



Medical MutualSM
PROTECTING OUR PROFESSION

2017 ANNUAL REPORT



WE'RE EXPANDING OUR ABILITY TO SERVE PHYSICIANS IN MEDICINE, BUSINESS, AND LIFE

The practice of medicine is a lifelong journey. And for more than four decades, Medical Mutual has been by your side. Protecting you in your most trying moments. Providing tools and insights to help you succeed. Growing to support physicians' needs with innovative solutions for an ever-changing industry. A complete platform. A committed partner. Here to help physicians every step of the way.



Gabe Roco, team member since 2013
Lauren Hauser, team member since 2012
Aya Wallace, team member since 2011
Crystal Mezzullo, team member since 2015
Joshua Kolling-Perin, team member since 2016
Rob Christner, team member since 2018
Jason Lee, team member since 2008



Tami Phillips, team member since 2016
 Angela Venable, team member since 2016

CONTENTS

- Message to Members** 3
- Medical Mutual Holdings** 4
 - Financials 4
 - Investments 6
- Medical Mutual Insurance Company of North Carolina** 7
 - Scope 7
 - Our Impact in Action : New Member Case Study 10
 - Financials 11
 - Financial Benefits for Members 14
 - Claims 15
 - Our Impact in Action : Claims Case Study 17
 - Risk Management 18
 - Our Impact in Action : Risk Management Case Study 19
 - Supporting Services 20
 - Our Impact in Action : New Member Case Study 21
- SharpVue Capital** 22
 - Investment Management 23
 - Wealth Management 24
- Outlook** 26
- Endnotes & Contact** 27

1. MESSAGE TO MEMBERS



2017 was another year of growth for Medical Mutual, and the next step in our journey toward becoming the company you want and need us to be. Evolving to become not simply a provider of medical professional liability insurance, but rather a full-service partner helping physicians in medicine, business, and life.

Helping us drive forward are 24 talented, energetic team members who joined Medical Mutual last year. These new faces make us stronger and more capable than we've ever been—expanding our ability to capitalize on new opportunities to serve our members.

Among our most noteworthy additions is Tony Vance, Medical Mutual's first Chief Marketing Officer. A health care industry veteran with experience both in start-ups and large health insurance companies, Tony's approach to innovation helps us enhance how we use data to better understand—and better serve—our members. We also added two new members to our Board of Directors in 2017: Dr. Martha Chesnutt, an internal medicine physician from Rocky Mount, N.C., and cardiologist Dr. Scott Shapiro from Abington, Pa., who brings the Mid-Atlantic perspective to our board for the first time.

Our medical professional liability insurance business notched another year of strong performance, again producing one of the industry's lowest combined expense and loss ratios while earning an A.M. Best "A" rating for the fourteenth year running.

In 2017 we strengthened our longstanding commitment to mid-sized and smaller practices, while also extending our reach into the increasingly complex and sophisticated practices that represent the changing health care landscape. Most notably, our new members include a complex, private-equity-backed, multi-state OB/GYN practice serving the Mid-Atlantic, and a large, clinically integrated network in New Jersey that named us as the preferred malpractice carrier for their physicians.

SharpVue Capital, our wealth and asset management affiliate, greatly expanded its ability to serve your financial needs. In July, we closed our first real estate fund with approximately \$72 million in commitments, and in December we closed our first private equity investment, a \$13 million minority stake in an established solid waste and recycling company.

We also significantly expanded our wealth management offerings. Our more comprehensive offerings now include not only specific investments, but also debt management, retirement planning, and charitable giving—all to more effectively serve both your professional and personal financial needs.

We again met our goal of returning approximately half of the company's profits to our members through allocations to The Legacy Fund and Policyholder Dividends. We boosted both distributions by 26%, to proactively share the benefit of the new federal tax law with you—even though we won't see the decreased corporate tax rate until we file our tax returns for calendar year 2018.

We're beyond proud of what we've built together over the last 43 years, but we know that won't be enough for the next 43. Trust that as your needs evolve, so will we—using the resources and knowledge we've gained since 1975 to develop new, innovative ways to better serve physicians.

We're delighted that our work supporting physicians in medicine, business, and life allows us to play a role in the larger transformation of the health care industry—and privileged to count you as a member.

Sincerely,

A. Dale Jenkins
Chief Executive Officer

Thomas H. McCoy, MD
Chairman

2. MEDICAL MUTUAL HOLDINGS

FINANCIALS

We invest intelligently to return the trust members show in us.

Our members' premium dollars represent an investment in Medical Mutual, and we manage that investment with great care. Both in the core portfolio within our insurance operating segment and in the surplus and strategic portfolios in our investment operating segment, we balance risk and reward carefully to help the company grow.

