million while base premium rates remained unchanged.

The Company’s expense ratio of 9.6% continued to be among the lowest in the industry.

The Company’s investment income grew more than 14% to \$10.9 million.

Net income grew 7.4% to \$26.1 million, allowing the Company to meet its financial plan of stabilizing premium rates and eliminating debt while maintaining the financial ratios necessary to support its strong industry and regulatory ratings.

Subsidiary operations of the Company contributed an aggregate of \$5.5 million to support the core insurance operations.

The Company declared a \$3 million policyholder dividend.

## Managing Risk and Educating Our Members

Risk Management introduced the Emergency Medicine portion of our custom-designed STARS Risk Assessment program and used it to assess nearly 100 Emergency Medicine providers

Risk Management used STARS to assess 476 physicians and their practices. Providers praised the program for its efficiency and its accurate measurement of risk exposures.

Risk Consultants performed six-month follow-up visits to practices who received the in-office Risk Assessments. Practices demonstrated 86% compliance with critical risk exposure recommendations.

Risk Management introduced two new toolkits to help medical practices reduce risk. One toolkit educated medical office staff on basic risk management issues. A second toolkit provided guidance about the appropriate supervision of physician extenders.

Risk Consultants and Risk Managers reached 780 attendees at medical office staff seminars.

Nearly 400 physicians were awarded Level 1 Continuing Medical Education (CME) credits for attendance at Risk Management programs, totaling approximately 1100 credit hours.

- **For the fourth consecutive year, Medical Mutual received an “A” (Excellent) rating from A.M. Best.** Best is the oldest and most prestigious insurance rating agency in the country. We are in a very small group of professional liability insurance companies that carry this high rating. This rating indicates the long-term financial strength of the Company and our ability to protect you.

The items outlined above are major accomplishments; however, there were many other important activities that occurred during 2007. Our focus on developing topical, timely risk management toolkits continued, with publications on the supervision of physician extenders, and the top ten ways to guarantee a lawsuit. Our team of risk management consultants traveled to a large number of practices we insure to assess their risk level and provide practical suggestions to improve the care of and communications with their patients. We continued our aggressive defense of lawsuits filed against physicians we insure, trying and winning 88% of trials where there was a jury verdict. Our claims representatives and defense lawyers are second to none, and they continue to achieve outstanding results for physicians who find themselves facing a malpractice suit. Our underwriters continue to develop techniques that allow us to better determine whom we should insure and the right price to charge for the risk an individual physician presents.

Unlike many companies that discovered problems with their investment portfolios, we experienced solid investment returns during 2007 that exceeded our benchmarks. The vast majority of our investments are in high-quality bonds that performed well. Other investments, including stocks, real estate, and our subsidiary companies, also provided strong returns for us during the year.

Consistent with our recent Annual Reports, we have provided financial and operational highlights for you throughout this report. Additionally, you will find comments from physicians and a practice administrator describing their experiences with Medical Mutual. We hope you will take a few moments to read this information so that you can gain further perspective on the results that were achieved during 2007, and the importance of having a partner like Medical Mutual working on your behalf.

The strength of our Company is directly related to the individuals who comprise what we call the “Medical Mutual family.” It all begins with you, the physician, and your commitment to provide quality care for your patients. Your willingness and desire to share your daily activities with us, either one-on-one, through your participation on our advisory boards, or through our many focus groups, have been invaluable. Our team of talented associates has listened and observed carefully, and worked hard to craft outstanding products, services, and resources for you. People make the difference, particularly when they work together for a common cause. Please know that with Medical Mutual, there is but one objective for us – Protecting Our Profession.

We sincerely appreciate your support and the opportunity to serve you.



Henry J. Carr, Jr. MD  
Chairman of the Board



A. Dale Jenkins  
Chief Executive Officer



“I have worked with Medical Mutual for 26 years and have found them to be exceptional in their support of the North Carolina Medical Group Managers and the North Carolina Pediatric Society Practice Managers. They are dedicated to providing educational opportunities for practice administrators and helping their professional development.

“Medical Mutual has also been outstanding in meeting the daily needs of our practice. The underwriters have been very accommodating when I have personnel changes at our practice. Medical Mutual’s Risk Management department is a wealth of knowledge and I can telephone them any time I have a question. They have performed three Risk Assessments for our practice, and their recommendations have helped us reduce our risk and provide better patient care.

“Medical Mutual is a great fit for Catawba Pediatrics.”

### Debbie Cashion

Practice Administrator  
Catawba Pediatrics  
Hickory, NC

“As president of Wake Emergency Physicians, a group of 66 emergency medicine physicians and 15 midlevel providers, I was very impressed with the Risk Assessment Medical Mutual performed for our practice in 2007. Medical Mutual’s Risk Management team made a dedicated effort to learn about our practice and how we work on a daily basis. They reviewed charts from each of our providers and spent time in our Emergency Departments interviewing our physicians, nurse managers and floor nurses.

