



ANNUAL REPORT 2012

west virginia
mutual
Insurance Company

The logo features the Rod of Asclepius, a medical symbol consisting of a staff with a single snake coiled around it, positioned to the right of the company name.

Physicians Insuring Physicians

MESSAGE FROM THE CHAIRMAN, PRESIDENT AND CEO



R. Austin Adlaco, MD

of us in practice can now remain here and continue to provide high quality healthcare to the citizens of West Virginia. So, congratulate yourself on your excellent decision to continue as a Mutual owner.

Being a Mutual company means that none of the money collected for premiums goes to out-of-state investors in the form of stock dividends. Indeed, any potential excess monies collected by our company are returned to physicians in the form of lower premiums through a combination of premium reductions, risk management credits, and renewal credits. From 2007 to 2012, your Mutual has returned an incredible \$15.7 million to physicians as a result of risk management credits, and a very significant \$32.6 million has been returned to you in the form of renewal

The West Virginia Mutual Insurance Company continues to be the premier (and preeminent) choice for medical liability insurance in West Virginia, and it is owned by and governed by West Virginia physicians. Please indulge me a brief history lesson. One of the most enduring images from my childhood was the Rock of Gibraltar on Prudential Insurance television ads, which strongly conveyed a message of strength and stability. This is precisely what your Mutual accomplishes for you as an owner/insured. Before our company's formation, the medical liability situation in West Virginia was extremely unsettled. Those of us who were in practice then were confronting an uncertain future without a long-term stable malpractice insurance option. I had been in practice more than 20 years, and I truly thought I would have to leave my native state where I grew up and that I love. The medical liability civil justice reforms and the creation of the West Virginia Mutual Insurance Company solved that problem. Those

and claims-free credits. In 2013, an additional 3% premium reduction was added to the already existing 12% renewal credit. Furthermore, the potential risk management credits were increased from 10% to 12%, thereby giving policyholders up to an additional 5% reduction to their already much reduced premiums.

The very strong financial position of the West Virginia Mutual Insurance Company has been made possible by prudent investment practices, excellent underwriting, superior management, and very strong risk management programs that have reduced risk while promoting Best Practices. This has resulted in a reaffirmation of our company's A- (Excellent) rating with a stable outlook by the A. M. Best Company. As a life-long West Virginian who has seen our state ranked last, or near last, in many important categories over the years, I am very proud that our company has been so recognized as a national and international leader in its field.

The insurance business is cyclical, however, and many of us are of an age that we remember one or more of the previous difficult cycles when premiums skyrocketed in West Virginia or, even worse, commercial malpractice insurance became completely unavailable to most physicians in the State. Fortunately, since the Mutual's formation, things have been going very well with regard to medical liability concerns, but it is inevitable that the bad part of the cycle will recur. It is clear that the one company that will have the interests of Mountain State physicians at heart when that does occur will be the West Virginia Mutual Insurance Company. Because of the Mutual's excellent underwriting and risk management programs, we policyholders have not seen the increase in frequency of claims over the past two years in West Virginia that other physician and healthcare insurers have experienced. Furthermore, your Mutual is almost always the only medical liability company to step to the plate when amicus briefs are necessary in our State's court system, or when political concerns threaten the well being of state physicians and, hence, the public health of our State. Out-of-state insurance companies ignore these concerns, focusing instead on investor return and their own bottom line. We all remember the long line of such companies that either left our state or became insolvent when the going got tough. The West Virginia Mutual Insurance Company has as its mission to "... provide professional liability insurance to West Virginia physicians on a sound and enduring basis." Therefore, we can trust that the Mutual will be here for the long term, and we all can be justifiably proud of being an owner of such a quality company. I am immensely honored and privileged to be your company's Chairman of the Board, President and CEO. We are, indeed, *Physicians Insuring Physicians*.

R. Austin Wallace, M.D.
Chairman, President and CEO

MESSAGE FROM THE EXECUTIVE VICE PRESIDENT AND COO



Tamara Lively-Huffman

It is a great honor and privilege to serve as the chief operating officer of the West Virginia Mutual Insurance Company. As I stated last year, your Mutual has achieved many significant milestones since beginning operations in 2004. In 2011, the Mutual earned an A- (Excellent) A.M. Best rating. This rating was reaffirmed in 2012, signifying the excellent financial condition of your Mutual.

