An Update to a Look Back

Medical Mutual 2006 - 2009

Medical Mutual Insurance Company of MAINE®

forward

In 2006, Medical Mutual Insurance Company of Maine published *A Retrospective* that catalogued the Company's history from its founding by a pioneering group of 12 physicians in 1978 to the beginning of the Year 2006.

Since then, noteworthy government actions, dramatic events and a prolonged trend have changed the marketplace significantly. In addition, Medical Mutual has launched numerous new initiatives, while successfully navigating the changing waters of the marketplace.

This publication, *Medical Mutual 2006 – 2009: An Update to a Look Back,* picks up where *A Retrospective* left off and chronicles these significant events, trends and initiatives.

Prolonged Moderation in Claims Frequency Justifies

Medical Mutual entered the year 2006 with great optimism based on 2005 operating results that exceeded expectations after a financially challenging 2004.

Optimism After Significant, Yet Fleeting, Aberration

Several events in 2005 further tested the Company. In March, A.M. Best downgraded Medical Mutual from A- to B++. Having incurred increased losses in 2004, the Company also made the difficult but responsible decision to enact significant rate increases in all three states in October 2005. And, in the waning months of 2005, the Company's leadership changed as Terrance J. Sheehan, MD succeeded Patrick Dowling, MD as Medical Mutual's President and CEO.

Yet, even in the midst of such challenging events, the market showed promising signs of change and Medical Mutual reported significantly improved first-half operating results. More tellingly, the mid-year results marked six consecutive quarters in which claims frequency had moderated. This supported the Company's firm belief that the atypically rapid development of reserves in late 2004, related to several claims originally opened in the high water mark claims year of 2003, was an aberration — an assertion that would eventually prove to be a considerable understatement.

Medical Mutual's management team successfully sought and secured a $10 million surplus note in early 2006. In essence, the note was an insurance policy that improved the Company's surplus position, enabling it to weather unexpectedly high claims activity or adverse investment results that can impact the Company's finances. It was an important strategic decision that immediately strengthened the Company and continues to do so today.

Still, despite the sincere optimism felt within the Company's management group during that year of challenge, nobody foresaw the sustained period of positive momentum that would follow.

Sustained Moderation Prompts Question of a New, Lower Set-point for Claims

The six straight quarters of claims activity significantly below the high water mark of 437 new claims filed in 2003 has since turned into six years of moderated claims activity (see Fig. 1). Since 2005, the Company has documented the continuing moderation of its claims activity with quarterly updates in the *Advocate* newsletter. With these updates, the Company cautions that "claims activity is not consistent year-to-year." Nevertheless, the reduced claims frequency continued through 2009.

Impact of Reduced Claims Far-Reaching

There have been many benefits of the trend in moderated claims. Since patients were filing significantly fewer claims, they appeared to be benefiting from improved care. And, since claims are at the heart of almost all things financial in the insurance business — that is, for companies like Medical Mutual that avoid risky investments — the Company consistently reported excellent financial performance in virtually every common metric during the 2006 – 2009 time frame.

The most notable effects of the reduction in claims have come in the forms of dividends, rate stabilization and the Company's A.M. Best Rating Outlook.

New Claims Filed (Years-Ended December 31)

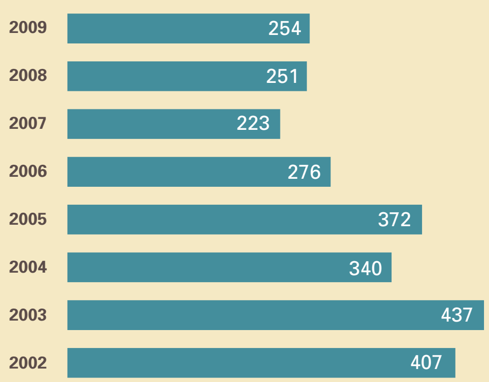

Figure 1

A First and a Follow-Up: Dividends Declared in All Three States

In 2007, the Company declared a dividend of $3.96 million (see Fig. 2). Based on the Company's 2006 operating results, the dividend — the Company's first in a decade and, just as significant, the first ever offered to policyholders in all three states — was derived from both favorable loss experience on claims reserves and gains in the investment portfolio. The Company also declared a dividend of $3.858 million in 2008, based on its 2007 operating results. Taking a cautious approach due to the near-collapse of the credit and housing markets in the fall of 2008 and the global recession they spawned, Medical Mutual refrained from declaring a dividend for 2009. Still, in December, with the Company posting strong financial results for the year, driven once again by favorable loss experience, management had already begun discussions on a potential dividend declaration for early 2010.