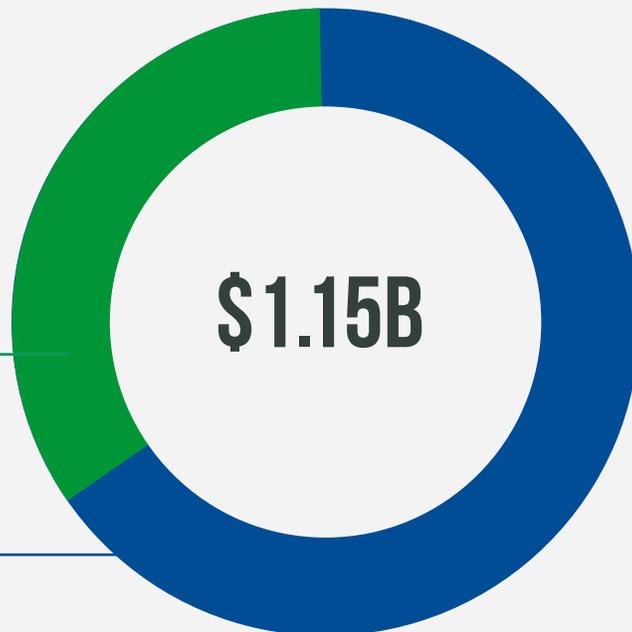
TOTAL ASSETS UNDER CONTROL

INVESTMENTS

\$387M

INSURANCE

\$762M



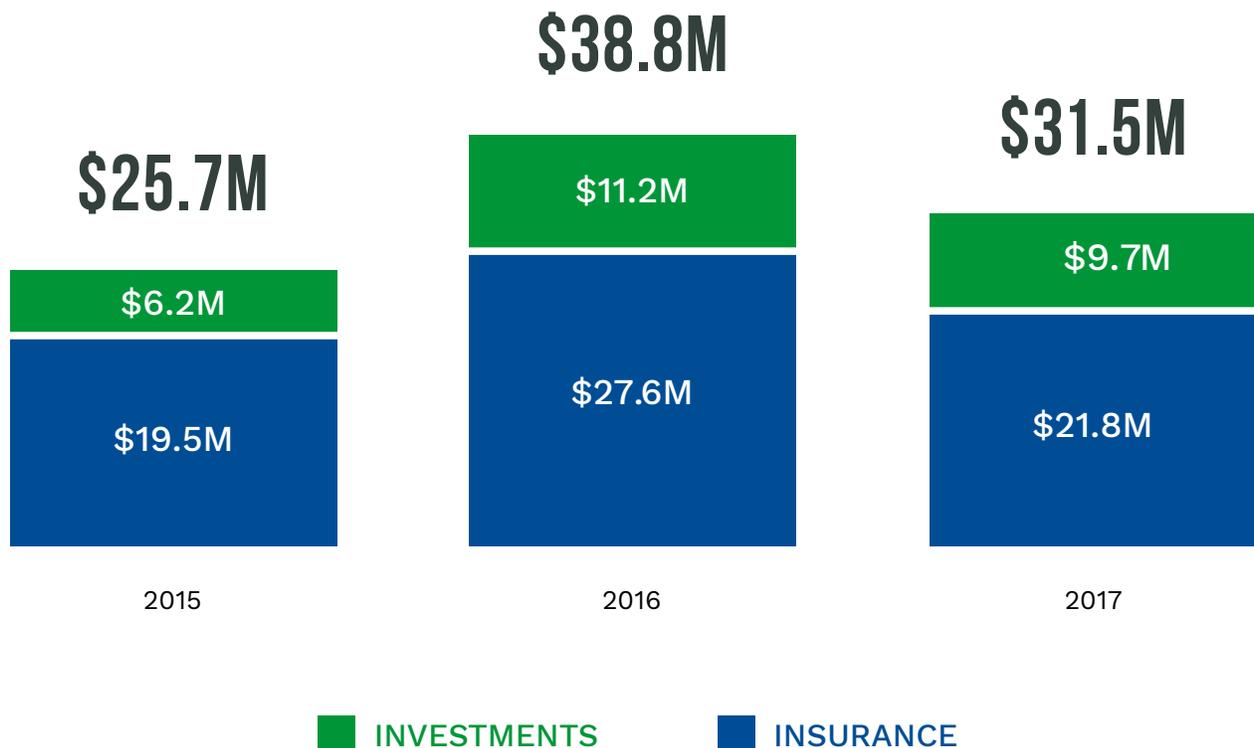
Our surplus protects our membership and fuels innovation.

The insurance industry naturally brings financial risk, but our dedication to maintaining a strong surplus helps shield us from the things we can't control. What's more, our surplus drives our efforts to innovate and grow the business—increasing the value of membership and making our revenue streams more diverse and predictable.

SURPLUS

\$504,103,277

NET INCOME



Our positive cash flows enable continued strategic growth.

Operating cash flows were positive again in 2017, continuing a trend we've seen over several years—unlike many of our competitors. As with our surplus, this allows us to invest in the growth of Medical Mutual and enhance the value of our members' investment in us.

OPERATING CASH FLOWS

\$41,645,094

INVESTMENTS

Diversifying our investments across three distinct categories allows Medical Mutual to ensure we meet our obligations to both members and regulators, while also enabling us to make prudent, strategically sound investments.



CORE PORTFOLIO

Our core portfolio establishes our solid financial foundation, in which we make conservative investments to make certain we will always have funds available to meet our commitments to policyholders, such as claims. This portfolio is built to comply with all relevant regulatory requirements.



SURPLUS CAPITAL

Funds designated as surplus are invested more aggressively, with the goal of generating higher returns that help fund our innovation efforts to better serve our members.



STRATEGIC INVESTMENTS

A small percentage of our portfolio is dedicated to investments in operating companies we think can give us—and ultimately our members—a positive return on investment, either financial or through exposure to other successful companies' operations.