Over the past eight years your Mutual has worked very hard to secure its position in the marketplace, reduce premiums for its physician owners on a prudent and sustainable basis, and provide exceptional policyholder services including sound Underwriting, cutting edge Risk Management and excellent Claims services. The Mutual has accomplished all this while significantly increasing its policyholder surplus and assets, repaying the Surplus loan to the State of West Virginia, and participating in legislative and judicial advocacy on behalf of West Virginia physicians and their patients. This all was achieved without any capital infusion from outside investors.

These strong results serve as a solid foundation for your Mutual. West Virginia physicians do not have to worry about this Mutual exiting the State and leaving doctors without access to medical professional liability insurance, as was the case in the past. In addition, since there are no investors, no money flows out of West Virginia. The Mutual's assets will only be used for the benefit of its West Virginia physician owners.

These great results are not accidental. Your Mutual is led by an outstanding physician dominated Board of Directors and an experienced Executive Management team. Also, every Mutual staff member is committed to providing our physician owners with the absolute best service possible. From Underwriting, to Risk Management, to Claims, our primary purpose is to protect our physician insureds.

As I stated above, your Mutual has taken the lead as a strong advocate for physicians and their patients. As your Chairman, Dr. Wallace, acknowledged, your Mutual has traditionally stepped up to the plate when amicus briefs are filed supporting the hard-fought and successful civil justice reforms that have stabilized the medical professional liability environment in West Virginia. In addition, when legislation was introduced in 2012 to amend those reforms of the early 2000s, your Mutual served as your advocate and was successful in eliminating that threat.

West Virginia physicians should be very proud of the accomplishments of this Mutual. You have a successful, financially sound insurance company that puts the interests of physicians and their patients first. Your Mutual will be here to protect West Virginia physicians for many years to come.

*Tamara Lively-Huffman, CPCU
Executive Vice President and COO*

FINANCIAL HIGHLIGHTS

Assets	2012	2011
Cash and Investments	\$175,705,000	\$174,041,000
Other Assets	7,644,000	9,050,000
	\$183,349,000	\$183,091,000

Liabilities		
Loss & Loss Expense	\$47,951,000	\$56,275,000
Unearned Premiums	21,646,000	24,066,000
Other Liabilities	10,601,000	11,172,000
	80,198,000	91,513,000

Policyholders' Surplus		
Paid in and Contributed	7,651,000	7,651,000
Other	95,500,000	83,927,000
	103,151,000	91,578,000
	\$183,349,000	\$183,091,000

Written Premium	\$28,691,000	\$32,770,000
Earned Premium	26,884,000	27,424,000
Loss & Loss Expense Incurred	9,060,000	8,314,000
Underwriting Expenses	8,257,000	8,518,000
Net Investment Income	5,905,000	5,478,000
Statutory Income before Income taxes	15,472,000	16,070,000
Federal Income Taxes	\$3,692,000	4,153,000

Net Income	\$11,780,000	\$11,917,000
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OPERATING HIGHLIGHTS

Strong Market Presence

The West Virginia Mutual Insurance Company remains the premier medical professional liability insurer in West Virginia. With more than 1,350 insured West Virginia physicians, the Mutual provides the stable and predictable commercial insurance company that is unlike the many commercial stock insurance companies that previously insured West Virginia physicians for a period of time but then left the State or increased their premiums to the point of being unaffordable. The West Virginia Mutual is owned by and predominately governed by West Virginia physicians. Any profits generated by the insurance operations of the Mutual are returned to West Virginia physicians in the form of lower premiums, excellent policyholder services and ownership in a financially sound, successful insurance company. No profits are passed on to out-of-state investors. Having a successful insurance company owned by West Virginia physicians has encouraged the growth of physician practices in our State and has assured that our citizens will continue to have access to quality healthcare in the future.

Financial Strength

The West Virginia Mutual Insurance Company began operations in July, 2004. Since that time the Mutual has significantly grown assets and policyholder surplus, the capital that secures the financial integrity of the Company, while substantially reducing policyholder premiums and repaying the original Surplus loan from the State. This has been accomplished by a strong, physician-led Board of Directors with physician involvement in underwriting, claims and risk management, as well as an experienced and knowledgeable executive management team well versed in insurance company operations. The Mutual achieved an A.M. Best A (-) Excellent rating last year and has again had that rating reaffirmed this year. This is an incredible achievement and West Virginia physicians can be very proud of their insurance company's successes over the past eight years. In spite of the global economic downturn, your Mutual remains financially sound and prepared to meet future challenges.