Policyholders See Welcome Rate Relief

In addition to the recent years' dividends, which were paid as credits against renewing premiums, actuarial rate indications enabled the Company to provide long-sought rate relief during the 2006 – 2009 time period. In 2007, Medical Mutual kept rates flat in all three states. Extra rate relief came in 2008, when the Company lowered rates for physicians and surgeons in all three states. The Company had just conducted its tri-annual relativity study that calibrates rates in each specialty relative to the base risk class of family practice. These new relativities, combined with a decrease in base plan rates, produced overall average rate reductions of 10.8 percent in Maine and 0.9 percent in Vermont. In New Hampshire, where base rates remained flat, the relativities produced an overall average rate reduction of 8.6 percent for physicians and surgeons.

Hospitals, too, saw rate relief in 2008, largely on the strength of the reduced physician and surgeon rates. In Maine, hospital base rates actually saw an increase of five percent due to several hospital claims of significant severity. However, because the physician component is typically the single largest premium item in a hospital's comprehensive medical professional liability insurance program, for many hospitals, the base rate increase was more than offset by the reduction in the institution's physician premium.

With hospital base rates remaining flat in both New Hampshire and Vermont in 2008, hospitals in both of those states experienced the full benefit of the reduction in physician rates.

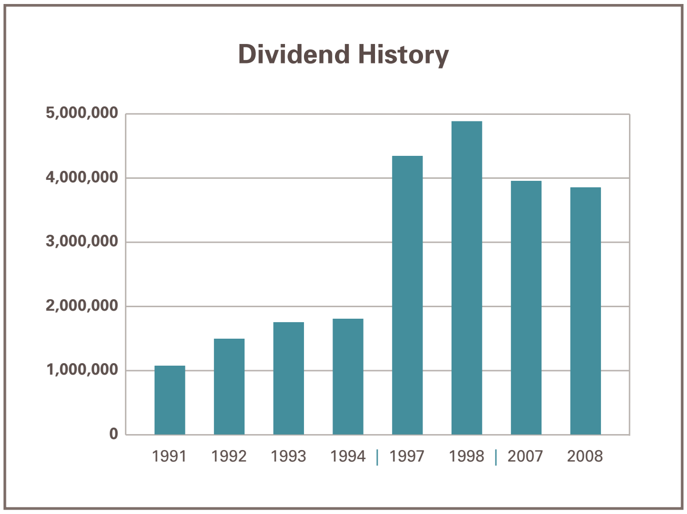

Figure 2

Finally, rates remained flat again across the board for both hospitals and physicians in 2009, a year in which premiums were being offset by the prior year's dividend declaration.

Financial Strength Rating Shows Steady Improvement

In the meantime, A.M. Best, taking a cautious approach, recognized the Company's excellent financial performance and stability, changing its Rating Outlook on Medical Mutual from Negative to Stable in 2006 and to Positive in 2009. Continuation of this performance should ultimately lead to a return to an "A-" rating, given that the Company's BCAR (Best Capital Adequacy Ratio) score has consistently remained in Best's "A" or "Excellent" rating range.

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Marketplace Experiences

The moderation in claims and the financial benefits it brought weren't the only changes the medical professional liability insurance market experienced from 2006 to 2009.

Changes and Challenges

Medical Mutual saw an evolution of competition in its marketplace influenced by state legislative activities. Additionally, a federal government declaration rippled through the health insurance industry, creating a significant risk management challenge for medical professional liability insurers.

Federal Mandate, Health Insurers Put Hospitals On Notice

In August of 2007, the Federal Medicare program announced that beginning in 2008, the agency would no longer pay for certain hospital-acquired conditions that were felt to be reasonably preventable. Many healthcare insurers followed suit with similar policies that withhold payment for errors such as wrong-site surgeries, objects left in patients during surgery and hospital-acquired infections. The Medicare "non-payment" list included 10 conditions, while the states' and insurers' lists included all or part of 28 serious reportable events initially advanced by the National Quality Forum — a voluntary standard-setting organization for healthcare quality measurement and reporting.

