



Medical MutualSM

PROTECTING OUR PROFESSION

ANNUAL REPORT



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PROTECTING OUR PROFESSION



ANNUAL LETTER TO OUR POLICYHOLDERS



Our mission continues to be one of steadfast commitment to integrity and transparency in every interaction with our members and employees alike.

Thank you for taking the time to read this year's annual report to the members of Medical Mutual. We are honored and privileged to count you among the special group of physicians who have chosen to place their trust and confidence in the company.

We continue to maintain our focus on creating outstanding value for you, our members. In 2013, we developed a new corporate structure, Medical Mutual Holdings, which allows for maximum flexibility in the pursuit of prudent and necessary investment opportunities. The primary goal in developing this innovative business model was to ensure that your investment in Medical Mutual provided you with unsurpassed insurance protection while also offering you the chance to benefit financially from the success of your company.

We spent a fair amount of time, last year, thinking about how we can help physicians and their medical practices adapt and thrive in this new era of medicine. The Affordable Care Act has clearly illustrated that our

health care system is headed for more changes than ever. Health care reform was the focal topic of our fall 2013 administrator advisory and physician community board sessions, during which we addressed a range of questions and concerns relevant to individual and employer mandates, and how the law impacts medical practices. We know that nothing remains the same in your world, and Medical Mutual is continuously assessing and improving its existing products and resources in order to maintain relevancy.

We are committed to thinking on a broader scale, looking harder at our existing strategies, and reinforcing our current infrastructure with a stronger business model. This type of approach is illustrative of our unwavering commitment to create meaningful value for our members while building a professional liability insurance program that meets the unique needs of practices large and small, and that proactively addresses risks spanning the evolving continuum of health care.

ANNUAL LETTER TO OUR POLICYHOLDERS...continued

Our mission continues to be one of steadfast commitment to integrity and transparency in every interaction with our members and employees alike. At Medical Mutual, we believe it is our job to not only provide industry-leading medical professional liability protection, but to also identify and support the many other needs of a medical practice. Medical Mutual's attention to these details can make the difference between proactively promoting the success of our members and simply accepting the challenging circumstances that go along with practicing medicine in today's environment. Good organizations accept change and respond. Great organizations embrace change and run to the fight. They constantly challenge and question every aspect of their operations. We have a rich history of doing just that at Medical Mutual.

Medical Mutual's Plan for Growth

Medical Mutual is uniquely qualified to deliver superior service to traditional health care providers while developing the innovative coverages and risk sharing arrangements in demand by the most sophisticated large multi-specialty groups. For nearly 40 years, we have delivered extraordinary service and innovative insurance solutions to our insured members. In 2014, our goals for maintaining relevancy and growing our business are as follows:

- ◆ To strategically grow the number of insured members using prudent sales, underwriting, and pricing guidelines.
- ◆ To drive growth in the alternative risk business.
- ◆ To prudently manage the operations of Medical Mutual Holdings and its subsidiaries to achieve strong financial

results, to retain our A. M. Best "A" (Excellent) rating, and to ensure that the value of our members' investment is enhanced.

- ◆ To carefully analyze underlying risk for all insured members and provide them coverages specifically tailored for their needs while providing policy administration in an efficient and effective manner.
- ◆ To aggressively defend and provide superior claims services to members, and to manage claims and claims-related expenses to the lowest possible level.

Our capacity to differentiate ourselves from other medical malpractice carriers is crucial. We know that our ability to set our company apart through service, advocacy, risk management resources, and financial stability and value creation is highly desired by our physician members. In a business

Medical Mutual is creating a pathway to the future, leveraging our decades of experience to maintain relevancy and to support physician members.

environment where physician practice models are constantly shifting, our ability to retain 94% of our insureds in 2013 speaks to the value of our relationships with physician members. We take every renewal very seriously and the importance of strong underwriting practices has never been more critical to our members who count on us for unparalleled protection.