“Medical Mutual used that information to compile a detailed report of their findings and present a focused risk management seminar specifically for our group. Medical Mutual’s general counsel personally gave this presentation four times to make sure every one of our providers was able to attend.

“I believe the risk assessment not only helped our group implement risk reduction strategies, but it also helped Medical Mutual learn more about the field of Emergency Medicine. I am grateful to Medical Mutual for the time they spent reviewing our practice, and I know that over the years this assessment will benefit both Wake Emergency Physicians and Medical Mutual in decreasing our medical liability exposure.”

### James F. Palombaro, MD

President  
Wake Emergency Physicians, PA  
Raleigh, NC



## Balance Sheet

Assets	December 31, 2007	December 31, 2006
Invested Assets	\$ 363,710,103	\$ 320,906,583
Accrued Investment Income	3,074,196	2,749,914
Premiums Receivable	37,838,356	40,002,029
Federal Income Tax Recoverable	1,092,352	1,152,743
Net Deferred Tax Assets	4,739,000	4,916,193
Other Assets	5,735,252	1,566,647
<b>Total Assets</b>	<b>\$ 416,189,259</b>	<b>\$ 371,294,109</b>
<b>Liabilities And Policyholders’ Surplus</b>		
Liabilities		
Loss and LAE Reserves	\$ 166,000,000	\$ 159,500,000
Unearned Premium Reserves	46,829,414	47,671,789
Reinsurance Balances Payable	31,775,532	26,390,234
Policyholder Dividends Declared and Unpaid	3,000,000	0
Other Liabilities	15,460,611	10,014,828
<b>Total Liabilities</b>	<b>\$ 263,065,557</b>	<b>\$ 243,576,851</b>
Policyholders’ Surplus	\$ 153,123,702	\$ 127,717,258
<b>Total Liabilities and Policyholders’ Surplus</b>	<b>\$ 416,189,259</b>	<b>\$ 371,294,109</b>

## Maintaining Financial Strength

Total assets of the Company grew to \$416 million.

The Company’s capital and surplus increased to over \$153 million due to the operating results of the Company and its subsidiaries.

The Company again demonstrated its conservative and financially prudent reserving methodology by setting aside \$166 million to pay future claims – another record high.

The Company’s net written premiums to surplus ratio decreased to 61.8%, in line with the industry benchmark for companies with an “A” rating from A.M. Best.

The Company’s combined ratio — the ratio of claims and expenses incurred compared to earned premiums — dropped to 69%, well below the industry average.

## Defending Claims

740 incidents, claims and suits were reported against Medical Mutual insureds in 2007 — a decrease of 56 from the number reported in 2006.

Medical Mutual paid total claims and claim-related expenses of \$51.7 million — an increase of \$2.5 million from the amount paid in 2006.

Indemnity payments were made on 99 cases, with 10 payments of \$1 million or more.

Medical Mutual tried a total of 32 cases in 2007, with 28 resulting in defense verdicts and 4 resulting in plaintiff verdicts.

The active pending lawsuit count is 570 — the lowest in approximately 10 years.

## Income Statement

	December 31, 2007	December 31, 2006
Direct Written Premiums	\$ 140,631,147	\$ 138,569,959
Assumed Premiums	599,546	717,222
Ceded Reinsurance Premiums	(46,667,174)	(47,345,258)
<b>Net Written Premiums</b>	<b>94,563,519</b>	<b>91,941,923</b>
Change in Unearned Premium Reserve	842,375	(737,370)
<b>Net Earned Premiums</b>	<b>\$ 95,405,894</b>	<b>\$ 91,204,553</b>
Commission (Expense)	525,601	964,492
Loss and Loss Adjustment Expense Incurred	(56,660,749)	(62,289,331)
Premium Taxes	(2,761,171)	(2,791,234)
Other Underwriting Expenses	(7,409,853)	(5,044,827)
<b>Underwriting Gain/(Loss)</b>	<b>29,099,722</b>	<b>22,043,653</b>
Net Investment Income	10,937,685	9,582,517
Other Income	571,345	516,239
Operating Income	40,608,752	32,142,409
Dividends to Policyholders	(3,000,000)	0
Realized Capital Gains	1,371,791	5,579,881
Federal Income Tax	(12,925,000)	(13,463,000)
<b>Net Income</b>	<b>26,055,543</b>	<b>24,259,290</b>



“Two years ago my practice was served with a malpractice suit for failure to diagnose a young woman with breast cancer. The plaintiff attorney was well known locally and had an advertisement in the phone book listing his successful cases with aggregate settled claims exceeding \$40 million. Named in our suit were four providers and our two corporate entities. Medical Mutual immediately had our case reviewed by a panel of physicians and determined that our practice was not at fault. They then secured the services of an outstanding law firm specializing in defending physicians involved in malpractice suits. For the next 18 months Medical Mutual, the attorneys, and my practice worked together to develop a defense strategy that proved successful. After a three-week trial, the jury took only three hours to determine that my practice was not at fault. While in court it was very comforting to have present our claims representative as well as physicians and executives representing Medical Mutual. Thanks to Medical Mutual my partners and I can now get back to what we were trained to do — taking care of patients.”