Hospitals and carriers like Medical Mutual accordingly embarked on new risk management programs specifically designed to reduce the incidence of these adverse events.

Alternative Insurers Face Challenges, National Competitor Enters Local Market

The fall of 2008 brought a notable change to the Northern New England marketplace as Dartmouth Hitchcock Medical Center restructured its captive insurance program by eliminating the medical professional liability insurance coverage that had previously protected 10 member healthcare institutions in New Hampshire, Vermont and Massachusetts. The 10 hospitals subsequently formed a new voluntary group insurance program.

In New Hampshire, where the Joint Underwriting Association (JUA) competes directly with Medical Mutual, the government proposed to transfer $110 million in surplus funds from the JUA to the State's coffers. Several JUA policyholders were successful in their suit to stop the action, arguing that the surplus should be returned to the state's physicians who had paid the original premiums. The State appealed to the New Hampshire Supreme Court, which upheld the original decision.

Finally, Medical Protective Company of Fort Wayne, Indiana re-established its presence in the Northern New England marketplace in 2008 and 2009 after ignoring the market altogether for many years. The market expansion was part of an aggressive growth strategy begun when Berkshire Hathaway, Inc. purchased Medical Protective in 2005. The new strategy also marked the first time in the company's history that it would write insurance for hospitals, having previously focused only on physician and surgeon coverage.

Company Affirms Commitment to Patient Safety with

To leverage its years of experience in evaluating and handling claims, Medical Mutual embarked on a new series of educational programs in 2006 to help improve the care environment.

By carefully analyzing its claims, both those with and without merit, the Company identified the factors that are most likely to lead to adverse outcomes and claims. Medical Mutual President and CEO, Terrance Sheehan, MD, debuted the Company's Case-Based Learning Initiative with a presentation to the Maine Urological Association in September 2006.

With the help of medical societies in Maine, New Hampshire and Vermont, the Company developed specialty-specific, high-frequency cases within the fields of orthopedics, gastroenterology, radiology, ophthalmology and general medicine.

The physician presenters — all member-policyholders — outlined the salient points of select cases and urged attendees to take note of factors like exam findings, the use of imaging and other diagnostic tests and referrals made.

The successful Case-Based Learning Initiative for physicians continues with ongoing presentations to specialty medical societies in Maine, New Hampshire and Vermont.

In addition to the Case-Based Learning Programs for physicians, the Company also developed and presented a special *Deposition Preparation Program* to the New Hampshire Medical Society in April 2008 and the Maine Urological Association in February 2009. Similarly, the Maine Orthopedic Society, the Vermont Medical Society and the Maine Osteopathic Association learned communication strategies for *Disclosure Following Unanticipated Outcomes* in September 2008, as well as in October and February 2009. The Company tackled a host of other risk management and claims issues for various medical societies with 11 special presentations during the 2006 to 2009 time frame, including *Defensible Documentation, Communication & Physician Jousting* and *Medical Malpractice Landmines,* to name just three.

Company Acknowledges Practice Managers' Role in Fostering Risk Management

Physicians were not the only beneficiaries of Medical Mutual education programs. The Company's inaugural Practice Manager Seminar, which featured a screening of a video on handling medical errors titled, *When Things Go Wrong,* was held on June 13, 2007.

The 2008 program focused on systems-oriented issues within the practice such as consult and diagnostic test tracking, appointment management and customer service/patient satisfaction. The programs featured breakout sessions on the Do's and Don'ts related to common issues every practice faces, like: Termination of a Physician-Patient Relationship; Managing Patient Complaints; Drug Diversion and Narcotic Management; and the Handling of Patient Medical Records.

In 2009, over 100 practice managers and staff members gathered to learn more about best practices related to *Medication Management in the Office Practice.* Notably, seven practicing physicians participated in the '09 program.

Comprehensive Educational Initiative

While policyholders comprised the vast majority of attendees at its popular educational programs, most of the Company's presentations included attendees from physician practices and hospitals not insured by Medical Mutual, a phenomenon that demonstrated the Company's commitment to supporting the greater medical community of Northern New England.

