

Medical Liability Mutual Insurance Company

Annual Report 2006

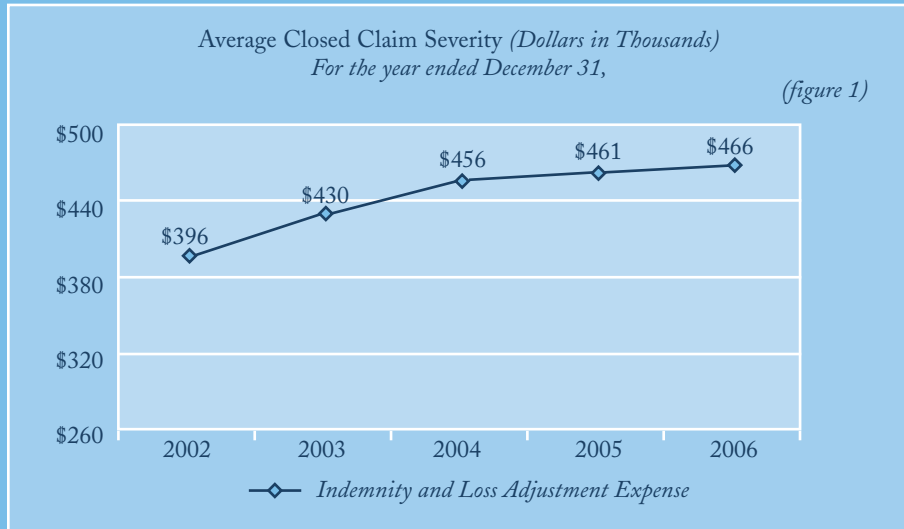
MLM§C

Medical Liability Mutual Insurance Company

TABLE OF CONTENTS

2006 PRESIDENT'S REPORT	2
IN MEMORIAM	5
BUSINESS & OPERATIONS	6
Overview	6
Underwriting & Policyholder Services	7
<i>Policyholders</i>	7
<i>Policy Provisions</i>	7
<i>Eligibility for Insurance</i>	7
<i>Premium Rate Structure</i>	8
<i>Distribution of Dividends</i>	8
Legal Services	8
Claims	9
Risk Management and Continuing Medical Education	9
Investment Policy	9
MEMBERSHIP & MANAGEMENT	10
Membership	10
Board of Directors	11
Officers	13
Servicing Contractor	13
Professional Services	13
SUMMARY FINANCIAL INFORMATION	14

2006 PRESIDENT'S REPORT

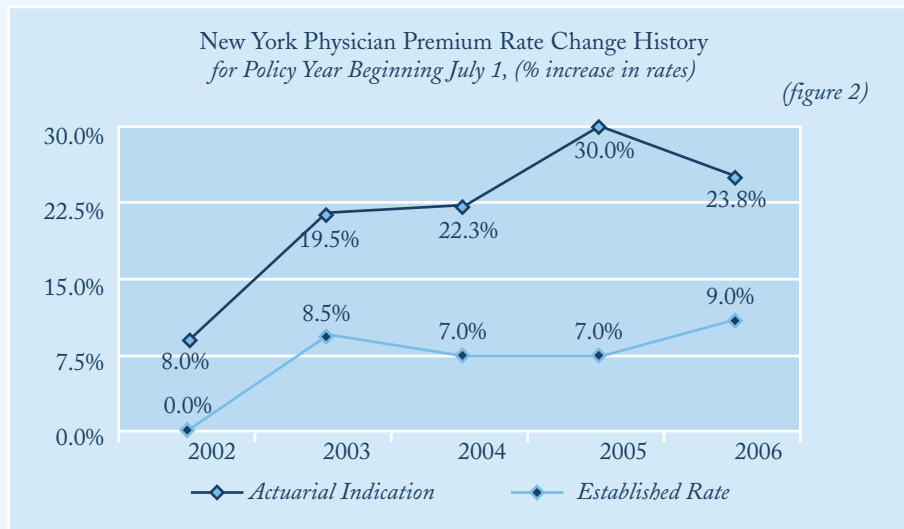


Those of you who have followed the history of our company since its inception in 1975 know full well the challenges we have faced in fulfilling our mission.

We exist to provide the highest quality medical professional liability insurance at the lowest possible cost to qualifying physicians, dentists, hospitals and other providers of healthcare in New York State. Unfortunately, our recent history clearly demonstrates a repetition of these challenges in the form of increasing claims severity, rate inadequacy, and State mandated liabilities.

