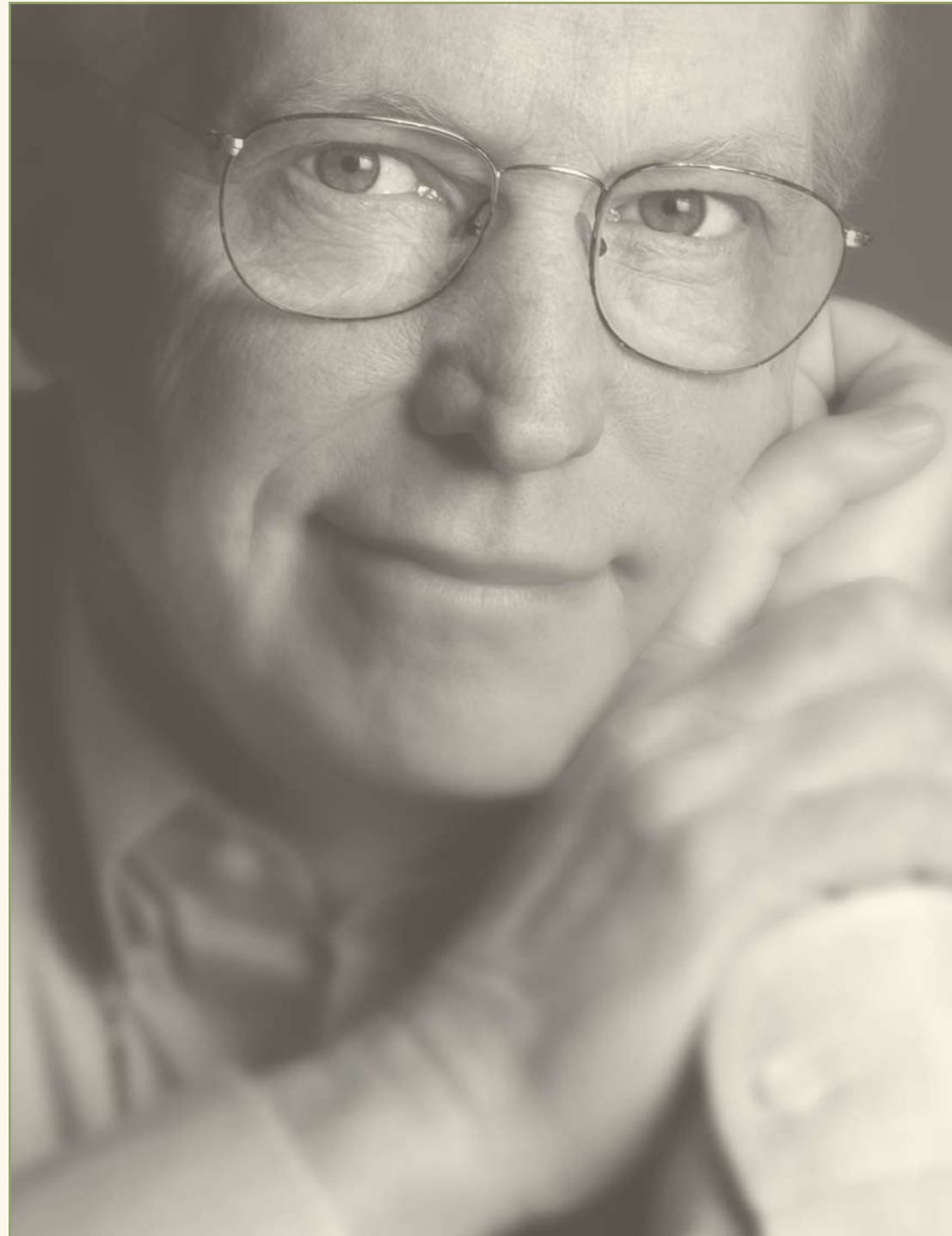


Medical  Mutual<sup>SM</sup>

Annual Report

2003

the strength   
OF STABILITY



*"I have been with Medical Mutual since its inception. Over the years, we have been fortunate to have leadership with the vision and dedication to build a strong company. Our company, and it is our company, has always been ready to advise us about procedures for safe and efficient patient care, provide the best possible legal defense when necessary, and work to bring about fair tort reform. We have been able to chart a course through some difficult times but none more difficult than those we now face. We will need a renewed commitment by all our members to vigorously support efforts to deal with the current liability crisis and work together with our company to build a strong partnership for the future."*