Diversity of Attendees Prompts Expansion of Hospital Education Program

The Company launched its Hospital Education Program on August 28, 2007 with a program titled, *Disclosure and FQHC Exposures: What every hospital needs to know.* The morning seminar explored unique coverage and claims issues related to Deemed Federally Qualified Health Centers and included a viewing and discussion of *When Things Go Wrong.*

In 2008, the Hospital Education Program looked at the changing nature of hospital litigation and the trend of lawsuits, focusing on new targets such as hospital administrators, department heads and credentialing specialists. The 2009 edition of the program, *Preventing Adverse Events: Effective Structures, Processes & Behaviors,* examined new team approaches to care in the hospital environment.

Recognizing the diversity of attendees from the first three Hospital Education Programs, the Company decided to offer two programs for 2010 — one specifically geared toward hospital risk and quality professionals and the other for hospital CEOs and CFOs.

Educational Outreach Extends Beyond Policyholders

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In addition, in 2006, Medical Mutual actively reached out to its network of authorized independent agents in recognition of their important role as ambassadors of the Company and key marketers of its products and services. Each meeting provided updates on the Company's financial status, claims trends and marketing initiatives, as well as information on underwriting policies and procedures.

The Company also made a special effort in 2007 to begin reaching out to its Green Mountain constituents with the establishment of a Vermont Advisory Committee. By holding semi-annual meetings in Vermont, the Company has been able to solicit valuable input from its Vermont policyholders and enhance its profile there as a more effective and involved resource for the medical community at large.

Practice Manager Workshop Series

An annual seminar for physicians and office practice managers and staff dedicated to reducing risk in the physician office practice

2007	When Things Go Wrong
2008	Physician Consult & Diagnostic Test Tracking, Appointment Management
2009	Medication Management

Hospital Education Programs

An annual seminar for hospital executives and risk managers

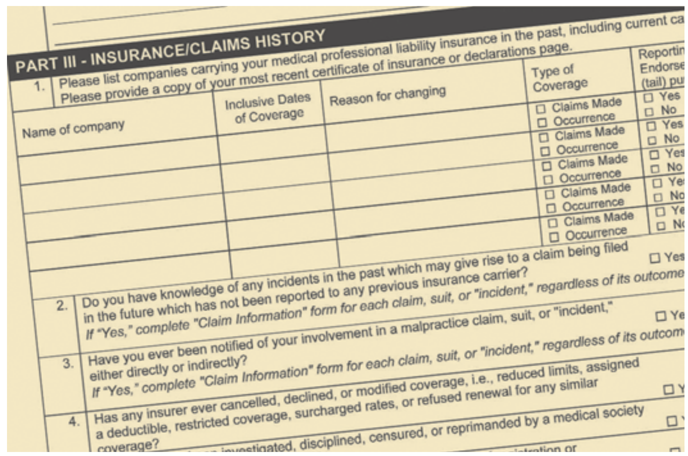
2007	Disclosure and FQHC Exposures
2008	The Changing Nature of Hospital Litigation
2009	Preventing Adverse Events: Effective Structures, Processes & Behaviors

Web Takes Center Stage in Company

The Company launched its re-designed web site in the summer of 2006.

Marketing and Communications Efforts

The new site was designed to be part marketing tool and part information tool, offering three distinct "paths" for physicians, hospital administrators and other healthcare providers to make it easier for policyholders, potential insureds and business partners to quickly find the information most relevant to them. Other features of the site included a FAQ section, an expanded Claims section and the ability to opt in or out of the Company's email database, a highlight that would become even more important with the Company's next major web initiative — a robust web portal.


PART III - INSURANCE/CLAIMS HISTORY

1. Please list companies carrying your medical professional liability insurance in the past, including current ca
Please provide a copy of your most recent certificate of insurance or declarations page.

Name of company	Inclusive Dates of Coverage	Reason for changing	Type of Coverage	Reportin Endorse (tail) pu
			☐ Claims Made ☐ Occurrence	☐ Yes ☐ No
			☐ Claims Made ☐ Occurrence	☐ Yes ☐ No
			☐ Claims Made ☐ Occurrence	☐ Yes ☐ No
			☐ Claims Made ☐ Occurrence	☐ Ye ☐ No
			☐ Claims Made ☐ Occurrence	☐ Ye ☐ No

2. Do you have knowledge of any incidents in the past which may give rise to a claim being filed in the future which has not been reported to any previous insurance carrier? ☐ Yes
If "Yes," complete "Claim Information" form for each claim, suit, or "incident," regardless of its outcome

3. Have you ever been notified of your involvement in a malpractice claim, suit, or "incident," either directly or indirectly? ☐ Ye
If "Yes," complete "Claim Information" form for each claim, suit, or "incident," regardless of its outcom

4. Has any insurer ever cancelled, declined, or modified coverage, i.e., reduced limits, assigned a deductible, restricted coverage, surcharged rates, or refused renewal for any similar coverage?