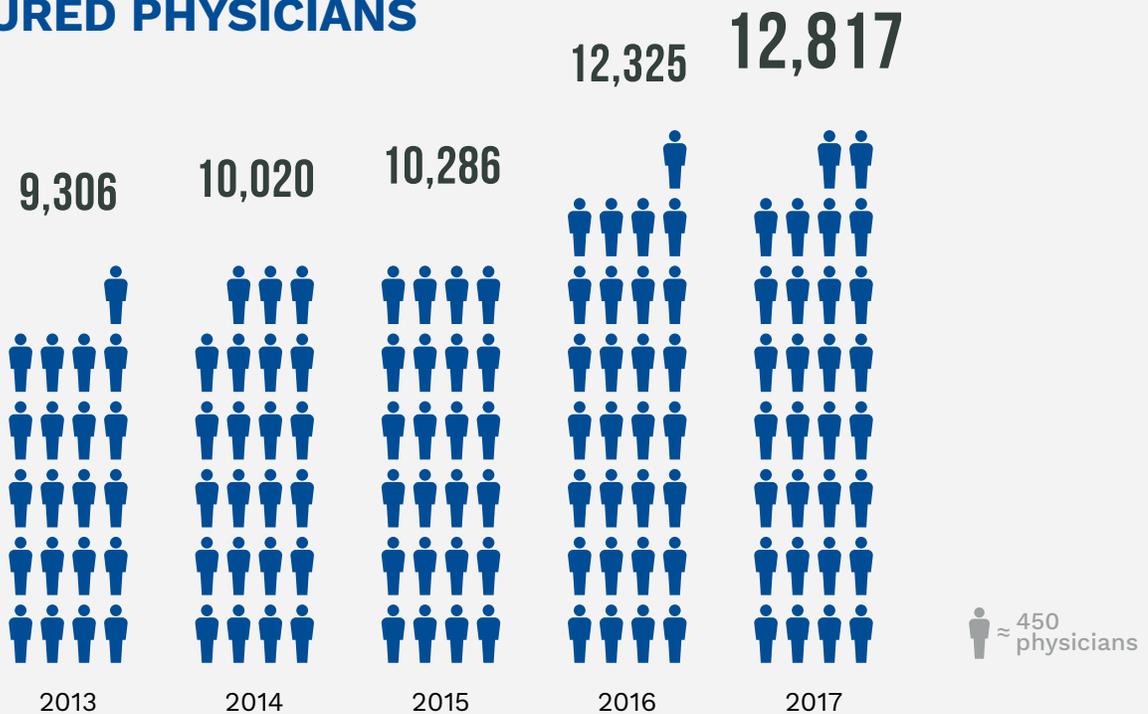
3. MEDICAL MUTUAL INSURANCE COMPANY OF NORTH CAROLINA

SCOPE

We're supporting more member physicians than ever.

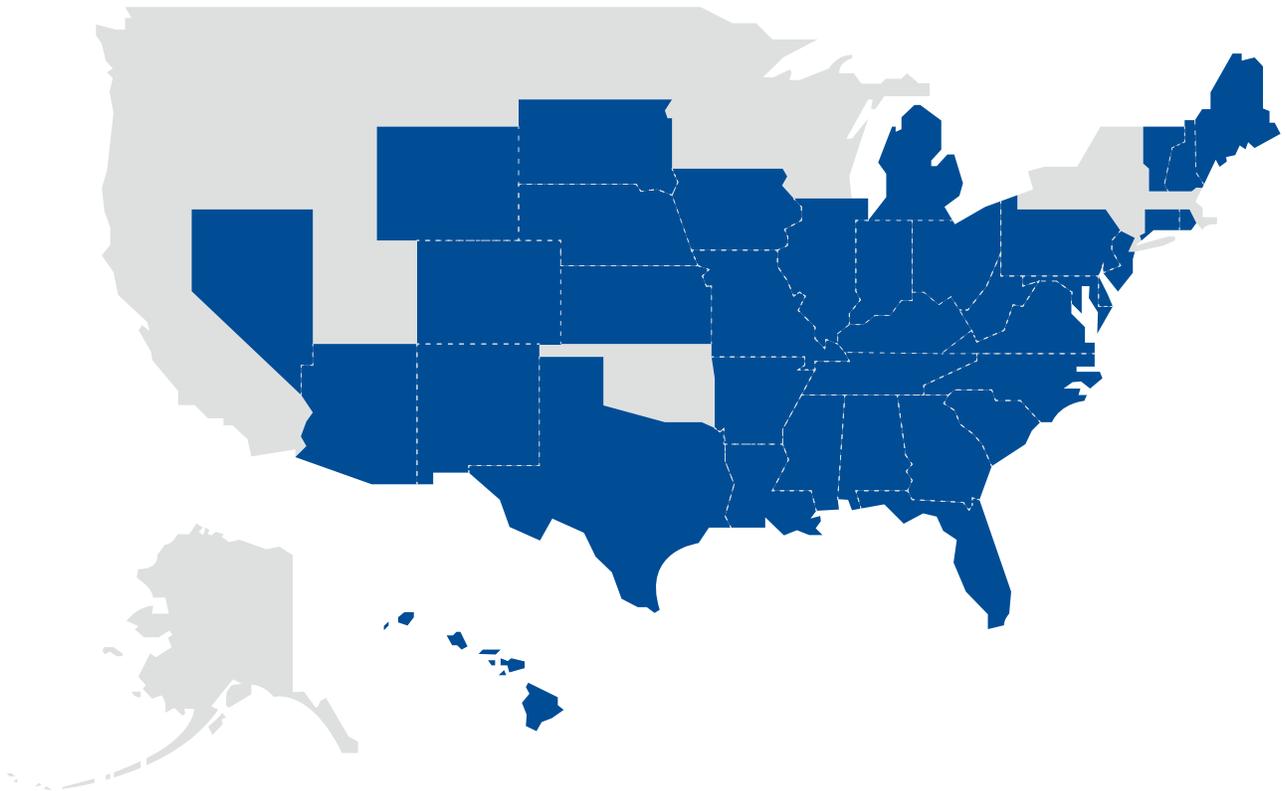
Medical Mutual's strong reputation within the medical community, as a trusted partner in insurance and investments, continues to drive new membership. In 2017, we continued our steady growth in member count, and found ourselves knocking on the door of 13,000 members by year's end.

INSURED PHYSICIANS



We're able to serve physicians in nearly three-quarters of the United States.

Medical Mutual is now authorized to do business in **37 states and the District of Columbia**—expanding our reach to Connecticut, Maine, Michigan, New Hampshire, and Rhode Island in 2017.