Denny Martin, MD  
Neurologist  
Mountain Neurological Associates, Asheville



## TO OUR MEMBERS

MEDICAL MALPRACTICE. Except for the continuing decline of physician reimbursements, there is perhaps no issue about which physicians feel as passionate as that represented by these two words. In 2003, the national debate continued over how physicians are to cope with the rising cost of medical malpractice insurance. Physicians rallied, marched, and protested. Despite these efforts, and compelling evidence of economic hardships and turmoil in numerous medical practices across the country, little has changed. In fact, here in North Carolina, the situation could be worsened if Senate Bill 802 (approved by a partisan Senate vote in September 2003) becomes law. That Bill did not present any meaningful reform of existing laws that would decrease or stabilize premiums. Instead, it sent a loud and clear message that the majority of our Senators were more sympathetic to trial lawyers than they are to physicians – and to their patients. While the crisis is real for physicians, legislators and the public have not acknowledged and embraced the problem. Overcoming this resistance and apathy is a substantial challenge as we attempt to reform the civil justice system.

During 2003, Medical Mutual actively worked with a coalition of healthcare providers to try and achieve meaningful tort reform. The reform measures sought were similar to those that were enacted in California

in the mid-1970s. These measures have caused per insured premiums to rise by only 168 percent in California over two decades, versus 505 percent for the rest of the nation. While physicians did not achieve success with tort reform in 2003, much was learned about the political process and what it will take to enact reforms that will work. As we enter 2004, we will put what we learned to work, and we pledge that we will not rest until every idea and opportunity that will create needed reforms has been exhausted. Look to hear more about our plans in the coming days. More than ever, it will take everyone working together if positive change is to occur. Individual physicians will need to invest their time and money if true reform is desired. You are the voters and constituents.

Twenty-eight years ago, Medical Mutual was formed by physicians to fight the money-seeking actions of the plaintiff bar and to escape the vagrancies of the commercial insurance markets. By carefully controlling operating expenses, by providing aggressive claims defense, and by promoting quality medicine through hands-on risk management, Medical Mutual has provided a stable market for malpractice insurance at the lowest premium rates possible. As tough as the environment is today, how much worse would it be if physicians had not taken action to form their own company?

*continued on page 2*

## OPERATING HIGHLIGHTS:

*A.M. Best reaffirms Medical Mutual's A- (Excellent) financial rating.*

*Medical Mutual grows its total physician insured count to 7,811.*

*Due to escalating claims, written premiums increase by 23 percent to over \$96 million — an all-time high.*

*The Company's operating expense ratio is 10 percent — one of the lowest among medical malpractice insurance companies operating in the country.*

*The Company's investments provide an overall return of 8.4 percent.*

*Medical Mutual's net income is \$4.7 million, allowing the Company to keep pace with the financial expectations of insurance rating agencies and regulators.*

*Our subsidiary companies contribute an aggregate of \$2.8 million of income back to the core insurance operations.*

**MAINTAINING RISK /  
EDUCATING MEMBERS:**

*Medical Mutual surveys more than 900 physicians through our proprietary Priority Practice Quality Survey (PPQS) instrument.*

*Risk Management staff focus their efforts on improving physician-patient communication and conduct seminars throughout North Carolina that attract more than 500 physicians.*

*The Company develops 122 procedure-specific consent forms —12 of which are in Spanish and specific to obstetrics and gynecology procedures.*

*More than 1,200 medical office staff members from insured practices attend risk management seminars.*

*The Risk Management department develops a home study course for practice administrators to help educate their office staff members.*

It is daunting to imagine what your premium rates would be if the only insurance options available were those provided by traditional insurance markets.