In 2006, MLMIC continued to experience rising claims severity (*Figure 1*), physician premium rates set at levels below actuarial indications (*Figure 2*), and the negative financial impact resulting from our mandatory participation in the Medical Malpractice Insurance Pool (MMIP) (*Figure 3*). As a result of these challenges, our policyholder surplus decreased \$98 million to \$162 million.

Since 2000, policyholder surplus has decreased \$1.3 billion (*Figure 4*), driven by these same factors.



Our rates are established by the Superintendent of Insurance, our claim costs are driven by the tort system, and our participation in MMIP is legislatively mandated. Consequently, MLMIC has had little, if any, control over the major drivers of our surplus decline. Although we have adequate resources to meet our policyholder obligations, our surplus, which is used to safeguard against unexpected losses, has been markedly affected.

We have impressed upon the Insurance Department, the Governor's office, and the Legislature the negative impact that the tort system, legislation, and regulation are having on our company and our policyholders. Although we have been successful in getting legislation passed which protects us from the regulatory consequences of diminished surplus, much needs to be accomplished in terms of controlling claims costs, eliminating exposure to MMIP, and achieving adequate premium rates.

We have always been cognizant of the heavy financial burden premiums place on our policyholders. Ironically, these same premiums are inadequate to meet the obligations resulting from the current system. So while we have suggested multi-year solutions to achieving rate adequacy, we fully recognize that

the only real solution will come by controlling claims with meaningful tort reform. As we continue our efforts to this end, we remain committed to providing those practicing good medicine in New York with the highest quality insurance at the lowest possible cost.

Our Insureds

MLMIC remains the largest medical malpractice insurer in New York, with an estimated 58% share of the medical malpractice premium written in the State. On December 31, 2006, we insured 19,791 physicians, 4,244 dentists and oral surgeons, and 72 hospitals. Each new applicant is carefully reviewed by our underwriting committees, as are insureds with high loss experience who seek renewal. Peer review remains a cornerstone of our underwriting and claims handling functions, and we remain grateful to the Medical Society of the State of New York and the New York State Dental Association for the important role each plays in this regard.

Our Claims

Peer reviewers examine each reported claim to assess the merits of the case and recommend how to proceed. Our approach is to offer a prompt and fair

settlement if the case has merit and to vigorously defend the case if it does not. During 2006, we closed over 5,000 claim files and paid \$775 million in indemnity and allocated defense costs, a record level of payouts and an 11.3% increase over the prior year. We carefully monitor the factors which influence annual claims payouts—the frequency and severity of claims—and are encouraged that the paid severity on physician claims (our largest business segment) appears to be leveling off now after sharp increases from 2002 – 2004 (Figure 1). Such increased claims severity led to claims reserve strengthening from 2001 through 2006 that totals almost \$800 million (Figure 5).

Our Investments

MLMIC continues to maintain a conservative investment philosophy, with most of the \$4.5 billion investment portfolio comprised of investment-grade bonds. The portfolio remains well-diversified by industry and issuer and generated a 5.6% total return in 2006, which exceeded performance benchmarks. Our investment portfolio has performed well for us over time, and no change in investment philosophy is anticipated going forward.

Our Subsidiaries

Negotiations for the sale of our Ohio subsidiary (OHIC Insurance Company) began in 2006 and were completed in January, 2007. OHIC's financial results had continued to improve, and we received over \$90 million for the company in cash and an interest-bearing note due in 5 years.

Our New Jersey subsidiary (Princeton Insurance Company) also had a good year in 2006. It generated positive net income which increased its surplus and improved its overall financial strength. It remains the leading provider of malpractice insurance to hospitals, physicians, and dentists in New Jersey.