Alabama
Arizona
Arkansas
Colorado
Connecticut
Delaware
Florida
Georgia
Hawaii
Illinois

Indiana
Iowa
Kansas
Kentucky
Louisiana
Maine
Maryland
Michigan
Mississippi
Missouri

Nebraska
Nevada
New Hampshire
New Jersey
New Mexico
North Carolina
Ohio
Pennsylvania
Rhode Island
South Carolina

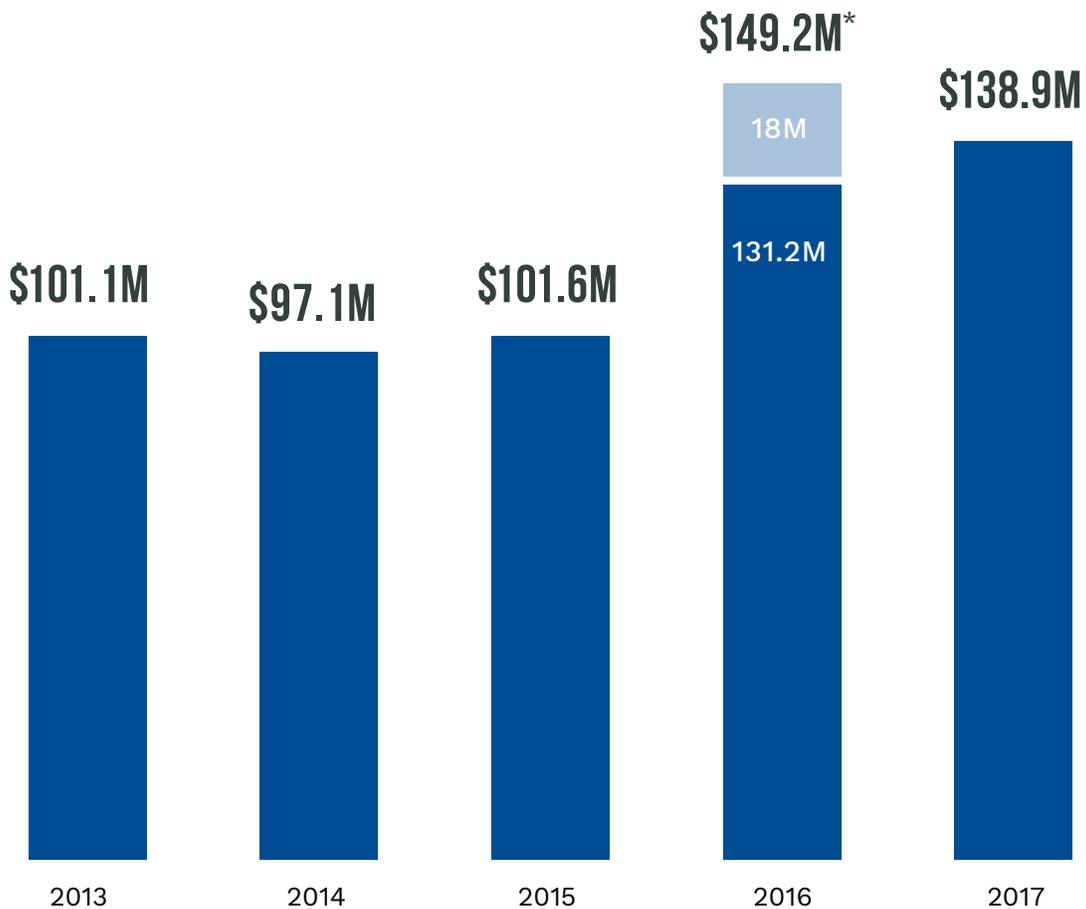
South Dakota
Tennessee
Texas
Vermont
Virginia
West Virginia
Washington DC
Wyoming

*Note: States in blue represent those added in 2017

Our gross written premium remains strong, reflecting our growing membership.

Unlike some other insurance providers, our continued health in gross written premium is achieved by insuring more member physicians, not by raising rates.

GROSS WRITTEN PREMIUM



*Note: 2016 figures include unearned premium realized as part of the HPIX transaction.

OUR IMPACT IN ACTION

Case Study: The Large Practice With A Private Equity Partner

In mid-2017, when an OB/GYN practice we insured informed us of their plans to merge with another practice and be acquired by a private equity firm, we knew that their unique situation demanded a more complex and differentiated solution than simply the standard insurance product.

After lengthy consultation around how to best serve both the practice and their private equity partner, Medical Mutual proposed an innovative coverage model that combined retrospective rating with the opportunity to invest some of their premium dollars in an alternative risk-transfer vehicle.

Our innovative proposal stood out for its ability to help the practice and the private equity firm meet their needs, and we began insuring the new entity a few months later.



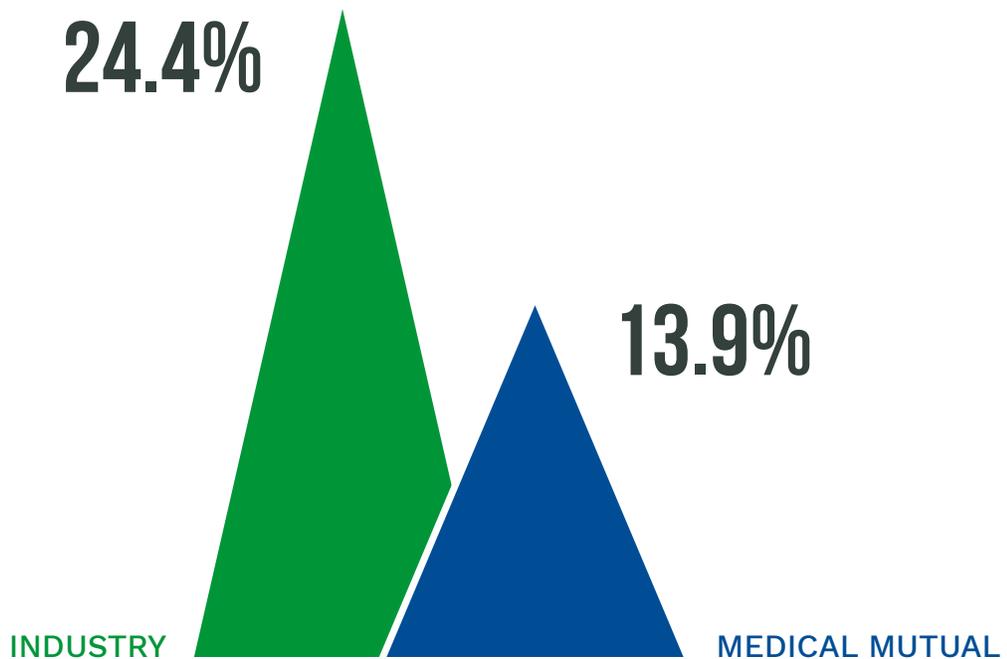
Aya Wallace, team member since 2011
Steve Parker, team member since 1990