In our Annual Report to you last year, we informed you about the importance of maintaining a financially strong company to serve you when issues about risk and medical malpractice occur. In 2003, the insurance company landscape was littered with companies that failed financially for various reasons, including inadequate pricing of their insurance coverage and a weak approach to the defense of their claims. We are pleased to report that, with your support, Medical Mutual produced sound financial results in 2003, thereby positioning the company for future growth and stability. In a world where you risk everything every day to help your patients, you need a financially strong partner to support the risk that you take. You and your colleagues can take great pride in knowing that the company that you helped to create and to operate has developed into a trusted, financially strong organization that stands ready to support your malpractice insurance needs.

Again this year, we have included throughout our report highlights of operating results and noteworthy achievements for 2003. We have included comments from several of your colleagues about what Medical Mutual means to them and to their practices. We hope you find this information useful and helpful.

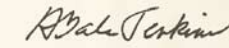
When you think about the various organizations with which you are associated in your practice, we hope that you will share in our sense of pride that one of them, Medical Mutual, is a vital part of your family. Medical Mutual was created by physicians for physicians. Everything we do is designed to support physicians in a proactive, cost effective manner. We exist solely to serve the needs of physicians, and candidly, we would have it no other way.

In closing, our Annual Report continues a theme we developed last year—*The Strength of Stability*. In a world of change and chaos, it is nice to know that some things are constant and can be depended upon. Your company, Medical Mutual, is one of those constants. Strength. Stability. Dependability. We are and will be here for you.

Sincerely yours,



Henry J. Carr, Jr., MD  
Chairman and President



A. Dale Jenkins  
Chief Executive Officer

*“What sets Medical Mutual apart from other professional liability companies is the whole feeling of partnership. We truly have a mutually beneficial relationship. While Medical Mutual certainly has to pay claims and maintain appropriate reserves and surplus, the staff is always looking for ways to help us reduce our risks. They work to protect us by providing guidance and support. This is a partnership where we look out for each other.”*

Michael Icenhour  
Practice Administrator  
Mid-Atlantic Emergency Medicine, Charlotte





*“Medical Mutual is a company that is very dedicated and supportive of physicians, and the defense attorneys they hire on our behalf share the same philosophy. I had the misfortune of being named in a lawsuit several years ago and was determined to fight to the end, as I knew I had done nothing wrong in the case. From my initial meeting with my defense attorney, it was obvious that he was going to stand by and support me in my efforts to clear my name and protect my reputation. He never questioned my integrity, which gave me confidence throughout the long process. I commend Medical Mutual for working for the physicians of North Carolina and for establishing relationships with defense attorneys who understand the complexities of practicing medicine.”*

Thomas M. Sturgis, MD  
Gastroenterologist  
Carolina Physicians, PA, Greenville



## BALANCE SHEET

| ASSETS  | December 31, 2003     | December 31, 2002     |
|---|-----------------------|-----------------------|
| Invested Assets                                     | \$ 202,770,227        | \$ 157,095,285        |
| Accrued Investment Income                           | 1,757,528             | 1,602,484             |
| Premiums Receivable                                 | 27,424,603            | 25,099,798            |
| Information Technology Systems                      | 307,837               | 89,544                |
| Federal Income Taxes                                | 3,785,053             | 4,099,634             |
| Guaranty Capital Subscription                       | 0                     | 6,603,761             |
| Other Assets  | 359,656               | 408,433               |
| <b>Total Assets</b>                                 | <b>\$ 236,404,904</b> | <b>\$ 194,998,939</b> |
| <b>LIABILITIES AND POLICYHOLDERS' SURPLUS</b>       |                       |                       |
| Liabilities   |                       |                       |
| Loss and LAE Reserves                               | \$ 108,800,000        | \$ 96,750,000         |
| Unearned Premium Reserves                           | 29,789,721            | 23,591,759            |
| Reinsurance Balances Payable                        | 24,576,904            | 28,171,351            |
| Other Liabilities                                   | 6,723,916             | 4,439,307             |
| <b>Total Liabilities</b>                            | <b>\$ 169,890,541</b> | <b>\$ 152,952,417</b> |
| Policyholders' Surplus                              | \$ 66,514,363         | \$ 42,046,522         |
| <b>Total Liabilities and Policyholders' Surplus</b> | <b>\$ 236,404,904</b> | <b>\$ 194,998,939</b> |