To this end, in June 2013, we broadened protection under our e-MD™ coverage to encompass multimedia insurance, network asset protection, Cyber-terrorism and Cyber-extortion coverages for physician members who look to us for answers to an increasingly complex set of liability challenges. Our e-MD™ Cyber-liability coverage protects you against claims arising from network security and privacy exposures.

In January 2013, we launched a new Self Risk Assessment tool – a convenient, real-time solution to minimize potential risk exposures in the medical practice. The Self Risk Assessment contained 29 unique tools at its inception; and

during the course of 2013, an additional ten tools were developed and will be incorporated into the assessment in early 2014.

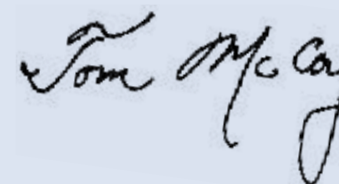
The Legacy Fund remains one of the strongest and most significant membership benefits we offer to physician members. Our operating results in 2013 enabled the Medical Mutual Board to allocate another \$8 million to *The Legacy Fund*, which brings the cumulative allocation for the program to approximately \$84.5 million. Additionally, the Board approved a \$4 million dividend, which was distributed in March of this year. The growth and importance of this program highlights the fact that your membership in Medical Mutual is a true investment – one that provides you with great insurance protection while also offering you the chance to benefit financially from the success of your company.

We take the utmost care with your investment in your professional liability coverage. Be reassured in knowing that Medical Mutual is creating a pathway to the future, leveraging our decades of experience to maintain relevancy and to support physician members as they contend with the new challenges that go along with practicing medicine in today's changing health care environment. From the smallest to the largest physician group, we are poised to meet your needs in a manner that cannot be found elsewhere. We deeply appreciate the trust and confidence you have placed in us.

A. Dale Jenkins
Chief Executive Officer



Thomas H. McCoy, MD
Chairman



“Our partnership with Medical Mutual has become part of our culture and has been a major contributor to our long term success.”



It is with great pride that I have served as a member of Medical Mutual's Metrolina Community Board for a number of years. ENT Carolina's excellent administrator, Jane Byrum, serves in a similar capacity on the Administrator Advisory Board. The relationships we have developed with the many talented individuals in the Medical Mutual family have greatly enhanced many aspects of our professional lives. We have benefited countless times from the ability to access these high quality people. Our 11 provider otolaryngology practice employs 48 people in three offices in Gaston and Cleveland Counties. We frequently consult Medical Mutual and its affiliated specialists who have helped us with issues ranging from HR to QA to legal advice.

The most unique aspect of my association with Medical Mutual is as Chairman of Southeast Quality Care, LLC. SEQC is one of but a few active IPAs in North Carolina. This organization has upwards of 250 providers/members practicing in four North

Carolina counties. The organization serves many functions for our members, including: messenger model contracting with payers, coordinated risk management program for all practitioners, group purchasing, medical office staff education, compliance, and a well-regarded patient satisfaction program. The keystone service that SEQC offers, however, is that for greater than 15 years, it has provided its members a highly effective professional liability insurance/risk management program with Medical Mutual. Our partnership with Medical Mutual has become part of our culture and has been a major contributor to our long term success.

Medical Mutual, its CEO Dale Jenkins and its General Counsel, David Sousa are owed a tremendous debt of gratitude from all North Carolina medical practitioners for their tireless efforts to help shape and reform our state's malpractice laws. Thank you Medical Mutual.