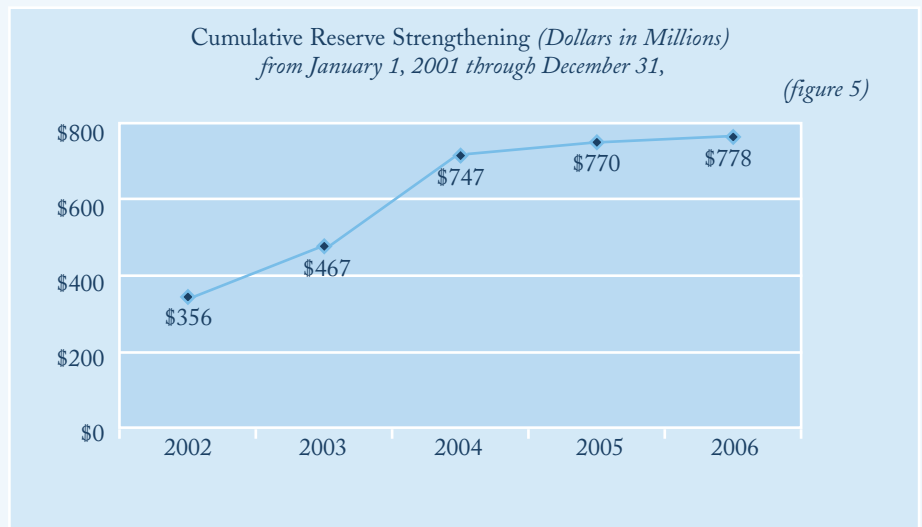
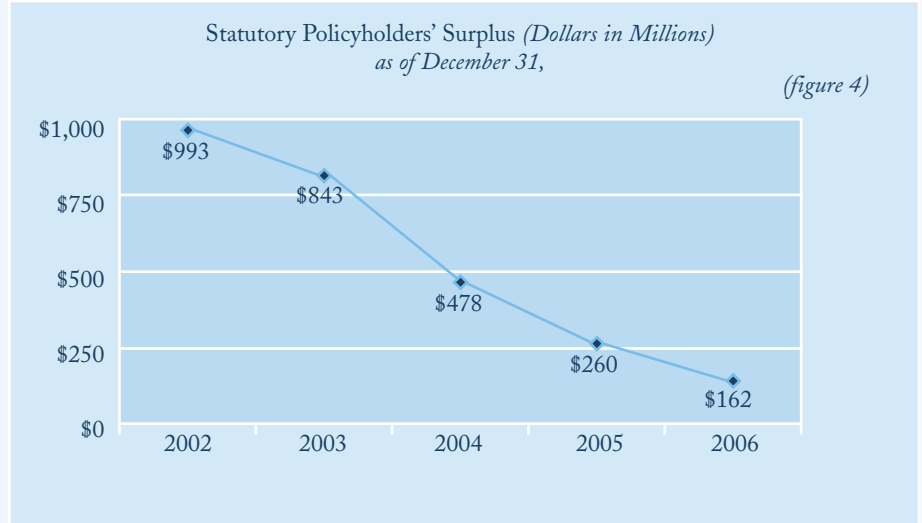
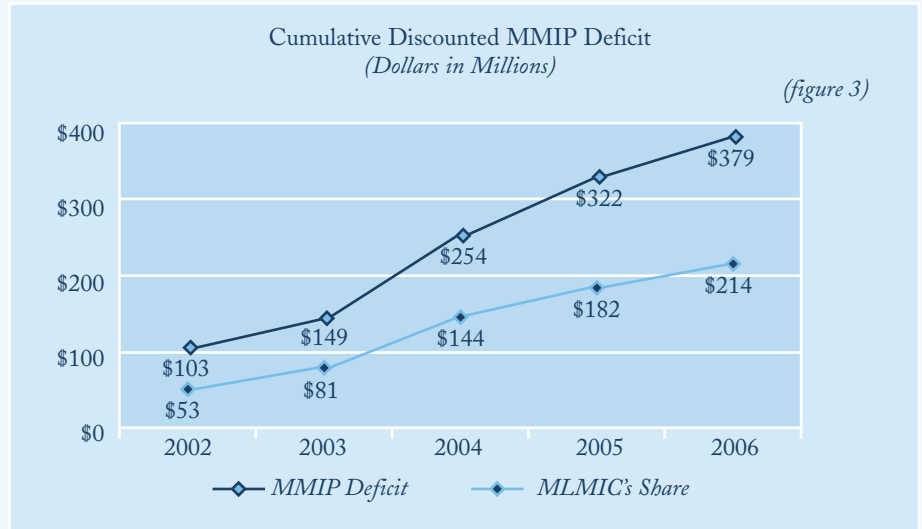
Conclusion

While MLMIC remains challenged by high claims costs, inadequate physician rates, and mounting MMIP deficits, we remain committed to working on behalf of our insureds with the Superintendent, the Legislature, and the Governor to resolve them. In the end, we believe that we provide a valuable insurance solution for the physicians, hospitals, and dentists in this State and are committed to continuing to serve you with the high quality products and services you need to operate in a challenging environment like New York.



Stanley L. Grossman, M.D.

March 29, 2007



IN MEMORIAM

Our company experienced a significant loss with the death of our President, Andrew ('Drew') H. Patterson, M.D., on November 11, 2006. Drew was one of our founding Directors and served as President from 1989 until his passing.

