



Medical MutualSM

PROTECTING OUR PROFESSION



ANNUAL REPORT 08





"Medical Mutual has been my malpractice insurance provider for over twelve years. It was obvious that this Company was the top choice for my colleagues and our network. Medical Mutual is a well-managed and financially stable organization that works to keep our premiums down.

"My practice's first experience with Medical Mutual involved a risk assessment. The assessment was educational and straightforward. Since then, we have had several risk management programs in our community sponsored by Medical Mutual and Southeast Quality Care. These programs have expanded our knowledge and helped us to avoid potential claims.

"Malpractice coverage is difficult to evaluate. A physician may not know how good it is until he or she needs it. I have not yet had to ask Medical Mutual to defend a claim, but I have peace of mind knowing that they are and will be in my corner whenever the need arises."

Steven Yates, MD

President, Southeast Quality Care
Gaston Hematology & Oncology Associates
Gastonia, NC

Annual letter to our policyholders

Over the past 12 months, we have witnessed and experienced events that have shaken our faith and confidence in the very financial systems and markets that we have historically trusted and relied upon. Financial institutions with household names have collapsed. The value of investment portfolios has precipitously declined. Thousands of jobs have been lost. Consumer confidence is at an all-time low. And, the daily news is filled with talks of government bailouts and nationalization of traditionally private enterprises. The convergence of these events has forced us all to re-examine and challenge every aspect of our businesses, including the various relationships that we have developed and nurtured over the years. More than ever, we have come to realize the importance of having partners that we know and trust, and partners that we can count on both today and tomorrow.

Every day, we work to position your Company as an organization that is built to last — one that can remain vibrant and strong in a variety of market conditions, including those that exist today. The concept of trust has taken on new meaning. True partnerships are built on trust. You can and should rely on us to be here as your partner to protect, defend and support you. We take our responsibilities and obligations to do so seriously, backing them with ample resources and talented, experienced people who have a proven track record of performance.

Despite the challenging economic environment, Medical Mutual experienced solid financial results for 2008. Our commitment to disciplined underwriting, charging fair and reasonable premiums, aggressively defending lawsuits brought against our physician insureds, controlling our overhead expenses, and maintaining a conservative investment portfolio, once again, produced results that make Medical Mutual one of the most financially sound professional liability insurance companies in the country. Our balance sheet is strong. Our capital and surplus is at an all-time high, and we insure more physicians today than at any time in the history of the Company. In testament to our solid financial condition, A.M. Best recently affirmed, for the 5th consecutive year, our financial rating of "A" Excellent. We are one of only a few, select companies that carry this rating.

In our 2007 report, we outlined several initiatives planned for 2008. We discussed the payment of the first policyholder dividend in company history — which in fact occurred in April. And, we are pleased to report that the Company intends to continue returning money to our policyholders in 2009 by making a contribution of \$6.25 million to our newly created member savings accounts. We repaid all \$10 million of external debt and began a program to redeem outstanding guaranty capital obligations to North Carolina insureds. We will continue the guaranty capital redemption program in 2009 with the goal of having all guaranty capital refunded to our policyholders by 2011. All together, we retired debt and paid dividends totaling over \$16 million in 2008.

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Operating Highlights

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

The total number of physicians insured by the Company surpassed 8,800, setting another record high.

The Company's expense ratio of 10.4% continued to be among the lowest in the industry.

The Company's investment income grew to more than \$11 million.

Net income was \$24.8 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 \$4 million to support the core insurance operations.

The Company repaid \$3.7 million of Guaranty Capital and paid nearly \$3 million in policyholder dividends.

Managing Risk and Educating Our Members

Risk Management successfully achieved an additional 4 years of ACCME accreditation and awarded a total of 675 CME credit hours to physicians.

We collaborated with researchers from Vanderbilt University to facilitate a group discussion on the topic of Patient Satisfaction. A total of 60 physicians, physician extenders, and practice administrators attended the session and rated it highly.

Risk Consultants performed six-month follow-up visits to practices who received the in-office Risk Assessments. Practices demonstrated approximately 80% compliance with the critical risk exposure recommendations.

We worked with liability insurers nationwide to promote the Health Care Notification Network, a free service that provides online notifications of drug recalls and patient safety notices to physicians. Mailings were sent to nearly 2,800 practices.

We now have a total of 35 informed consents compliant with the new Centers for Medicare and Medicaid Services (CMS) guidelines. A new software program, Health Literacy Innovations, helped create forms at the nationally recommended 6th to 8th grade reading level.