FINANCIALS

Our operating expenses remain among the lowest in the industry.

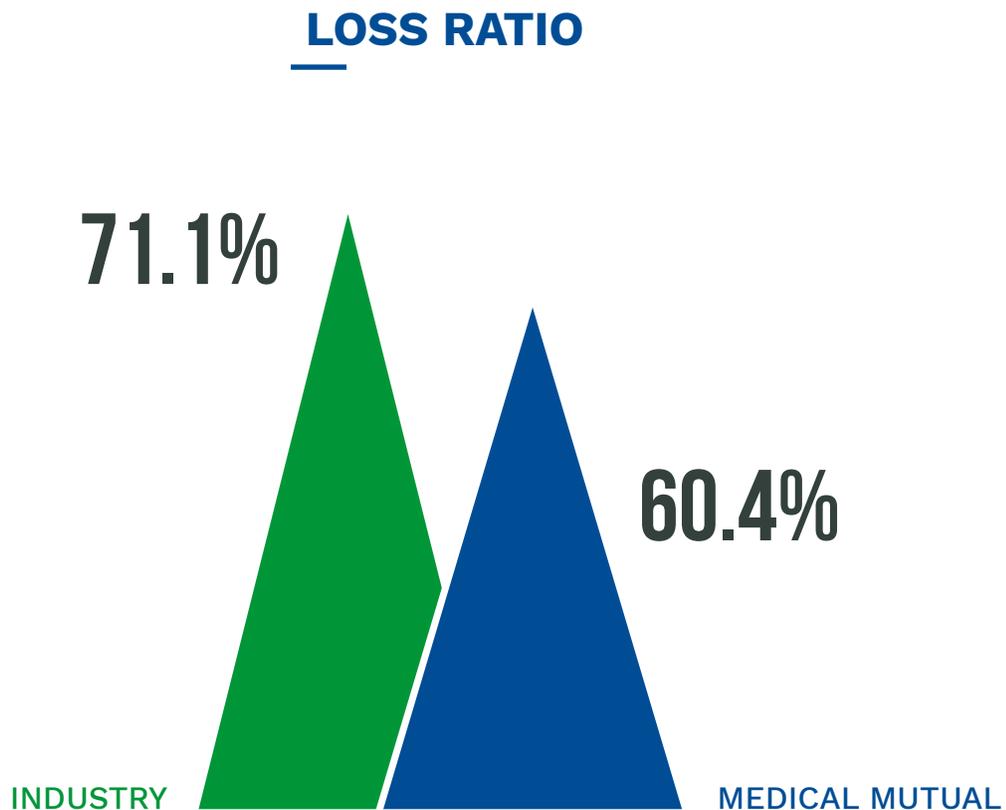
Managing Medical Mutual's financial resources responsibly is one of our core commitments to our members. Thanks to a variety of factors—including our talented team and our innovative use of technology—our expense ratio (how much premium we collect relative to the cost of running the company) was the third-lowest in the industry and close to half the industry average in 2017.

EXPENSE RATIO



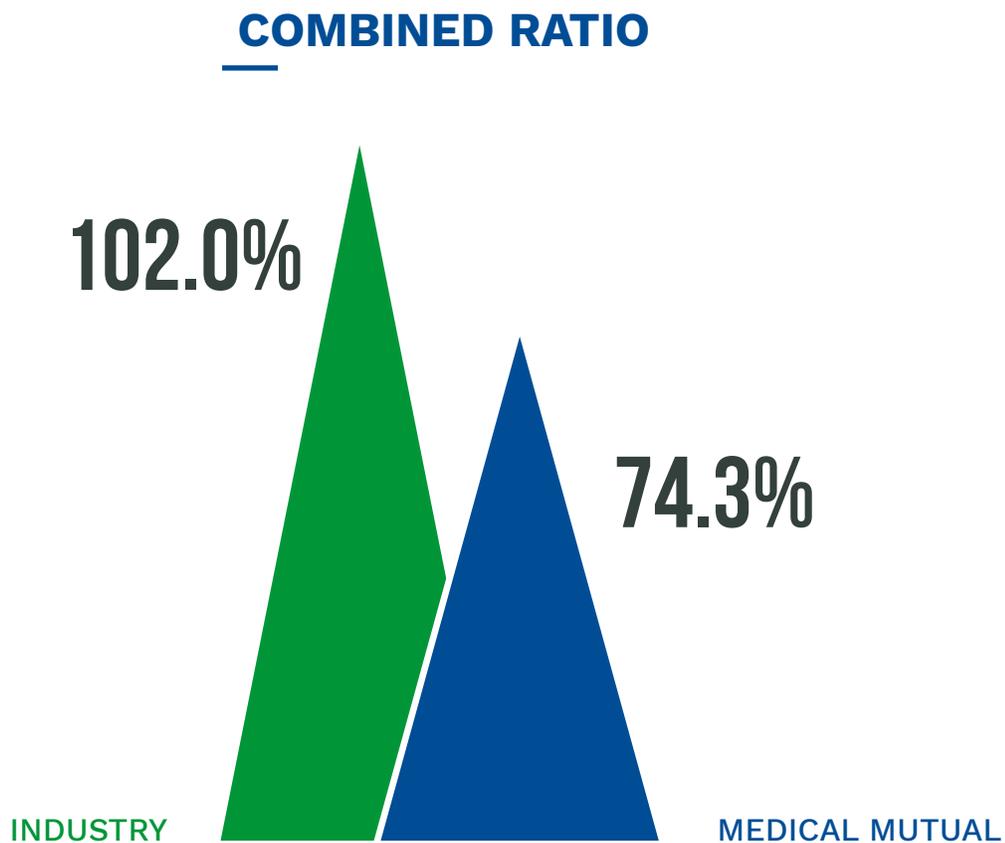
Our low loss ratio reflects our members' commitment to quality care.