He was a valued member of the St. Luke's-Roosevelt Hospital staff from 1963 to 2000 and maintained an active and distinguished practice as an orthopaedic surgeon. Over the years, he served the Hospital in many positions, including Director of Orthopaedic Surgery, member of the Board of Trustees, and President of the Medical Board. He had also been the team physician for the New York Knicks from 1970 to 1975.

Drew was a vigorous crusader for quality medical care, as well as a staunch advocate for meaningful civil justice reform. His wise counsel and leadership were invaluable, and he will be greatly missed by all who knew him and worked with him.

BUSINESS & OPERATIONS

Medical Liability Mutual Insurance Company (MLMIC) is a mutual insurance company, owned and directed by the healthcare professionals it insures. With assistance provided by the Medical Society of the State of New York, MLMIC was created in 1975, in response to a crisis of availability of medical professional liability insurance.

Overview

The integrity, vision, and consistently high standards set by MLMIC's Board of Directors endure and explain why MLMIC is the only professional liability insurance company endorsed by the Medical Society of the State of New York (MSSNY), numerous county and specialty medical societies, the Iroquois Hospital Association, the New York State Dental Association (NYSDA), and many of its component dental societies.

In New York, MLMIC insures 72 hospitals, about 19,800 physicians and surgeons and over 4,200 dentists, as well as numerous other healthcare providers and facilities. From this substantial insured population, MLMIC has developed a current and comprehensive statistical database on medical and dental malpractice claims to evaluate causes of loss, claim trends, and specialty and territory risk relativities.

Management and direction of MLMIC is accomplished through its Board of Directors, which is primarily comprised of physicians, dentists, and hospital executives. As an active participant in the national organization, Physician Insurers Association of America, as well as with national medical and surgical specialty societies, MLMIC has been a leading force in the development of risk management programs and systems, cause of loss identification, and patient safety education both in New York and nationally. MLMIC officials have frequently represented the interests of the healthcare professions on issues relating to tort reform at the national and state level.

MLMIC is the entity resulting from the merger in 2001 of the Healthcare Underwriters Mutual Insurance Company (HUM) and Medical Liability Mutual Insurance Company. The MLMIC Group also includes Princeton Insurance Company (Princeton). Princeton provides professional liability coverage, risk management expertise, and other related services to healthcare professionals, hospitals, and other facilities in New Jersey.

Underwriting & Policyholder Services

Policyholders – MLMIC underwrites professional liability insurance in New York for physicians and surgeons, their employees, hospitals, healthcare facilities, and dentists, as well as professional liability, general liability, and directors' and officers' liability insurance for certain other groups and entities.

The primary purpose of underwriting is to evaluate the type of exposures that each risk poses to MLMIC and establish premiums for those risks and exposures. In the evaluation, classification, rating, and selection of risks, MLMIC's emphasis has always been on equity, quality, and reasonableness of cost. Policyholder service representatives are available to answer questions, provide claim histories and certificates of insurance upon request, address billing issues, and provide support to insureds.

For physicians, MLMIC's underwriters also serve as liaisons to MSSNY's committee, the Professional Medical Liability Insurance and Defense Board (the

Defense Board), in its deliberations on various classification and coverage issues. They also work with the Defense Board and its subcommittees (for MSSNY members), and MLMIC's Claims Committee (for non-members), to analyze the claims experience of MLMIC insureds through peer review activities and to interview policyholders and applicants for coverage, when necessary. MLMIC's dentist policyholders have a similar review program administered by the NYSDA – MLMIC Underwriting/ Claims Committee, which is composed of dentists appointed by NYSDA.

Policy Provisions – MLMIC issues non-assessable policies and offers both occurrence and claims made coverage to physicians, surgeons, dentists, hospitals, and other healthcare facilities. Primary policy limits of liability are available for physicians and surgeons in amounts up to \$1,300,000/ \$3,900,000 (each person/ annual aggregate). Primary policy limits of liability are available for dentists in amounts up to \$2,000,000/ \$6,000,000. In 2006, MLMIC offered its qualified individual physician and surgeon policyholders an excess layer of coverage of \$1,000,000/\$3,000,000 at no additional cost, via a New York State funding mechanism. MLMIC's standard professional liability policies provide coverage up to the applicable limits of liability without a required deductible or co-insurance retention provision. MLMIC policies insuring physicians, surgeons, and dentists afford limited reimbursement for loss of income in the event an insured, at the request of MLMIC, appears in court during trial as a defendant for a covered claim.