### Tinsley W. Rucker, MD

Family Practitioner  
Fayetteville Family Medical Care, PA  
Fayetteville, NC

"I find comfort knowing that I have a great team behind me with Medical Mutual. As a physician-owned company, they are sensitive to the many issues we as healthcare providers face daily. They provide us and our administrators the resources we need to be successful and minimize risk in our medical practices. The physician community and administrator advisory board meetings give us an opportunity to address our issues and hear important risk management information. Medical Mutual recognizes our demands as medical professionals and strives to help us respond to the inevitable challenges we face."

**Kristin E. Wagner, MD**

General Surgeon  
Charlotte Surgical Group  
Charlotte, NC



**Board of Directors**

- |  |   |   |
|--|---|---|
| Henry J. Carr, Jr., MD<br><i>Chairman &amp; President</i>              | H. David Bruton, MD<br><i>Secretary</i>                                 | Michael P. Moulton, MD<br>Rachel H. Ross, MD<br>Robert E. Schaaf, MD<br>Chris M. Teigland, MD |
| Thomas H. McCoy, MD<br><i>Vice-Chairman &amp; First Vice-President</i> | A. Dale Jenkins<br>Mott P. Blair, IV, MD<br>Charles C. Crowell, III, MD |   |

**In Memoriam:** Kevin L. Weiss, MD (1958-2006)  
*Dr. Weiss, an ENT physician from Gastonia, served on the Medical Mutual Metrolina Physicians Community Board from 2002 until his death in 2006. He was a tremendous physician and a strong advocate for the profession. He gave unselfishly to the community he served. Dr. Weiss was equally devoted to his family and enjoyed spending his free time at their home in the mountains. He is survived by his wife Juli and their five children.*

**Community Board Members**

- |   |   |  |  |                                      |  |  |   |
|---|---|--|--|--------------------------------------|--|--|---|
| <b>Coastal:</b><br>Millard F. Banker, IV, MD<br>Jessica Burkett, MD<br>J. William Eakins, MD<br>Brian Gilmore, MD<br>Clyde Harris, MD<br>James Hundley, MD<br>Peter Kramer, DO<br>James Snyder, MD<br>David Weatherford, MD | <b>Triad:</b><br>Robert Bilbro, MD<br>Paul Burroughs, III, MD<br>Robert Frere, MD<br>Joan T. Jordan, MD | Jeff Kobs, MD<br>Robert Littleton, MD<br>Robert McConville, MD<br>Jim Palombaro, MD<br>Jerome Parnell, MD<br>H. Cliff Patterson, MD<br>Robert Peyton, MD<br>John W. Rusher, MD | <b>Metrolina:</b><br>Hunter Dyer, MD<br>Michael K. Frye, MD<br>Paul Galentine, MD<br>Clifford Roemer, MD<br>Paul Vadnais, MD<br>Kristin Wagner, MD<br>W. Lee Young, MD | <b>Mountain:</b><br>Harry Burton, MD | Robert Nudelman, MD<br>Brian Sumner, MD<br>Robert Wainer, MD<br>Virgil Willard, MD | Steven A. Chamberlain, MD<br>Ted Humble, MD<br>Harry Lipham, MD<br>Peter G. Mangone, MD<br>James Montgomery, MD<br>Edward Plyler, MD<br>William Snoddy, MD | <b>Virginia:</b><br>Anthony Cetrone, MD<br>Howard Fraunce, MD<br>John Kowalski, MD<br>John McConnell, MD<br>Barry Rothman, MD<br>Joseph Zocco, MD |
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**Community Involvement**

Medical Mutual's Community and Advisory Boards met twice a year in nine communities across North Carolina and Virginia. Input and counsel from their physician and administrator members continued to provide valuable benefits to the Company in 2007.

Robert E. Williams, a Clinton practice administrator, was named the North Carolina Medical Group Managers' Administrator of the Year, an award funded by Medical Mutual.

Medical Mutual received the prestigious President's Award from the North Carolina Medical Group Managers Association. The award is given by the president of the NCMGM to the organization that made the greatest contribution of time, energy and resources to the association, its members, medical group management, and the medical community at large.

Medical Mutual and its employees donated over \$31,000 to the Triangle United Way in 2007.

Medical Mutual employees participated in community service projects for Meals on Wheels, the Susan G. Komen Breast Cancer Foundation, the Open Door Clinic, and the Food Bank of North Carolina.



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