Medical Mutual's loss ratio was well below industry average again in 2017. This figure, representing the percentage of premium used to pay claims, is a testament to the quality of our members' patient care and practice management, our purposeful underwriting of only practices committed to quality outcomes, our timely and relevant risk management tools, and the close engagement of our Claims team throughout the claims process.



Our low combined ratio allows us to reinvest profits in member services.

Together, our combined ratio of expenses and losses was the fourth-lowest in the industry last year, and far lower than the industry average. This low combined ratio is a marker of our profitability, which we draw from to provide value to our members via increased investment opportunities, payments to Legacy Fund accounts, and other benefits.



We continue to earn recognition as a trusted industry leader.

We are proud to have earned an **A (“Excellent”)** financial strength rating from **A.M. Best Rating Services** for the 14th straight year. In a year that saw several other carriers’ A.M. Best ratings downgraded, we were again honored for our strong balance sheet, operating performance, and leadership in core markets. In today’s tumultuous environment, the value of an A-rated carrier has never been higher.



FINANCIAL BENEFITS FOR MEMBERS

We provide a meaningful return on our members' investments.

Our members' premium dollars represent an investment in Medical Mutual. Programs such as **The Legacy Fund** and **Policyholder Dividends** are part of how they see a return on that investment, allowing us to return approximately half of our net income each year to our members—a goal we once again achieved in 2017.

The Legacy Fund consists of savings accounts for our members that grow tax-deferred and pay out to account-holders upon designated events, including retirement.



The **Policyholder Dividends** program makes cash payments to qualifying physicians once a year.



CLAIMS

We stand by our members when it matters most.

Experiencing a claim can be one of the most challenging moments in a physician's career. With that in mind, Medical Mutual has built our claims process to give doctors support that goes far beyond what they would receive from most other insurance companies.

It begins with the physician's first call to report the claim, answered by their dedicated Claims Examiner, not an anonymous corporate representative. All of our examiners work only with physicians within their region, giving them a deep understanding of local dynamics that other carriers' examiners can't always offer. Our examiners stand shoulder-to-shoulder with the physician at every step of the process—from attending the initial suit meeting, through any mediation, and at every day of trial. Throughout the process, the physician has direct access to his or her Claims Examiner.

We take our commitment to defending good medicine seriously—and invest more substantially in defense of our cases than most other carriers. We don't have a cost-containment unit dedicated to managing attorneys' expenses; we don't make nuisance payments; we don't make convenience payments. While the fear of a large verdict might make it appear easier to resolve cases prematurely, we know that does a disservice to our members.



Gabe Roco, team member since 2013

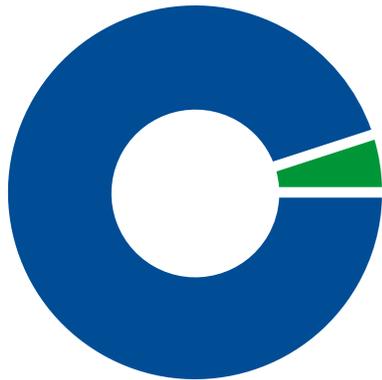
We won the vast majority of our trials that closed in 2017.



13/15

Cases won

We closed nearly all of our cases in 2017 without payment.



95%

Incidents, claims, and suits closed without payment in 2017

Defense attorney perspective

“I appreciate Medical Mutual’s proactive approach to trials. They invest what it takes to defend physicians working within the standard of care, seeking out highly qualified expert witness support and sending an examiner to personally attend trial.”

—Gregory Nesbitt, Partner, Kilcoyne & Nesbitt LLC, Blue Bell, Pa.

OUR IMPACT IN ACTION

Case Study: The Claims Experience

When one of our members, an emergency medicine physician in North Carolina, went through a trial in late 2017, Medical Mutual was there every step of the way—demonstrating exactly what we mean when we say that we’re committed to defending good medicine.

The case involved a 47-year-old man who visited our doctor and several others complaining of severe back pain, before dying a few days later of a kidney infection and pneumonia. The patient’s estate charged our member physician with wrongful death for not diagnosing the infection, but we believed the doctor had worked within the standard of care.

Rather than responding to the plaintiff’s attorney’s settlement demand, we undertook an aggressive trial strategy in our physician’s defense, retaining six different physicians as expert witnesses, attending every day of the trial, and ultimately spending more than \$447,000 to defend the case.

After a nearly two-week trial, the jury returned a defense verdict, supporting our defense counsel’s assertion of contributory negligence (that the patient was responsible for reporting urinary symptoms but failed to do so) and intervening superseding negligence (that the patient was seen by three additional providers after being seen by our insured physician). In fact, we even obtained a judgment *against the plaintiff* for \$15,000 post-verdict for recoverable costs.

