

MEDICAL MUTUAL INSURANCE COMPANY OF NORTH CAROLINA

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Medical Mutual Announces 2005 Statutory Financial Results

Raleigh, NC—Medical Mutual Insurance Company of North Carolina today announces the results of its financial performance for the year ended December 31, 2005. The results are reported on the basis of statutory accounting practices prescribed or permitted by the North Carolina Department of Insurance. A complete set of statutory financial statements and other financial information will be filed with the North Carolina Department of Insurance on or before February 28, 2006. The Company's Annual Report to Policyholders will be distributed prior to the Company's Annual Meeting of Policyholders scheduled on April 22, 2006 in Raleigh.

Gross written premiums (total premiums charged to physicians) for the year ended December 31, 2005 increased to \$132.2 million, a 16% increase from premiums written in 2004. This growth was the direct result of premium rate increases taken during the year, continued maturation of the book of business, and a 5% growth in the number of physicians insured by the Company. The Company's premium base rate increases for 2005 were 4.7% in North Carolina and 21.6% in Virginia. Corresponding to the growth in gross written premiums, net written premiums (premiums written after consideration of reinsurance) increased by 15% to \$90.6 million. Earned premiums increased to \$80.3 million, an 11% increase from premiums earned in 2004.

Loss and loss adjustment expenses incurred in 2005 increased to \$66.2 million, representing a 6% increase from 2004. The Company paid claims and related claims expenses of \$54.3 million in 2005 compared to \$50.2 million in 2004, an increase of approximately 8% with the majority of the increase attributable to an increase in the number of indemnity payments made in 2005. The Company paid 109 claims in 2005 with an average claim payment of \$324,000, compared to 97 claims paid in 2004 with an average claim payment of \$328,000. Of the 109 claims paid in 2005, 75 of those claims were for \$100,000 or more and 7 of the claim payments were each for \$1 million or more, compared to 63 claims paid for \$100,000 or more and 9 claim payments of \$1 million or more in 2004. There were

302 incidents, 146 claims, and 401 suits reported by physicians to the Company during 2005, compared to 217 incidents, 165 claims, and 325 suits in 2004.

Overall operating expenses decreased slightly in 2005 by \$127,000 to \$11.2 million. The decrease was primarily the result of decreases in salaries and wages and corporate legal expenses. The Company's operating expense ratio (operating expenses divided by written premiums) was 8.4% in 2005 compared to 9.9% in 2004.

The Company's investment income in 2005 was \$6.9 million compared to \$5.7 million in 2004. Investment income increased due to the ability of the Company to invest the strong operating cash flow experienced. Offsetting this was the payment of interest on the \$10 million surplus note issued by the Company during 2003. The Company elected to issue the surplus note, which it used to boost its capital base in order to provide more insurance capacity for physicians in need of malpractice insurance and, also, to further strengthen the Company's financial base. The surplus note has a variable interest rate with a 30-year term.

Net income of the Company totaled \$13 million compared to \$6.8 million for the year ended December 31, 2004. The increase was primarily due to the underwriting discipline and rate increases the Company has consistently implemented over the past several years. Net income was also enhanced by approximately \$4 million that resulted from a gain on the sale of a Company subsidiary and the resolution of a long-standing contractual dispute.

Total assets of the Company increased to \$322 million, representing an increase of \$50 million over year-end 2004. The Company's capital and surplus also increased to \$91.2 million, representing a \$15 million increase from year-end 2004. The increase in capital was directly attributable to a \$1.8 million increase in the value of the Company's subsidiary operations and net income of the Company.

The Company operates in a heavily regulated environment and is subject to review by regulators and financial rating analyst A.M. Best. Failure to meet certain industry financial ratios will result in the Company being downgraded by A.M. Best, which is the situation many malpractice carriers have faced and will face. Presently, A.M. Best rates the Company "A" (Excellent). Most hospitals in North Carolina require that in order for physicians to have staff privileges they be insured with a company that maintains at least an A.M. Best rating of "A-." Common industry financial indicators watched by these organizations include the net written premiums to surplus ratio and the ratio of loss reserves established to capital and surplus. The benchmark ratio for net written premiums to surplus is 1.00, while the benchmark ratio for the reserves to surplus calculation is 250%. In 2004, these calculations resulted in the Company's net written premiums to surplus ratio being 1.04 and 165%; and, in 2005, the ratios were .993 and 157%.

Commenting on the operating performance for 2005, Dale Jenkins, CEO, stated, “We are pleased that our financial performance in 2005 was strong and met our internal expectations. Each year, we strive to charge our physician owners the very lowest premiums possible, while at the same time making sure we show an appropriate operating profit. An operating profit, which in 2005 amounted to approximately 6.8% of written premiums (excluding the gain from the sale of a Company subsidiary and the contractual dispute), is extremely important to demonstrate to rating agencies that we have the ability to remain financially strong and viable for the future. During 2004, A.M. Best upgraded our financial rating to ‘A,’ and they have reaffirmed that rating again for 2006. Our operating expense ratio further declined in 2005 and remains well under 10%, which is significantly below the industry norm. Unfortunately, we paid more claims and received more suits against our insureds in 2005 compared to 2004. We understand the pressure being faced by physicians regarding the cost of malpractice insurance, and we are doing everything possible to control this cost for them.”

Dr. Henry Carr, Company Chairman, said, “During 2005, we celebrated our 30th year of providing a continuous market for physicians’ professional liability insurance in North Carolina. No other company can claim this distinction. We have never waived from our original mission of providing a stable, affordable market for professional liability insurance, while at the same time promoting quality health care for all patients. One of the things I am most proud of is our efforts to help our members improve the quality of care they provide to their patients. Each year, we spend considerable time and financial resources to educate physicians and their staff members on topics that range from avoidance of medication errors to enhanced follow-up on lab results. Also, we are working closely with national experts to help physicians improve the level of patient satisfaction with care rendered. We will continue to be proactive in this area, which will be good for both patients and their physicians. Unfortunately, the number of claims we paid last year greater than \$100,000 continued to increase. It is, therefore, important and necessary that we continue to pursue liability reform measures with our legislative bodies. It is equally important that we do everything possible to help physicians improve and maintain the quality of their care. As a physician-owned company, we are deeply committed to this endeavor to help our members and their patients.”

Medical Mutual is a physician-owned, operated, and controlled insurance company that specializes in professional liability insurance for physicians. The Company is headquartered in Raleigh. Medical Mutual also owns Medical Security Insurance Company, which writes professional liability insurance for dentists, and MMIC Agency, which markets primarily health insurance and commercial insurance to physician and dental practices.