MMIC Central Takes Company to New Levels of Web Functionality

In launching its new web portal, MMIC Central, in July of 2009, Medical Mutual took its web presence to a whole new level. The secure, permissions-based web site made policy information like coverage limits and the names of insureds on a policy, as well as historical billing and payment information, available to policy-holders, practice managers and institutional administrators — online, any time, and secure for the first time.

In addition to the availability of up-to-date policy management information, a principal feature of this 1.0 version of the portal was its Document Transfer Center, a highly secure method for transferring sensitive information between clients, business part-ners and Medical Mutual staff.

Innovative Partnership Offers Streamlined Application Process

Recognizing that Synernet, a Portland-based provider of outsourced administrative services to healthcare organizations, collects much of the same background information on individual physicians for its credentialing clients that Medical Mutual must obtain to quote new hospital and physician business, the Company explored an innova-tive partnership opportunity in 2008. By designing a program that leveraged Synernet's credentialing database, Medical Mutual could remove a major obstacle to quoting new business.

The new partnership allowed Synernet to pre-populate up to 75 percent of the physician portion of a group's or hospital's application for insurance for those who were, or would become, Synernet clients.

The first-ever program of its kind, launched in the fall of 2008, was used to quote a major Maine hospital with 149 providers and a practice of 22 physicians in its first year.

The millennium's first decade found the Federal government reducing reimbursements for Medicare and Medicaid in response to economic pressures.

At the same time, overhead costs for physicians were climbing steadily. This combination threatened the economic viability of private practices of all kinds. In fact, many chose to be absorbed by their local hospitals, with the physicians therefore becoming hospital employees. This was a real sign that healthcare-related organizations were not immune from greater economic forces.

In late 2008, the world economy suffered a severe recession. The recession represented the worst economic climate the country had seen in decades. It once and for all dispelled the myth of a recession-proof healthcare industry.

Many hospitals and physician practices struggled to make ends meet. Hospital endowments, which had often been used to shoulder part of the load in financing building projects, as well as to provide a buffer against operating losses, lost up to 50 percent of their value. Not to mention that institutions of all sizes were being burdened by significant increases in uncompensated and charity care — costs that are never recouped.

The American Healthcare Reform Debate — Politics As Usual

Meanwhile, the healthcare industry in general faced potentially major changes. After winning the election of 2008 on a platform of "change," Democratic President Barack Obama embarked on a quest to reform healthcare with the dual — some would say competing — goals of lowering costs and providing greater access. Having asked Congress to draft the legislation, the process spawned considerable debate and partisan wrangling on what such reform might look like and how it would be carried out.

Whether or not to include a public option for health insurance proved to be one of the most contentious sticking points in the debate. As the decade closed, the prospect of soon passing any kind of legislation on healthcare reform appeared to be an elusive hope.

Regardless of the eventual fate of healthcare reform, Medical Mutual entered 2010 with an unwavering commitment to "Doing The Right Thing" in support of its mission of protecting the assets, reputations and livelihoods of its member-policyholders. This principled approach had sustained the Company throughout 30 years of up and down markets and challenges of all kinds. And, however the healthcare industry might change due to political, economic or other forces, Medical Mutual continues serving as a stabilizing influence and a go-to resource for medical professional liability insurance in Northern New England, as it has since its founding in 1978.

Recession Dispels a Myth

30 years and counting

Passing the 30-year mark in 2008 as a company born of the medical community for the medical community, Medical Mutual continues to insure more physicians and hospitals in Northern New England than any other carrier. In typical fashion, the Company took an afternoon to celebrate, then got right back to work protecting its insureds' assets and reputations and serving as a critical stabilizing force for the region's medical professional liability insurance marketplace.

Medical Mutual
Insurance
Company of MAINE®

Serving healthcare providers in
Maine, New Hampshire & Vermont

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