MLMIC-insured physicians, surgeons, and dentists may be eligible for "defense only" coverage, with limits ranging from \$25,000 to \$100,000. This coverage provides for the costs of defending an administrative action brought against a policyholder, which arises out of allegations that could form the basis of a claim for legal liability under an insured's policy. Defense only coverage also includes legal costs for governmental proceedings alleging Medicare/ Medicaid fraud and/or abuse. Depending on the class of business, this coverage is either included in the basic policy or is available by endorsement for an additional premium charge.

Separate limits of liability of up to \$1,000,000/\$3,000,000 may be available for an additional premium charge to an eligible professional entity formed by physicians, surgeons, or dentists.

MLMIC offers medical professional liability coverage for hospitals and other types of healthcare providers and facilities on occurrence and claims made policy forms with primary limits of liability of \$1,000,000 each person and \$3,000,000 total liability (i.e. annual aggregate). Higher primary limits, excess coverage layers, and umbrella coverage may also be available to certain facility policyholders.

Eligibility for Insurance – Insurance coverage is afforded to qualified New York applicants pursuant to plans of operation and rating rules filed by MLMIC with the Superintendent of the State of New York Insurance Department (the Superintendent). In order for dentist applicants to qualify for insurance, they must also be members in good standing with NYSDA.

An otherwise eligible applicant, who has prior adverse loss experience or displayed improper conduct or methods of practice, may not be eligible for insurance at MLMIC's standard rates. Such an applicant may be offered insurance if he or she agrees to pay an increased premium in accordance with MLMIC's merit rating plan, which is approved by the New York State Insurance Department. Applicants for insurance must file an application with MLMIC, detailing the history of their prior claims and professional activities, which will be used as the basis for determining risk acceptability and the premium amount to be charged.

Premium Rate Structure – Pursuant to legislation, the Superintendent has been establishing premium rates for physician and surgeon policyholders for all New York State authorized insurers since 1985. MLMIC prepares an advisory rate filing to assist in rate determinations for each specialty class and territory made by the Superintendent. For policy year 2006 (July 1, 2006-June 30, 2007), the Superintendent established a base rate increase of 9%.

MLMIC's premium rates for dental professional liability coverage are subject to approval by the Superintendent. Effective August 1, 2006, MLMIC was approved for an adjustment in the territory differentials for the three dental rating territories. These include: no change (0%) in Territory 01 (Manhattan, Bronx, Brooklyn, and Staten Island), an increase of 10% in Territory 02 (Nassau, Suffolk, Queens, Rockland, and Westchester), and a decrease of 16.5% in Territory 03 (remainder of State).

Insured physicians, surgeons, and dentists, who have just completed training

and are beginning their first year of private practice, receive a premium rate reduction of 50% of the standard applicable premium in their first year of private practice. Those insureds purchasing claims made coverage also receive a 25% reduction in their second and third years of private practice.

Physicians and surgeons who attend a basic risk management course and complete the related home study project will receive a 5% premium rate reduction for two successive policy years. If they attend a follow-up course, as required, the 5% rate reduction will be continued. Dentists who successfully complete NYSDA's risk management program receive a 10% rate reduction for three successive policy years. The risk management programs are repeated for both physicians and dentists in subsequent years.

Insured physicians and surgeons principally affiliated with MLMIC insured hospitals are entitled to a rate reduction equal to 12% of the standard applicable premium, provided such insureds: 1) agree to participate in the risk management and loss control program designated by MLMIC, and 2) agree to a joint defense of claims, when appropriate, consisting of a unified claims investigation and litigation defense by a single claims manager and attorney representing all such insureds in the program. Physicians and surgeons benefiting from the previously described discounts provided to beginning practitioners and part time practitioners are not eligible to receive this 12% discount simultaneously.

Periodic actuarial reviews of loss experience for professional liability insurance in New York indicate whether claims costs and expenses have been rising or falling

from year to year and are the most important indicators of future rates. Were it not for MLMIC's low administrative expenses, which are less than those of many other similar type insurers, and its successful investment and claims management programs, the cost of professional liability insurance to MLMIC policyholders would be higher.

Distribution of Dividends – Physician and hospital policyholder dividends have not been declared for several years.

With regard to the NYSDA-MLMIC Program and MLMIC's commitment to share profits generated by the program with its dentist policyholders, New York dentist and oral surgeon policyholders had received 7 years of consecutive dividends. However, in 2006, adverse development in some of the prior years prompted the NYSDA-MLMIC Underwriting Claims Committee to recommend that no dividend be declared for 2006.