In an age when many other insurance carriers are cutting corners and costs, this case illustrates Medical Mutual’s commitment to retaining the best attorneys to defend our members, to ensuring those attorneys retain the best medical experts to testify on behalf of our members, and to providing all necessary resources to our trial team to defend the names and reputations of our members to the end.



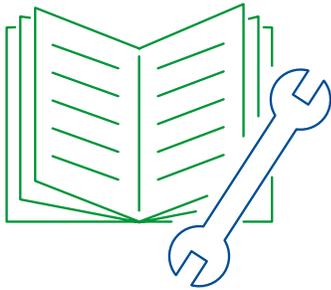
“The attorneys and adjuster were very knowledgeable about the case and did a great job defending me. I appreciated all their help in this case.”

— Our insured physician

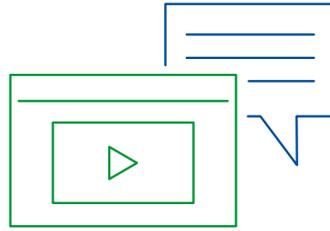
RISK MANAGEMENT

We provide resources that empower quality care.

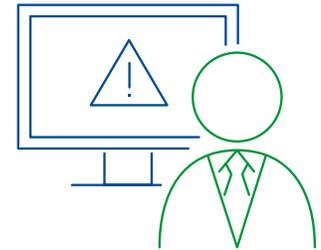
Medical Mutual's Risk Management team isn't built solely to reduce risk for physicians and practices. We also offer tools and services to support care delivery to patients, increase patient safety, and ensure compliance with federal and state law. We believe reduced risk results from delivering high-quality, compliant, and compassionate patient care.



Situation-specific handbooks and toolkits



Webinars, seminars, and live presentations



In-person and online risk assessments

We develop programs to help physicians continue learning.

Medical Mutual recognizes that a physician's education never truly ends—which is why, in 2017, we introduced a new series of webinars eligible for continuing medical education (CME).

Physicians who take part in the webinars are awarded *AMA PRA Category 1 Credits™*, while non-physician health care professionals receive a certificate of participation. Webinar topics included opioid prescribing, establishing a protected peer review program, and online reputation management—all designed to help physicians stay current and informed.

All webinars and associated CME credits are offered at no additional charge, as a benefit of membership.

OUR IMPACT IN ACTION

Case Study: The Risk Management Experience

Our Risk Management team's integrated approach to problem-solving for physicians was on display in a recent interaction with one of our members, a breast surgeon in Virginia. The physician reached out to us with a question: How much risk would he be taking on if he used indocyanine green dye (ICG) off-label to map out a breast cancer patient's lymph nodes?



The Risk Consultant who fielded his query immediately responded with a three-pronged approach:

- 1. Assess the risk.** Knowing that ICG was already FDA-approved to assess blood flow to other areas during surgery, we advised the surgeon that the direct risk from the procedure was low.
- 2. Build a consent form.** We provided the physician with a draft consent form to give to the patient, which he populated with the specifics of the case and then returned to us for a final round of feedback.
- 3. Engage with Underwriting.** Our Risk Consultant brought in the Underwriting team to assess the details of the procedure, and they advised the doctor that his coverage was sufficient to cover off-label use of ICG.

Aya Wallace, team member since 2011

With this information in hand, the surgeon was able to successfully conduct the procedure within 24 hours from his initial outreach. In a note to our Risk Consultant, he wrote of his experience, "This is a good lesson for docs who only view their carrier as a means of defending against a lawsuit."

SUPPORTING SERVICES

We go above and beyond to provide comprehensive support.

Our members' needs are complex, and they require more from us than simply the medical malpractice insurance policies we provide. Medical Mutual goes beyond the policy to deliver extra services that help practices operate efficiently and effectively in today's changing environment.



DynaMed Plus

All of our members now receive full access to DynaMed Plus, a leading point-of-care clinical information tool, at no additional charge as a benefit of membership. We added this new benefit in 2017.



Human Resources Consulting

Access to HR|Experts, a program that connects Medical Mutual members with a dedicated human resources consultant who is on call for member inquiries and also provides timely, relevant HR education through webinars, alerts, and blog posts.



Cybersecurity Coverage

Protection against the risk from network security and privacy exposures.



Regulatory Compliance Support

Programs to help members steer clear of potential regulatory hurdles in areas such as MIPS and MACRA, Open Payments, and state and federal exclusion lists.



Broad Regulatory Coverage

Additional regulatory and compliance protections included in our medical malpractice coverage.



Commercial Insurance

Access to property and casualty insurance and related risk management services through our partnership with Sentinel Risk Advisors, a leading risk management and brokerage firm with offices throughout the U.S.



Alternative Risk

An insurance captive that offers larger practices the option to take on more control of their malpractice insurance program, and a greater share of risk, by effectively self-insuring.

OUR IMPACT IN ACTION

Case Study: The Clinically Integrated Network

A newly formed clinically integrated network (CIN) in the Mid-Atlantic reached out to us in 2017 with a unique challenge. They were looking to find a medical malpractice partner that could provide an insurance program to support their mission of bolstering physician independence.

Working collaboratively, we helped them develop a tailored coverage solution for their physicians that combines MPL insurance and comprehensive risk management services. We are now the exclusive medical malpractice provider for physicians in their network, and are looking forward to continued growth with the network as they expand their reach and capabilities.



Rob Christner, team member since 2018
Jason Lee, team member since 2008

4. SHARPVUE CAPITAL

Crystal Mezzullo, team member since 2015
Mackenzie Lyons, team member since 2016



Our wealth and asset management affiliate's innovative investment model gives clients uncommon access to alternative investments and best-in-class wealth management guidance.

SharpVue Capital continued to expand and enhance our offerings for members in 2017. With the closings of the firm's first real estate fund and first private equity investment, SharpVue reinforced its commitment to giving qualified investors access to off-market, institutional-grade investment opportunities. We also built out our wealth management services to help clients take control of their financial life and build a lasting legacy.