Frederic E. Levy, MD

PRESIDENT AND CEO ENT CAROLINA, PA
CHAIRMAN, SOUTHEAST QUALITY CARE LLC

BALANCE SHEET

ASSETS	DECEMBER 31, 2013	DECEMBER 31, 2012
Invested Assets	\$ 558,949,629	\$ 520,434,041
Accrued Investment Income	5,007,019	4,967,986
Premiums Receivable	29,230,576	24,199,134
Net Deferred Tax Assets	2,935,000	5,606,000
Other Assets	1,860,710	2,956,656
Total Assets	\$ 597,982,934	\$ 558,163,816
LIABILITIES AND POLICYHOLDERS' SURPLUS		
Liabilities		
Loss and Loss Adjustment Expense Reserves	\$ 158,000,000	\$ 162,000,000
Unearned Premium Reserves	31,125,469	31,618,919
Reinsurance Balances Payable	28,859,103	23,759,496
Policyholder Dividends Declared and Unpaid	3,900,000	6,000,000
Other Liabilities	41,865,468	39,640,122
Total Liabilities	\$ 263,750,040	\$ 263,018,537
Policyholders' Surplus	\$ 334,232,894	\$ 295,145,279
Total Liabilities and Policyholders' Surplus	\$ 597,982,934	\$ 558,163,816



Maintaining Financial Strength

Total assets of the company grew 6.9% to \$598.5 million.

The company's policyholders' surplus increased to \$334.8 million, growth of over 13.4% from 2012.

The company again demonstrated its conservative and financially prudent reserving methodology by setting aside \$158 million to pay future claims.

The company's net written premiums to surplus ratio decreased to 24.4%, in line with the industry benchmark for companies with an "A" rating (excellent) from A.M. Best. The company's combined ratio—the ratio of claims and expenses incurred compared to earned premiums—was 66.6%.

INCOME STATEMENTS HIGHLIGHTS

	DECEMBER 31, 2013	DECEMBER 31, 2012
Gross Written Premiums	\$ 101,114,535	\$ 98,122,917
Net Earned Premiums	75,547,359	74,174,284
Losses & Loss Adjustment Expenses Incurred	(41,290,511)	(40,364,055)
Other Underwriting Expenses Incurred	(9,825,487)	(10,118,079)
Net Investment Income	12,054,583	12,163,245
Net Income	\$ 26,106,535	\$ 23,418,486

	DECEMBER 31, 2011	DECEMBER 31, 2010
Gross Written Premiums	\$ 104,019,819	\$ 116,963,484
Net Earned Premiums	82,587,287	91,227,039
Losses & Loss Adjustment Expenses Incurred	(38,861,894)	(42,320,023)
Other Underwriting Expenses Incurred	(11,131,328)	(10,758,015)
Net Investment Income	12,231,292	11,736,551
Net Income	\$ 28,786,925	\$ 32,909,455



Operating Highlights

Medical Mutual maintained its “A” (Excellent) financial rating for the tenth consecutive year.

The total number of physicians insured by the company increased by 7.4% to 9,410, up from 8,764 at December 31, 2012.

The company’s expense ratio of 12% continued to be among the lowest in the industry.

The company’s investment income was more than \$12 million.

Net income was \$26.1 million, allowing the company to maintain the financial ratios necessary to support its strong industry and regulatory ratings, keep premium rates stable, and make a new allocation of \$10 million to *The Legacy Fund* in 2013.

Subsidiary operations of the company contributed an aggregate of \$10.9 million to the company’s surplus, consisting of operating income of \$7.8 million and appreciation of invested assets of \$3.1 million.

109%

[\$1.09 was spend on defense for every dollar of indemnity paid]

Five Year Average

Commitment to Defending Our Members



92%

Five Year Average

Claims Closed Without Payment



87%

Five Year Average

Success Rate in Trials



Defending Claims

- ◆ A total of 747 incidents, claims, and suits were reported in 2013. This represents an increase of 16%.
- ◆ We paid total claims and claim related expenses of \$49.4 million – 7.5% increase from 2012.
- ◆ Indemnity payments were made on 63 cases, with 9 payments of \$1 million or more. The cases that were resolved for \$1 million or greater involved the following specialties: Radiology (2), Orthopedic Surgery (1), Family Practice/Internal Medicine (3), Gynecology (1), ENT (1) and Urology (1).
- ◆ The average gross indemnity paid was \$424,884.
- ◆ We tried a total of 22 cases in 2013, with 16 resulting in defense verdicts, 4 resulting in plaintiff's verdicts, and two hung juries. One of the plaintiff's verdicts is currently being appealed. The active pending lawsuit count is 451.