While the financial strength of the Company is important, it is equally important for us to continue to provide you superior products, programs and customer service. Although our primary mission is to protect you in the event of a malpractice lawsuit, we feel a strong sense of obligation to provide you resources that help you and your practice in many other ways. Our innovative and thoughtful risk management “toolkits” are one example of how we help you address various issues in your practice. During the coming year, watch for toolkits related to revenue integrity and patient satisfaction. Also in the upcoming year, we will make available to all of our members *HR|Experts*, a free program staffed by a dedicated human resource specialist who is available to help with the various employee and employment related matters you may encounter.

During 2008, we significantly enhanced our website by providing more and better content, implementing an updated “members only” section, and developing a platform for your practice to conduct many routine business transactions with us electronically. For example, all new applications for coverage, changes in coverage, billing inquiries, and the generation of certificates of insurance can be handled electronically through the website. These tools will effectively give us the ability to serve you every hour of every day. Watch for updates throughout the year on when this new technology will be available for your practice. Please know that we want your practice to be successful in every way, and we will continue to look for ideas and services that will help with that objective.

Throughout this year’s report, we have followed our tradition of providing you with significant financial and operating highlights. We hope you will take a minute and read this material. We always enjoy featuring comments from physicians and practice administrators regarding their relationship with Medical Mutual. Their comments are representative of the numerous letters and emails we receive from many of you throughout the year expressing your thoughts and ideas about particular issues. Every comment is appreciated and considered.

The challenging times we face today remind us constantly of the importance of being insured by a company that has both the ability to defend and protect physicians, and a passion for helping them be as successful as possible. Medical Mutual is such a company, and we consider it a privilege to serve our physician owners who truly make a difference in the lives of countless Americans each and every day.



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



A. Dale Jenkins
Chief Executive Officer



“I have had the pleasure of serving on Medical Mutual’s Virginia Community Board for several years. As President of Bayview Physician Services, PC, I secure malpractice liability coverage for over one hundred physicians. I would highly recommend Medical Mutual Insurance Company to my colleagues for their medical liability coverage.

“At all levels, from underwriting to risk management, Medical Mutual provides excellent customer service. This is a physician-owned company and that is reflected in the always reassuring and supportive responses that one receives regarding any issue. Year in and year out, the business management team has maintained an A.M. Best ‘A’ rating — ‘Excellent’ for financial strength — while consistently providing coverage at very competitive rates.”

Anthony Cetrone, MD

President
Bayview Physician Services
Chesapeake, VA

"As CEO of Boice-Willis Clinic, a multispecialty practice of over 65 healthcare professionals providing medical care to eastern North Carolina, I am proud to say that Medical Mutual has insured our Clinic since 1998. During this time, they have been more than a malpractice coverage provider; they have been a strategic business partner providing us with value-added benefits to protect and enhance our Clinic.

"One of these benefits is Medical Mutual's Administrator Advisory Boards. At these board meetings, Medical Mutual discusses employment and compliance issues, medical/legal risks, and provides tools to assist clients with these matters. As a member of the Triangle Administrator Advisory Board, I found this information to be useful, timely and valuable.

"Medical Mutual's risk management team conducted a full risk assessment for the practices within our Clinic in 2008. The team reviewed charts and interviewed physicians, nurses and the clinic's management. They spent the necessary time to understand operations in each clinical area, provided a very detailed report of their findings, and made recommendations for improvements. Their General Counsel and risk management team conducted presentations to our Clinic's Physician Board and membership reviewing the results of the audit and ensuring our understanding of the recommendations made. This invaluable free service provided to us by Medical Mutual continues to benefit our Clinic.

"Medical Mutual is a true business partner to Boice-Willis Clinic; one that works continually to decrease our medical legal exposure."

Gary J. Fazio

CEO
Boice-Willis Clinic, PA
Rocky Mount, NC



Balance Sheet

Assets	December 31, 2008	December 31, 2007
Invested Assets	\$ 374,577,157	\$ 367,505,797
Accrued Investment Income	3,557,896	3,074,196
Premiums Receivable	34,359,705	37,838,356
Federal Income Tax Recoverable	2,656,352	1,092,352
Net Deferred Tax Assets	7,205,000	4,739,000
Other Assets	189,810	1,939,558
Total Assets	\$ 422,545,920	\$ 416,189,259
Liabilities And Policyholders' Surplus		
Liabilities		
Loss and LAE Reserves	\$ 170,000,000	\$ 166,000,000
Unearned Premium Reserves	40,405,769	46,829,414
Reinsurance Balances Payable	35,833,996	31,775,532
Policyholder Dividends Declared and Unpaid	113,117	3,000,000
Other Liabilities	19,199,045	15,460,611
Total Liabilities	\$ 265,551,927	\$ 263,065,557
Policyholders' Surplus	\$ 156,993,993	\$ 153,123,702
Total Liabilities and Policyholders' Surplus	\$ 422,545,920	\$ 416,189,259

Maintaining Financial Strength

Total assets of the Company grew to \$423 million.