ASSET MANAGEMENT

The Real Estate Fund

In July 2017, SharpVue closed its first real estate fund—SharpVue Capital Real Estate Fund 2016, LP, and its affiliated entities. The fund raised approximately \$72 million in commitments, including investments from individual Medical Mutual members and an anchor commitment from Medical Mutual Holdings.

The fund makes diversified real estate investments in the Southeast and Mid-Atlantic, and has so far invested approximately \$40 million across six transactions:

1. A mixed-use redevelopment project in Charlotte, NC
2. A multi-family renovation project in Greensboro, NC
3. A stabilized retail and office asset in Wilmington, NC
4. A ground-up hotel development in Nashville, TN
5. A mezzanine loan in Durham, NC
6. A mixed-use redevelopment project in Greenville, SC

The fund demonstrates the full range of real estate products and stages of development that SharpVue can invest in for clients.

COMMITMENTS

\$72,000,000

Private Equity Investment

SharpVue closed its first private equity investment, SharpVue WI Partners, LP, in the fall of 2017. The partnership, which raised \$13 million in commitments, was formed for the sole purpose of making a minority investment in Waste Industries, one of the nation's largest providers of non-hazardous solid waste collection, transfer, recycling, and disposal services. Qualified Medical Mutual members participated in the investment, alongside Medical Mutual Holdings, a group of leading private equity fund sponsors, institutional investors, and family offices.

Waste Industries currently operates in seven states within SharpVue Capital's target geography that are, on average, expected to experience higher population and economic growth than other parts of the country, according to forecasting by Moody's Analytics.

COMMITMENTS

\$13,000,000

The company also benefits from an experienced management team that has led the organization to consistently sound financial performance over its more than forty years in business.

This type of co-investment opportunity—typically only available to institutional investors—underscores SharpVue's differentiated approach to pursuing attractive and risk-adjusted returns by investing opportunistically in private companies.

WEALTH MANAGEMENT

SharpVue's wealth management team understands that every client has different financial objectives, risk tolerances, and preferences. Working hand-in-hand with each of its clients, the firm offers a flexible, full-balance-sheet approach to help clients meet their financial objectives. In 2017, SharpVue expanded its core wealth management services with new offerings tailored to meet the evolving needs of Medical Mutual members, including:

- Retirement Planning
- Cash Flow Analysis & Asset Allocation Deconstruction
- Risk Management Analysis
- Investment Proposal
- Social Security Maximization
- Health Care Planning
- Education Planning
- Legacy & Gifting

ASSETS UNDER ADVISEMENT

\$258.9M

as of 12/31/17

*Assets Under Advisement include assets managed by SharpVue and advisory-only assets. SharpVue had assets under management of \$109.0 million as of December 31, 2017.

INDIVIDUAL ACCOUNTS

234%

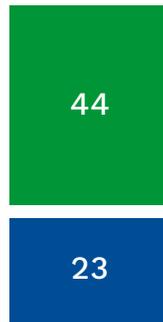
increase
year-over-year



REAL
ESTATE

191%

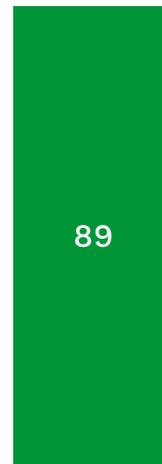
increase
year-over-year



WEALTH
MANAGEMENT

100%

new clients



PRIVATE
EQUITY

 new clients in 2017

 clients before 2017

5. OUTLOOK

CONTINUING OUR PROMISE TO PROTECT AND SUPPORT PHYSICIANS

On the heels of a transformative year in 2016, in which we established our foothold in the Mid-Atlantic region and founded SharpVue Capital, 2017 was a year of realizing the impact of innovation—building on the gains of the previous year with new members, new benefits, and new capabilities. Looking ahead, 2018 promises to be another year of transformation, as we prepare for a new brand and a new business strategy.

But no matter the changes and innovations each year brings, what will always remain is the promise we've made to our members since day one: when you need us, we'll answer the call.

From our origins as a medical malpractice provider, we've expanded our offerings to provide innovative solutions modern practices need, as well as personal investment services and wealth management guidance to help physicians protect their life's work.

The details, highlights, and headlines may change from year to year, but our commitment to supporting physicians and their families in medicine, business, and life will never waver. We're invigorated by the possibilities of what's to come—and can't wait to share our story with you again next year.



Jason Lee,
team member
since 2008

6. ENDNOTES

Disclaimer

This material is not financial advice nor an offer to sell any product. No assurance can be made that profits will be achieved or that substantial losses will not be incurred. All investments involve risk including the loss of principal. The investment strategies discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. SharpVue Capital is a registered investment adviser. Registration does not imply a certain level of skill or training. More information about SharpVue Capital can be found in its Form ADV 2, which is available upon request. This is not an offer to sell, or a solicitation of an offer to purchase an interest in any investment fund. Such an offer will be made only by means of a confidential private offering memorandum relating to a particular fund.

Contact Us

Headquarters

700 Spring Forest Road
Suite 400
Raleigh, NC 27609
Toll Free: 800-662-7917
Local: 919-872-7117

Philadelphia, PA

1818 Market Street
Suite 2710
Philadelphia, PA 19103
Toll Free: 877-704-8361
Local: 484-220-1630

Camp Hill, PA

1250 Camp Hill Bypass
Suite 108
Camp Hill, PA 17011
Toll Free: 866-379-9816
Local: 717-237-2700

For company and industry news, connect with us:



twitter.com/med_mutual



[linkedin.com/company/medical-mutual-insurance-company-of-north-carolina](https://www.linkedin.com/company/medical-mutual-insurance-company-of-north-carolina)



[facebook.com/MedicalMutualGroup](https://www.facebook.com/MedicalMutualGroup)