Legal Services

Policyholders may access a variety of legal services provided by Fager & Amsler, L.L.P., counsel to MLMIC. The firm's experienced attorneys specialize in health-care law, including professional liability issues, medical malpractice defense litigation, and regulatory compliance.

Fager & Amsler attorneys are frequently called upon to render legal advisory opinions concerning medical and/or dental professional liability issues, liability litigation proceedings, regulatory compliance, and professional liability/misconduct hearings. They also conduct legal audits and assessments of areas of medical practice that require focused review and fre-

quently serve as featured speakers at various medical and dental society member programs. The attorneys monitor current statutes, regulations, and case law and keep insureds apprised when there is an impact on potential liability.

Claims

It is MLMIC's philosophy, as established by the Board of Directors, to settle meritorious claims as equitably and expeditiously as possible and to resist and aggressively defend cases without merit.

MLMIC maintains a professional claims staff whose experience is unequalled in the medical professional liability insurance industry. MLMIC's claims staff works with respected medical experts and the finest defense attorneys to provide policyholders with the best representation available. Through the years, MLMIC has been the one company that has successfully defended more New York physicians than all other New York insurers combined – a fact held in high regard in the legal community.

MLMIC's claims teams are aware of the importance of conducting prompt evaluations and maintaining direct personal contact with policyholders. By conducting early and comprehensive analyses of claims and lawsuits, MLMIC seeks to control defense and settlement costs.

Every claim received against a physician, surgeon, or hospital is reviewed by physician members of MLMIC's Claims Review Committee. The reviewing physicians provide the claims staff and defense counsel with an evaluation of the claim's merit. When indicated, the Committee calls upon other recognized specialists to aid in the evaluation of claims.

Generally, MLMIC may not settle any claim or suit against most insureds without their written consent. In the event an insured New York physician or hospital refuses to agree to the recommended settlement of a claim or suit, either the company or the insured may refer the matter for binding arbitration.

Similarly, all claims against New York dentists are reviewed by the dentists who are members of NYSDA's Underwriting/Claims Committee. No claim against an insured dentist will be settled without the consent of a majority of the members of the District Claims Committee of the insured's component of NYSDA.

MLMIC retains attorneys with the highest qualifications to defend suits against its policyholders. The process of selecting attorneys includes personal interviews of applicants. As a result, more than one hundred firms have been approved to defend cases, based upon their competence and their commitment to resist groundless claims. Further, MLMIC has established certain minimum guidelines. These guidelines require each attorney to: (1) provide individualized attention to the insured defendant and keep the insured apprised of the claim's progress; (2) meet as necessary with the insured after the basic investigation is received from MLMIC representatives; (3) explain the anticipated activities, expand on the investigation as necessary, and report to MLMIC representatives on the results of these procedures; and, (4) provide thorough preparation of the insured well in advance of the Examination Before Trial or any other court appearances that may be required. MLMIC has published these

guidelines and distributes questionnaires to each defendant physician and dentist that evaluate the attorney's performance when a case is closed.

Risk Management and Continuing Medical Education

MLMIC provides insureds risk management programs to help improve patient care and, ultimately, reduce the number and severity of claims.

MLMIC is accredited by MSSNY to provide continuing medical education (CME) for physicians. MLMIC utilizes conventional formats and new technologies, including an internet-based format to provide and deliver its CME programs. Satisfactory completion of these courses allows physicians to earn CME credits, the applicable premium credit, as well as qualify for participation in the medical malpractice excess insurance program.

MLMIC's Risk Management department also offers MLMIC policyholders a number of additional services, including advisory opinions, a resource library of collateral materials, a speakers' bureau, educational lectures and seminars, and consulting services, such as office audits and quality assurance assessments.

Investment Policy

MLMIC has adopted a conservative policy for the investment of assets in order to preserve principal for future claim payments and to generate return on that principal with reasonable risk. Virtually all non-affiliate investments are in investment grade fixed maturity securities.

MEMBERSHIP & MANAGEMENT

As a mutual insurer, MLMIC's policyholders are the company's owners and directors. MLMIC policyholders have input through the Board of Directors into vital areas of operation, such as rate-setting recommendations, claims management, underwriting and policy coverage provisions, merit rating, and risk management.

Membership

Each policyholder is a member, and only policyholders may be members. Each individual member has one vote at the annual policyholders' meeting, which is held on the first Wednesday after the first day of May in each year. Each hospital policyholder is entitled to ten votes at such meeting. HMO, PPO, and certain other healthcare facility members are entitled to either two or five votes, depending upon the organization's structure. Members may attend the annual meeting and any special meetings of members in person or by proxy. At each annual meeting the members elect MLMIC directors and vote on any other business before the meeting.