Despite the difficult investment market, the repayment of \$10 million of external debt, and the retirement of 25% of the outstanding Guaranty Capital, the Company's capital and surplus increased to \$157 million.

The Company again demonstrated its conservative and financially prudent reserving methodology by setting aside \$170 million to pay future claims — another record high.

The Company's net written premiums to surplus ratio decreased to 54.6%, 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 64%.

Defending Claims

802 incidents, claims and suits were reported against Medical Mutual insureds in 2008 — an increase of 62 from the number reported in 2007.

We paid total claims and claim-related expenses of \$51.3 million — a decrease of \$327,000 from the amount paid in 2007.

Indemnity payments were made on 89 cases, with 7 payments of \$1 million or more.

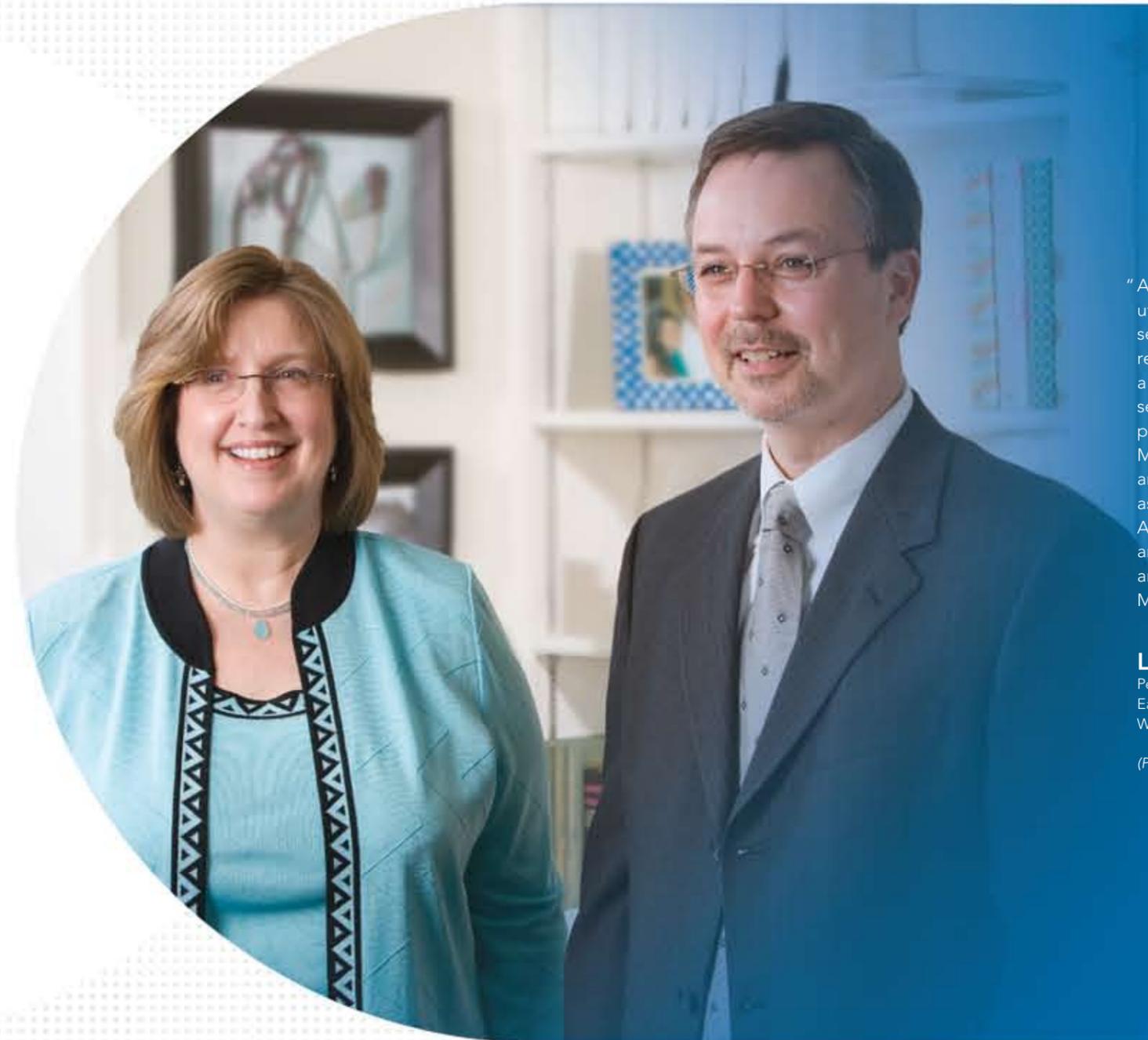
We tried a total of 30 cases in 2008, with only 6 resulting in plaintiff verdicts. The active pending lawsuit count is 498 — the lowest in over 10 years.