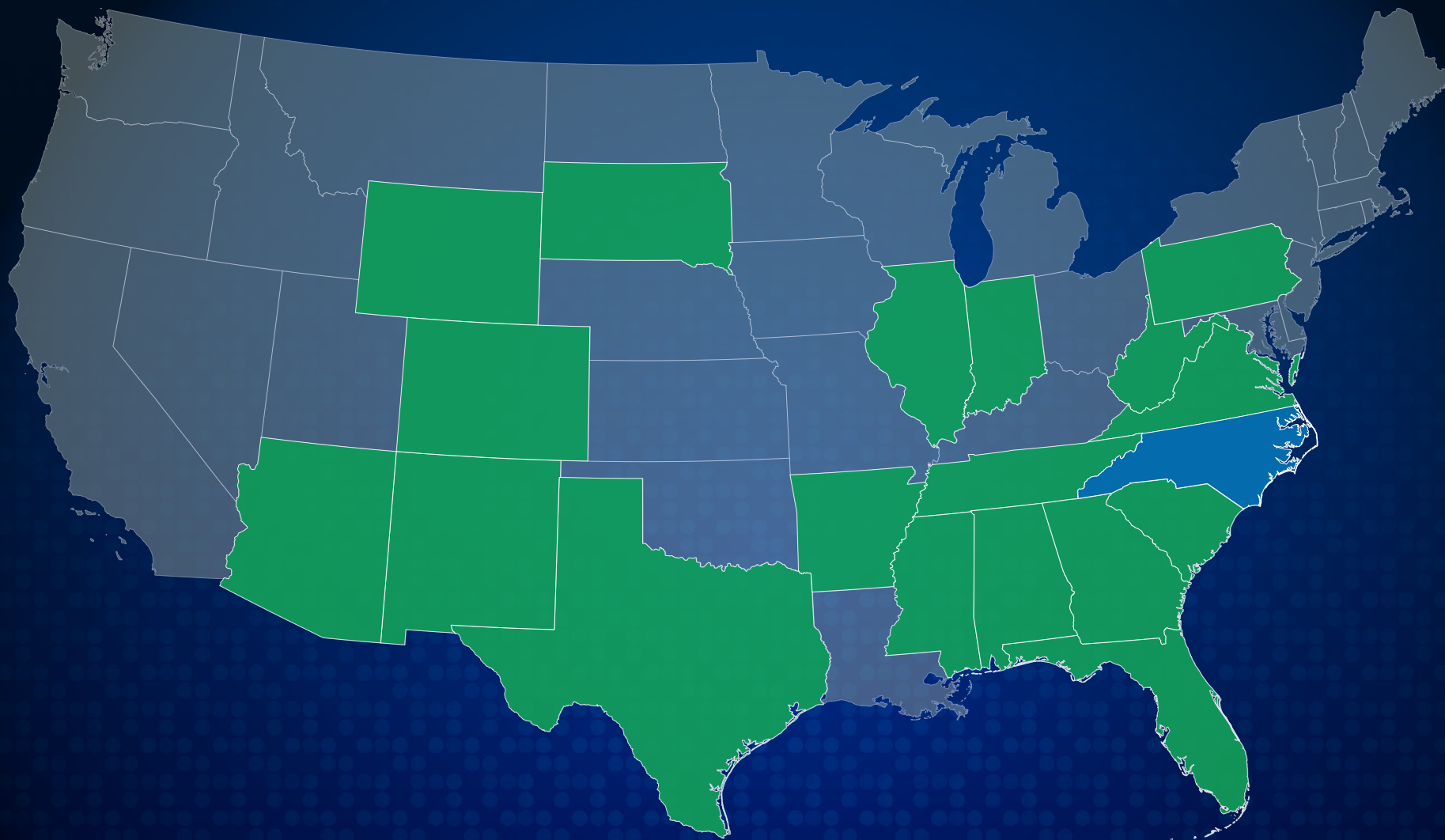
Mark Schmidt, MD

JEFFERSON SURGICAL CLINIC
SALEM, VA

“Medical Mutual has provided us with guidance, information and wisdom. We rely heavily on Medical Mutual’s forward-thinking team to keep us informed with respect to big picture issues as they emerge and to assist us with concerns specific to our own practice.”

Our practice has chosen Medical Mutual as our professional liability carrier for the past 14 years. In that time, our industry and our practice have faced challenges too numerous to mention. Through this evolution of health care risk, Medical Mutual has provided us with guidance, information and wisdom. We rely heavily on Medical Mutual’s forward-thinking team to keep us informed with respect to big picture issues as they emerge and to assist us with concerns specific to our own practice.

The partnership with Medical Mutual is just that—a supportive and communicative collaboration between professionals who share a common goal of quality medical care. Whether we utilize the vast selection of online resources available to us, or simply converse with an individual, we receive top notch education, advice, and support from everyone at Medical Mutual. The relationship is key to our private practice success.



In 2013, Medical Mutual strategically expanded its business model to accommodate large practice and national alternative risk programs. This structure is now currently in place in 19 different states.



Steve Moss, MD

NORTHSIDE RADIOLOGY ASSOCIATES
ATLANTA, GA

Northside Radiology Associates is a 43 physician sub-specialized radiology practice that has had its malpractice coverage with Medical Mutual since 2007. Due to the volume of cases we read, there are instances in which we need to call on Medical Mutual for their guidance. Whether it is an occasional patient or family unhappy with an outcome or a rare malpractice lawsuit, they are always available to lead us through the process.