## MAINTAINING FINANCIAL STRENGTH:

*Total assets of the Company grow to over \$236 million.*

*Medical Mutual's capital and surplus increases to \$66 million as a result of the Company's Guaranty Capital program, the issuance of a \$10 million surplus note, and the operating results of the Company.*

*The market value of the Company's bond portfolio exceeds the underlying cost of the bonds by more than \$5.8 million.*

*The statutory combined ratio (claims and expenses versus premiums earned) is 97 percent, far below the industry average.*

**HANDLING AND  
DEFENDING CLAIMS:**

*Plaintiffs file 428 lawsuits against Medical Mutual members — an increase of 48 over the number filed in 2002.*

*The Company makes indemnity payments of \$29.8 million during the year.*

*Medical Mutual spends \$15 million defending claims and suits — a 26 percent increase over prior year.*

*Medical Mutual tries 23 cases to verdict, succeeds in 20, and loses 3 with aggregate payments of \$2 million.*

*Medical Mutual appears before both the North Carolina Senate and House in support of tort reform, offering testimony and more than 200 slides of data.*

**INCOME STATEMENT**

|   | December 31, 2003    | December 31, 2002    |
|---|----------------------|----------------------|
| Direct Written Premiums                   | \$ 96,243,700        | \$ 78,023,845        |
| Assumed Premiums                          | 521,634              | 385,621              |
| Ceded Reinsurance Premiums                | (34,995,518)         | (25,214,478)         |
| <b>Net Written Premiums</b>               | <b>61,769,816</b>    | <b>53,194,988</b>    |
| Change in Unearned Premium Reserve        | (6,197,962)          | (5,134,262)          |
| <b>Net Earned Premiums</b>                | <b>\$ 55,571,854</b> | <b>\$ 48,060,726</b> |
| Commissions                               | 102,343              | 655,514              |
| Loss and Loss Adjustment Expense Incurred | (48,281,138)         | (43,771,032)         |
| Premium Taxes                             | (2,380,656)          | (1,601,179)          |
| Other Underwriting Expenses               | (4,246,455)          | (3,367,149)          |
| <b>Underwriting Gain/(Loss)</b>           | <b>765,948</b>       | <b>(23,120)</b>      |
| Net Investment Income                     | 5,761,489            | 6,383,989            |
| Other Income                              | 425,500              | 184,437              |
| Operating Income                          | 6,952,937            | 6,545,306            |
| Realized Capital Gains/(Losses)           | 458,687              | (416,716)            |
| Federal Income Tax                        | (2,618,000)          | (2,125,000)          |
| <b>Net Income</b>                         | <b>4,793,624</b>     | <b>4,003,590</b>     |

*“The physicians Medical Mutual insures are both owners and customers, creating a strong alliance between these physicians and the company. This connection ensures that the company’s foremost mission is to be responsive to the needs of its members by providing affordable liability insurance while functioning in both an educational and supportive role. I know many physicians who have been members of Medical Mutual since the 1970s, when North Carolina had its first liability crisis. They have a tremendous loyalty to the company and look to the company to help get us through this current liability crisis. The staff at Medical Mutual understands the huge responsibility they have to insure the future accessibility of quality medical care for patients in North Carolina, which is why physician members view the company as a partner in our fight for liability reform.”*

Rachel Ross, MD  
Pathologist  
Rowan Regional Pathology Associates, Salisbury





*"In the 17 years that I have been covered by Medical Mutual, I have had the opportunity to utilize many of their services. The risk management staff has a great deal of useful information and work well with practices to reduce risk. In OB/GYN, we, unfortunately, have occasions to call on the claims folks. I have always found them to be caring, compassionate, and professional. They, clearly, look out for the best interests of their clients, as well as the medical community in general. I can't imagine a more physician-friendly organization and don't know why anyone would want to be covered by another company."*