The time and place of each annual meeting is established by the Board of Directors and is set forth in a notice with each policy issued by MLMIC. Membership in MLMIC is nonassessable, and no claim may be made by MLMIC against the assets of any member by virtue of membership other than the premium charge for that member's insurance policy.

Board of Directors

The management of MLMIC is the responsibility of a Board of Directors which is comprised of up to 39 professionals. All but four directors must be members of MLMIC, and no more than half of the directors may be officers of MLMIC. An Executive Committee of the Board has been established to act in lieu of the full Board, to the extent permitted by law, when the full Board is not in session.

The Board has established a Finance Committee, a Claims Committee, and an Audit Committee to oversee those aspects of MLMIC's business.

The Board of Directors, pursuant to the by-laws of MLMIC, is divided into three classes of 13 directors each⁽¹⁾. One class of directors is elected each year to a three-year term.

⁽¹⁾ In addition, Mary Ann Bishara, M.D., Irwin J. Cohen, M.D., Robert M. George, M.D., George Lim, M.D., Theodore C. Max, M.D., and Ralph M. Schwartz, M.D. serve as Directors Emeriti.

The present Board of Directors is composed of the following persons:

Class I (to serve until May 2008)

<i>NAME</i>	<i>DIRECTOR SINCE</i> ⁽¹⁾	<i>SPECIALTY/AFFILIATION</i>
Robert A. Breault, M.D.	1984	Surgery
John L. Clowe, M.D. ⁽²⁾	1981	Family Practice
William A. Dolan, M.D.	1996	Orthopaedic Surgery
Mark J. Feldman, D.M.D.	1992	Dentistry; Treasurer and ADA President-Elect
Samuel M. Gelfand, M.D.	1981	Surgery
Kira Geraci-Ciardullo, M.D.	2005	Allergy, Pediatrics
Stanley L. Grossman, M.D. ⁽²⁾	1984	Surgery; President of MLMIC
Tarky J. Lombardi, Jr.	1993	Attorney; Former Member of the New York State Senate
Samuel H. Madell, M.D.	1996	Radiology
Robert A. Menotti, M.D. ⁽²⁾	1989	Surgery; Vice President and Secretary of MLMIC
Nancy H. Nielsen, M.D.	1996	Internal Medicine; Speaker AMA House of Delegates
James W. Reed, M.D. ⁽²⁾	2005	President and CEO, Northeast Health
William F. Streck, M.D.	1998	President and CEO, Bassett Healthcare

1) Year started as a Director on either MLMIC's or HUM's predecessor Board

2) Member of the Executive Committee

Class II (to serve until May 2009)

<i>NAME</i>	<i>DIRECTOR SINCE ⁽¹⁾</i>	<i>SPECIALTY/AFFILIATION</i>
Anthony A. Ascioti, M.D.	1993	Anesthesiology
Charles N. Aswad, M.D. ⁽²⁾	1976	Emergency Medicine
Ann M. Barbaccia, M.D.	2000	Obstetrics and Gynecology
David W. Felton ⁽²⁾	1982	President and CEO, Community Memorial Hospital
John A. Fracchia, M.D.	1991	Urology
Alvin Katz, M.D.	1988	Otolaryngology
Joseph R. Maldonado, Jr., M.D.	2006	Urology
Paul J. Okosky, M.D.	1995	Family Practice
Kenneth D. Roberts ⁽²⁾	1987	President, John T. Mather Memorial Hospital
Anthony P. Santomauro, M.D.	1988	Surgery
L. Arne Skilbred, M.D.	1993	Orthopaedic Surgery
Salvatore S. Volpe, M.D.	1997	Pediatrics, Internal Medicine
Murray A. Yost, Jr., M.D.	2004	Obstetrics and Gynecology

Class III (to serve until May 2007)

<i>NAME</i>	<i>DIRECTOR SINCE ⁽¹⁾</i>	<i>SPECIALTY/AFFILIATION</i>
Duane M. Cady, M.D. ⁽²⁾	1989	Surgery; Past Chairman, Board of Trustees of AMA
Gerald J. Cassidy	1989	Former Vice President of MLMIC
John F. Dwyer, M.D. ⁽²⁾	1982	Obstetrics and Gynecology
Harold K. Herzog	1990	Chairman, Finance Committee of MLMIC
Richard H.S. Karpinski, M.D.	1992	Plastic Surgery
Ezriel E. Kornel, M.D.	1998	Neurosurgery
John W. Lombardo, M.D.	2004	Ophthalmology
Norman R. Loomis, M.D.	1986	Family Practice
Richard M. Peer, M.D. ⁽²⁾	1998	Surgery; President and Member, Council of MSSNY
David Sibulkin, M.D.	1985	Dermatology
Richard N. Waldman, M.D.	2005	Obstetrics and Gynecology
Frederick W. Wetzel, D.D.S.	1998	Dentistry; Member, Board of Governors, NYSDA