Premium Relief

The West Virginia Mutual Insurance Company has been able to reduce premiums in some manner each of the past seven years, either through base premium reductions or renewal credits that have been provided to West Virginia physicians. The base premium reductions have been as high as fifteen percent with 2012 seeing a five percent reduction. In addition, the renewal credit began as a five percent premium reduction and has increased to fifteen percent as of January, 2013. These unprecedented premium reductions have been achieved while continuing to secure the financial integrity of the Company and repaying all outstanding debts. It is through effective underwriting, risk management and claims administration, with physician Board oversight, that the Mutual has accomplished their goal of providing stable and predictable insurance protection to West Virginia physicians. Your Mutual is extremely pleased to provide this much needed premium relief to our physician owners.

Market Expansion

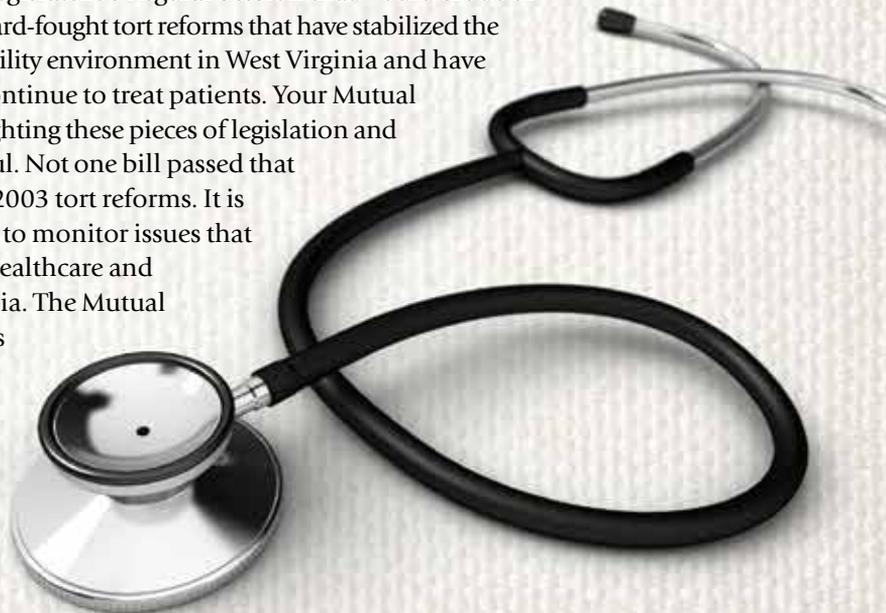
The West Virginia Mutual Insurance Company has expanded into the adjoining states of Kentucky, Ohio and Virginia to enable physicians who practice in West Virginia and in one of these border states to be insured by the Mutual for their entire medical practice. It is very important that your Mutual has the ability to provide our valuable insurance protection, outstanding Risk Management and superior Claims services to these physicians.

Risk Management

The West Virginia Mutual Insurance Company continues to expand our innovative Risk Management programs. Insured physicians can gain valuable information and earn premium credits by participating in various programs including free on-line CME courses, electronic health technology, on-site office visits, loss control seminars and our flagship program, C.A.R.E.®. In 2012, a new program was added to address the growing problem of West Virginia citizen prescription drug abuse. This program is aimed at assisting physicians who must deal with patients who are addicted. These cutting-edge programs enable physicians to control the exposure to potential claims while enhancing the physician-patient relationship and earning both CME and premium credits.

Legislative Advocacy

The West Virginia Mutual Insurance Company remains a strong advocate for West Virginia physicians in both the legislative and executive branches of government. The Mutual Board and Executive Management continue to meet regularly with legislative leaders and individuals in key executive and regulatory positions within State Government. In 2012, eight bills were introduced during the Legislature's Regular Session that would erode or eliminate some of the hard-fought tort reforms that have stabilized the medical professional liability environment in West Virginia and have allowed physicians to continue to treat patients. Your Mutual was at the forefront of fighting these pieces of legislation and our efforts were successful. Not one bill passed that amended the 2001 and 2003 tort reforms. It is critical that we continue to monitor issues that can have an impact on healthcare and insurance in West Virginia. The Mutual continues its vigilance as matters arise that affect both physicians and their patients.



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