Eric Rappaport, MD  
Obstetrician/Gynecologist  
Raleigh OB-GYN Centre, PA, Raleigh



## BOARD OF DIRECTORS

Henry J. Carr, Jr., MD  
*Chairman*

Thomas H. McCoy, MD  
*Vice Chairman*

H. David Bruton, MD  
*Secretary*

Charles C. Crowell, III, MD  
A. Dale Jenkins

Ann C. Jobe, MD, MSN  
Victoria C. D. Neave, MD

Robert E. Schaaf, MD  
Chris M. Teigland, MD

*In Memoriam:*

*F. Maxton Mauney, Jr., MD (1933-2003)*

*Dr. Mauney served on the Medical Mutual Board of Directors from 1993 until his death on November 26, 2003.*

## COMMUNITY BOARDS

### **Coastal:**

William A. Crafford, Jr., MD  
Thaddeus Dunn, MD  
J. William Eakins, MD  
Jessica Burkett, MD  
Mott Blair, IV, MD  
James Hundley, MD  
Michael Moulton, MD

### **Eastern:**

Millard F. Banker, IV, MD  
Deanna Boyette, MD  
Doug Boyette, MD  
John H. Tinga, MD  
Robert Hartley, MD  
Michael Weaver, MD

### **Triangle:**

Robert Bilbro, MD  
Russ Fisher, MD  
Joan T. Jordan, MD  
William Nebel, MD

H. Cliff Patterson, MD  
Earl Ransom, MD  
John W. Rusher, MD  
George Venters, MD  
Ellen Brubeck, MD  
Jeff Kobs, MD  
Robert McConville, MD

### **Triad:**

Slade Howell, MD  
Charles V. Taft, MD  
John Mann, MD  
Robert Nudelman, MD  
Virgil Willard, II, MD  
Kyle Young, MD  
Peter Young, MD  
Brian Sumner, MD

### **Metrolina:**

Akinyele O. Aluko, MD  
Hunter Dyer, MD  
Dan Dillon, MD

Winston Godwin, Jr., MD  
Johnson Kelly, MD  
Clifford Roemer, MD  
Frank Stranick, MD  
Kevin Weiss, MD  
Paul Galentine, MD  
Robert Petrilli, MD  
Allen Dobson, Jr., MD  
J. Clifton Hastings, MD  
Steve G. Justus, MD

### **Mountain:**

Harry Burton, MD  
Steven A. Chamberlain, MD  
Harry Lipham, MD  
Dennis Martin, MD  
James Montgomery, MD  
Peter Mangone, MD  
Edward Plyler, MD  
Ted Humble, MD  
William Snoddy, MD