Our primary contact has been with Ken Haney, Senior Claims Representative, and we have called on him often to navigate complex patient care issues involving other physicians and the hospital system. Ken has always provided excellent advice on how to proceed; and when necessary, Medical Mutual has provided additional assistance and consultation with a local malpractice attorney to best represent our interests.

In the case of malpractice suits, Medical Mutual has been unyielding in their commitment to defending our physicians. The local malpractice firm they have engaged on our behalf has been nothing short of exceptional. From the minute our group member learns of a lawsuit, we are walked through the process, step by step, so we

know what to expect. The law firm has done an amazing job coordinating the defense leading to successful outcomes. I was very impressed with the thought process for obtaining expert witnesses to defend our cases. Each witness was chosen for specific reasons, which significantly enhanced the strength of the defense. In the one case that made it to trial, their team expertly selected a jury and presented our case while establishing

a rapport that was critical to a favorable verdict. Although it is rare for one of our physicians to be sued, we take comfort in knowing that Medical Mutual is so committed to defending us when the situation arises.

*“Medical Mutual has
been unyielding in their
commitment to defending
our physicians.”*

More recently Medical Mutual has moved beyond malpractice services to include additional benefits such as human resources consultation through their HRIExperts program. We have utilized these services to refine our human resource policies, a benefit we did not expect from our malpractice carrier.

I have truly been impressed with Medical Mutual’s commitment to their physicians. Their dedication to our defense coupled with other practice enhancing activities has made them a valuable resource to our organization.



MANAGING RISK & EDUCATING MEMBERS

Risk Assessments

In 2013, **408** providers were assessed. CME credit was awarded to **276** physicians for attending the Risk Assessment Exit Conference and another **173** non-physicians (extenders and practice managers) were awarded certificates of attendance at a CMS session based on their attendance at Exit Conferences.