We continued our dedication to continuous education of our valued defense attorneys, sponsoring numerous clinical training programs to increase their medical knowledge.

We began to use eJury as a predictive tool of jury outcomes in all matters which we try to a verdict.

Income Statement

	December 31, 2008	December 31, 2007
Direct Written Premiums	\$ 133,409,855	\$ 140,631,147
Assumed Premiums	684,800	599,546
Ceded Reinsurance Premiums	(48,363,374)	(46,667,174)
Net Written Premiums	85,731,281	94,563,519
Change in Unearned Premium Reserve	6,423,645	842,375
Net Earned Premiums	\$ 92,154,926	\$ 95,405,894
Commission/(Expense)	194,055	525,601
Loss and Loss Adjustment Expense Incurred	(49,673,375)	(56,660,749)
Premium Taxes	(2,612,575)	(2,761,171)
Other Underwriting Expenses	(7,278,368)	(7,409,853)
Underwriting Gain/(Loss)	32,784,663	29,099,722
Net Investment Income	11,128,662	10,937,685
Other Income	795,743	571,345
Operating Income	44,709,068	40,608,752
Dividends to Policyholders	0	(3,000,000)
Realized Capital Gains/(Losses)	(8,856,194)	1,371,791
Federal Income Tax	(11,050,000)	(12,925,000)
Net Income	24,802,874	26,055,543



“ At Eastern Carolina Pediatrics, we have utilized a wide array of Medical Mutual’s services. Over the years, the practice has received a practice evaluation and a risk management assessment. Both services were helpful in guiding our practice. When it has been needed, Medical Mutual has provided brilliant and ethical legal counsel. Our attorney assigned to us by Medical Mutual, Jerry Allen, represented us with compassion and conviction. He is now counted among my friends. Our thanks to Medical Mutual for sending us the best.”

Leesa Lawrence, MD

Pediatrician
East Carolina Pediatrics
Wilson, NC

(Pictured at right: Attorney Jerry Allen)

"When the malpractice insurance crisis struck in 1975, Medical Mutual came into being and provided the lion's share of affordable liability coverage for physicians in North Carolina. By doing so, doctors were able to continue with what they do best — practicing great quality medicine. Medical Mutual walked in when the rest of the world walked out, representing a true ally in my book.

"I have been fortunate not to be sued during my past thirty-two continuous years with Medical Mutual; this is due mainly to the guidance, continuing education, accessibility and support of an outstanding team that is second to none. We are indeed fortunate to have a company of this caliber on our side, caring for us so that we, in turn, may care for the citizens of NC. No amount of thanks is adequate for an organization that is not only proficient, but also goes above and beyond the call of duty."

B. Preecha, MD, MPH

Chair - Department of Anesthesiology
Lenoir Memorial Hospital
Kinston, NC



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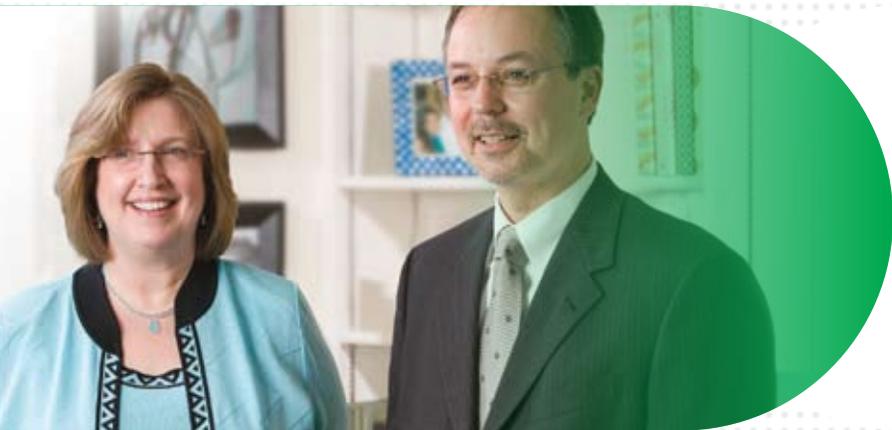
Community Involvement

Medical Mutual's Community and Advisory Boards met twice a year in nine communities across North Carolina and Virginia in 2008. Input and counsel from their physician and administrator members continued to provide valuable benefits to the Company.

Deborah Cashion, practice administrator for Catawba Pediatric Associates in Hickory, was named the North Carolina Medical Group Managers' Administrator of the Year, an award funded by Medical Mutual.

Medical Mutual and its employees donated over \$31,000 to the Triangle United Way in 2008.

Medical Mutual employees participated in community service projects for Meals On Wheels, Raleigh Rescue Mission, Special Olympics of Wake County, Urban Ministries of Wake County, and the Food Bank of North Carolina. Medical Mutual associates teamed up to provide over 660 hours of service to the community in 2008.



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