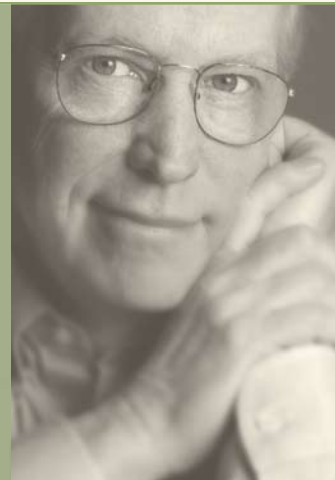
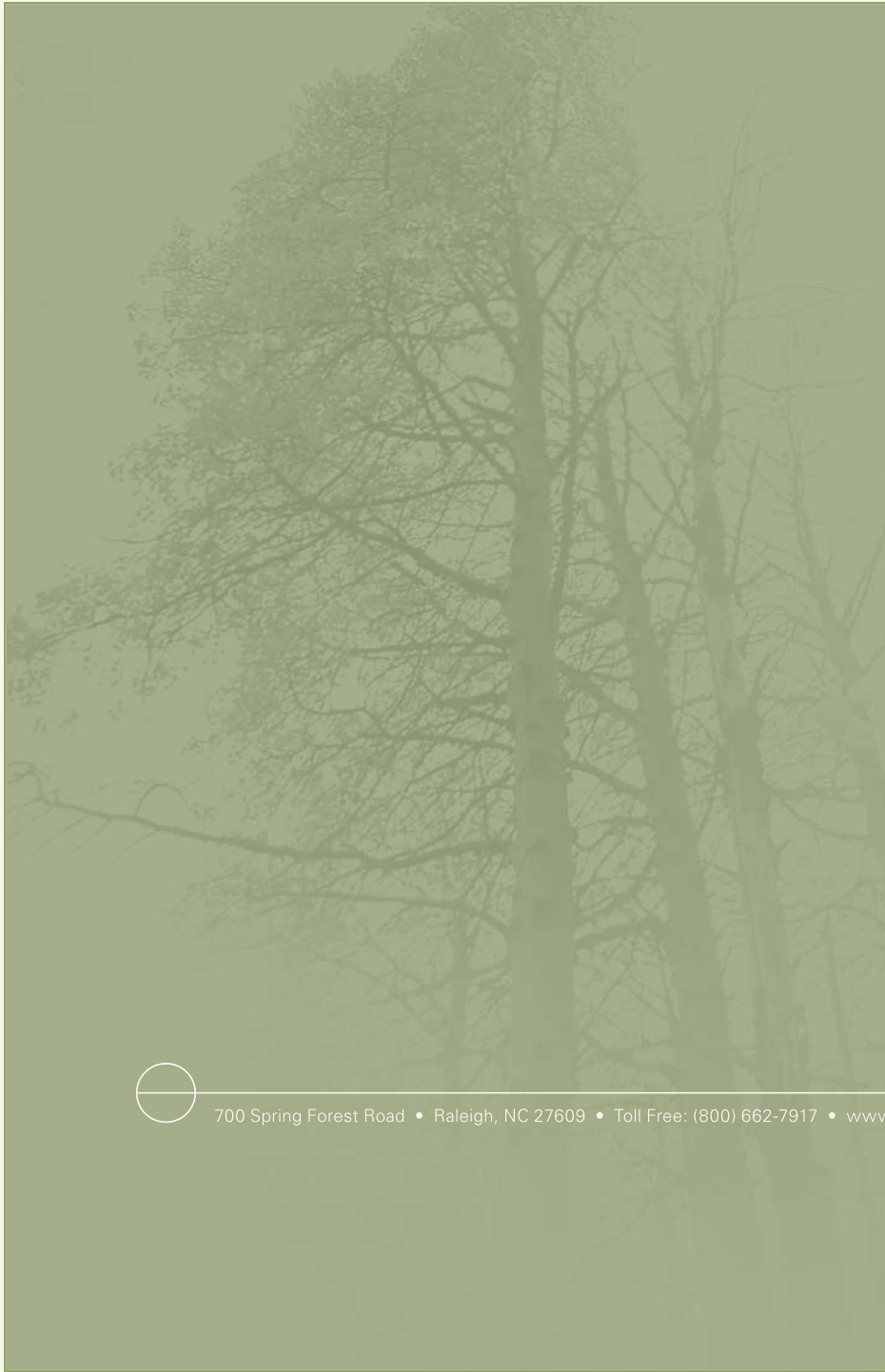
## GIVING BACK:

*Medical Mutual adds a Community Board in Virginia, and our North Carolina Community and Administrator Advisory Boards continue to meet twice annually.*

*The Company and our employees donate almost \$30,000 to the local United Way Campaign.*

*Medical Mutual participates in community service projects for Susan G. Komen Breast Cancer Foundation, Urban Ministries, Food Bank of North Carolina, American Red Cross, North Carolina Medical Society, UNC Children's Hospital, Rex Hospital, Habitat for Humanity, and Raleigh Rescue Mission.*

*The Company establishes a Health and Wellness Committee to provide screenings and educational materials for employees and their family members.*



Medical  Mutual<sup>SM</sup>



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