(1) Year started as a Director on either MLMIC's or HUM's predecessor Board

(2) Member of the Executive Committee

Officers

The officers of MLMIC are appointed by, and serve at the sufferance of, the Board of Directors. The officers presently serving are:

Stanley L. Grossman, M.D., President
Robert A. Menotti, M.D., Vice President and Secretary
Donald J. Fager, Vice President and Assistant Secretary
Edward J. Amsler, Vice President and Assistant Treasurer
K. Wayne Kahle, Vice President and Comptroller
Daniel F. Canniff, Vice President

Servicing Contractor

Donald J. Fager & Associates, Inc. (Fager & Associates) is retained by MLMIC as servicing contractor to provide, under the supervision of the Committees of the Board and the officers of MLMIC, administrative functions on MLMIC's behalf. These services include underwriting activity, information services, marketing, actuarial support, and claims handling, including investigation of cases, monitoring of defense attorneys, and adjustment of claims with approval of MLMIC's Claims Committee. Fager & Associates provides policyholder services for all insureds. Currently, over 15,000 open claims and lawsuits are being handled. In addition, risk management staff is provided to supervise extensive quality assurance programs for insured physicians and hospitals. At the present time, Fager & Associates employs a staff of over 500 people who render these services from offices in New York City, Syracuse, East Meadow, and Latham, New York.

Professional Services

MLMIC utilizes the services of professionals to handle specific tasks. INVESCO provides MLMIC with financial advice and services with respect to the investment of funds. Milliman, Inc. is retained as consulting actuary. The firm of LeBoeuf, Lamb, Greene & MacRae, L.L.P. is retained as legal counsel to MLMIC. The accounting firm KPMG, L.L.P. serves as independent auditor of MLMIC's financial statements.

SUMMARY FINANCIAL INFORMATION

Medical Liability Mutual Insurance Company

<i>(statutory basis, dollars in millions)</i>	2006	2005
ADMITTED ASSETS, LIABILITIES AND POLICYHOLDERS' SURPLUS		
Bonds	\$ 3,985	\$ 4,132
Stocks	251	194
Cash, short-term and other invested assets	243	209
Cash and invested assets	4,479	4,535
Premiums receivable and other assets	544	460
Total admitted assets	\$ 5,023	\$ 4,995
Loss and loss adjustment expenses unpaid	\$ 4,143	\$ 4,087
Unearned premiums	344	338
Other liabilities and accrued expenses	374	310
Total liabilities	4,861	4,735
Policyholders' surplus	162	260
Total liabilities and policyholders' surplus	\$ 5,023	\$ 4,995
SUMMARY OF OPERATIONS AND CHANGES IN POLICYHOLDERS' SURPLUS		
Earned premiums	\$ 672	\$600
Loss and loss adjustment expenses incurred	986	1004
Other underwriting expenses	35	55
Net underwriting loss	\$ (349)	\$ (459)
Investment income (net of expenses)	\$ 166	\$ 160
Net realized capital gains (losses)	(21)	40
Net investment gains	\$ 145	\$ 200
Net loss	\$ (170)	\$ (239)
Change in net unrealized gains (losses)	62	19
Other surplus changes	10	2
Net decrease in policyholders' surplus	\$ (98)	\$ (218)
PERFORMANCE RATIOS (BASED ON EARNED PREMIUMS)		
Loss and loss adjustment expense	146.7%	167.3%
Other underwriting expense	5.2%	9.2%
Combined ratio	151.9%	176.5%

Medical Liability Mutual Insurance Company

2 Park Avenue
New York, NY 10016
(212) 576-9800
(800) 275-6564

2 Clinton Square
Syracuse, NY 13202
(315) 428-1188
(800) 356-4056

90 Merrick Avenue
East Meadow, NY 11554
(516) 794-7200
(877) 777-3560

8 British American Boulevard
Latham, NY 12110
(518) 786-2700
(800) 635-0666

Our defense never rests.



A MEMBER OF THE MLMIC GROUP