A **78%** compliance rate was attained, which represented a correction of **606** critical process risk exposures, as a result of implementation visits.

Onsite education was offered to **368** office staff as part of the Risk Assessment process.

Innovative Self Risk Assessment

The Self Risk Assessment tool was launched in January 2013 and contained **29** unique tools at the time of the launch. An additional ten tools were developed in 2013 and will be incorporated into the assessment in 2014.

There was considerable interest in the Self Risk Assessment by our members. The webpage had **2,001** unique views and **618** visitors clicked on the link to the actual risk assessment tool. Of the **618** visitors, **259** (nearly **42%**) completed the Self Risk Assessment in its entirety.

While the tool is geared toward members who practice predominantly in an office setting, the content and Premium Rewards Program (PRP) points can apply to all specialties. The Risk Management Department is available to assist those specialties in the completion of the Self Risk Assessment.

78%

A **78%** compliance rate was attained, which represented a correction of **606** critical process risk exposures, as a result of implementation visits.



MANAGING RISK & EDUCATING MEMBERS...

continued

Workshops & Seminars

A total of **292** medical practice staff attended Risk Management educational programs in 2013. The *Managing Patient Complaints* workshop remained the most frequent topic presented.

Patient termination questions are one of the top reasons practice administrators seek direction or advice from Risk Management. To address this area of concern, Risk Management added a new workshop in 2013 entitled, *Is It Time to Part Ways? Effective Patient Termination*.

Online Webinar Series

Risk Management launched its 2013 online educational webinar series garnering a total of **1,808** views for PRP points. Five unique topics were presented, bringing the total to **15** webinar sessions available to members, including *From the Trenches of Trial: A View from the Courtroom*; *The Opioid Epidemic: Worrying Trends of Misuse, Abuse, and Diversion*; and *Three's Company: Doctor, Patient, and Interpreter*.

Toolkits

The Informed Consent (**291** unique views), Managing Patient Complaints (**276** unique views), and Peer Review (**208** unique views) were the top three viewed toolkits on our website in 2013. A total of **154** toolkits were accessed by PRP participants.

Educating Members

Medical Mutual's highly skilled leadership focuses on educating members on the latest best practices to mitigate medical and other liability risks, and to help reduce the increased uncertainty of the current medical and legal environments. We are dedicated to providing tools and resources to health care professionals so they can focus on delivering the best in patient care.

Our bi-annual community and advisory boards sessions enable us to do our part to improve medicine in the communities we serve. Through our sponsorship of local MGMA groups and medical societies, we are proud to support educational opportunities for practice administrators and physicians in North Carolina, Georgia, and Virginia.



Community/Advisory Boards



Conferences/Presentations



Risk Management Workshops/Seminars



NCMS Plan MAC Meetings



MIHC Town Hall Sessions



Medical Societies and Organizations



Medical Group Manager Meetings



Medical Centers & Practices, Health Care Systems

Community Involvement

Medical Mutual and its employees donated over \$32,000 to the Triangle United Way in 2013. Employees participated in community service projects for Meals On Wheels, Rex Blood Services, Alliance Medical Ministry, United Service Organizations of North Carolina (USO-NC), Food Bank of North Carolina, Wake County Public School System (School Supply Donation Drive), Passage Home, and North Raleigh United Methodist Church (Fundraising Event for local outreach initiatives, such as Habitat for Humanity). Medical Mutual associates teamed up to provide over 450 hours of service to the community in 2013.

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community in 2013.

Medical Mutual staff members demonstrated a strong commitment to our wellness program and participation rates were impressive.

Health & Wellness

In 2013, Medical Mutual continued a participation-based wellness program that required employees to complete an online Health Risk Assessment, to participate in nutritional counseling, to have an annual physical and/or preventive screening, and to have at least one dental exam and cleaning during our health benefit plan year. Employees' timely completion of these wellness goals was tied directly to the portion of the health premium they paid. Staff members demonstrated a strong commitment to this inaugural wellness program and participation rates continued to be impressive.

Medical Mutual's Health & Wellness Committee supported the wellness program with additional resources and activities, which included a competitive physical activity team challenge for eight weeks; educational nutritional seminars presented by industry professionals; an on-site flu clinic; and healthy food options at company functions. Finally, the Health & Wellness and Social Committees teamed up to plan the first Medical Mutual Field Day at a nearby park. The field day included activities such as kick ball, basketball, tennis, and a competitive relay race. Medical Mutual and its employees appreciate the need for a collective response to a healthier lifestyle and, ultimately, a healthier bottom line for all.



Community Boards

Medical Mutual's Community and Advisory Boards met in 2013 in 10 communities across North Carolina, Virginia, and Georgia. Input and counsel from our physician and administrator members continued to provide valuable insight to the company.

Community and Advisory Board sessions serve as a forum to discuss emerging legislative issues, industry trends, and the company's performance in key areas. Responding to the rapidly evolving medical landscape presents unique challenges for physicians and practice administrators. The invaluable information exchanged between community and advisory board members and Medical Mutual leadership enables the company to create new benefits, resources, services, and enhanced coverage to support medical practices and to promote partnership.

The first physician community board was established in the fall of 1998 to facilitate an ongoing dialogue between medical community leaders and Medical Mutual. In 2001, community boards were expanded to include practice administrators and office managers. Today, there are 17 physician community and administrator advisory boards throughout North Carolina, Virginia, and Georgia comprised of 106 physician members and 143 practice administrators. [Visit our Community and Advisory Board page](http://www.medicalmutualgroup.com/community-and-advisory-boards) (www.medicalmutualgroup.com/community-and-advisory-boards) to view a complete list of our physician community and administrator advisory board members.



Mary Frances Moody, MD

ASSOCIATES IN WOMEN'S HEALTHCARE
RALEIGH, NC

“Bob provided professional guidance and support during a very stressful situation. His expertise led to the case being dropped... I am very grateful to Medical Mutual for their recommendations and support over the last 20 years.”

Several years ago, I had the unfortunate experience to be named in a malpractice case. It was my first lawsuit and, of course, it was devastating. Medical Mutual recommended Bob Walker (Walker Allen Grice Ammon & Foy) for counsel. What a blessing. Bob provided professional guidance and support during a very stressful situation. His expertise led to the case being dropped and also taught me to be a better physician. Since then, Bob has remained a good friend and resource. I am very grateful to Medical Mutual for their recommendations and support over the last 20 years.

Board of Directors

Thomas H. McCoy, MD

CHAIRMAN & PRESIDENT

Robert E. Schaaf, MD

VICE CHAIRMAN & FIRST VICE PRESIDENT

H. David Bruton, MD

SECRETARY

Charles C. Crowell, III, MD

A. Dale Jenkins

Michael P. Moulton, MD

Rachel H. Ross, MD

Chris M. Teigland, MD

Steven W. Yates, MD

THE *Legacy* FUND

Since its inception in 2009, approximately \$84.5 million has been allocated to *The Legacy Fund*.

When Medical Mutual and its Board of Directors created *The Legacy Fund* program 5 years ago, it was our intent to reward and thank our member physicians for their loyalty, partnership, and trust. Today, *The Legacy Fund* has evolved into one of the most significant membership benefits we offer to physician members.

The growth and importance of this program highlights the fact that membership with Medical Mutual is a true investment—one that provides great insurance protection, rewards physicians for practicing good medicine, while also offering them the opportunity to benefit financially from the success of the company.

Our strong operating results enabled the Medical Mutual Board to allocate another \$8 million to *The Legacy Fund* in 2014, which brings the cumulative allocation for the program to approximately \$84.5 million.



Medical MutualSM

PROTECTING OUR PROFESSION

700 SPRING FOREST ROAD, RALEIGH, NC 27609

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