

NORCAL

07



annual report

tradition & transformation



“NORCAL is committed to supporting and protecting our physician, medical group, clinic, hospital and healthcare facility policyholders.”



Over the past three decades, through revolutions in medical science, healthcare delivery systems, physician demographics and professional liability trends, NORCAL has adhered to the simple idea that we exist to support and protect the interests of our policyholders. Whether that means providing convenient, time-saving account management services, clinically driven risk management programs, aggressive defense of nonmeritorious claims, or financial and programmatic support of our partners in organized medicine, we take a holistic approach to enhancing the practice environment for physicians and other healthcare professionals. Our ultimate goal is to allow them to focus on what truly matters: caring for their patients.

In my new role as Chairman, I will continue to work with the Board of Directors to carry on the proud legacy of policyholder ownership and direction that has defined NORCAL since the company was founded in 1975. Most importantly, I would like to acknowledge the extraordinary work our policyholders do every day and pledge NORCAL's unerring dedication to providing the quality, service and peace of mind that our policyholders deserve and expect.

A handwritten signature in black ink that reads "David R. Holley, MD." The signature is written in a cursive, professional style.

David R. Holley, MD
Chairman



“NORCAL will continue to adapt and transform while remaining true to the values that have guided us for over 30 years.”

Our Brand Promise

In order to keep pace with the evolving healthcare market and retain our position as an industry leader, NORCAL's 2008 Strategic Plan is twofold. We will continue to build upon the strategies we set in motion in 2007, but we will also stay focused on our core values and, as always, make good on our brand promise: to be here when our policyholders need us most.

To Our Policyholders and Strategic Partners:

Amid ongoing change in the healthcare and professional liability segments, NORCAL has remained true to the medicine-focused values that have defined the company for over 30 years. Last year, we undertook extensive research to enhance our understanding of how the evolving healthcare climate will affect our policyholders, and what new products and services will allow us to best respond to their changing needs. To this end, our 2007 Strategic Plan included the following objectives:

- Evaluate and cultivate relationships with our Key Constituents, including our endorsing medical societies and organizations, insurance brokers and group administrators
- Develop innovative new risk management continuing medical education (CME) programs to assist policyholders in their efforts to avoid claims and deliver quality patient care
- Complete implementation of new electronic document imaging software that allows us to respond more quickly to customer requests, ensure document security and maximize operational efficiency

As a result of these extraordinary efforts, we retained the vast majority of our policyholders in 2007—approximately 93 percent—indicating that we are successfully anticipating and responding to the evolving healthcare marketplace while never losing sight of our tradition of excellence.

2007 Financial Results

Throughout 2007, we adhered to our longstanding principles of underwriting to the standard of care, making conservative investments and pricing our coverages responsibly, which allowed us to maintain our financial strength and stability even in the face of an increasingly competitive marketplace.

I am pleased to report that Policyholders' Surplus—which allows us to withstand adverse events like growing claims severity or poorly performing financial markets—continued to grow in 2007, reaching \$442 million. Likewise, our Admitted Assets—which reflect the robust financial position of the company—grew to \$1.14 billion. Our 2007 net profit of \$28.2 million will allow us to fortify our surplus and insure additional qualified policyholders in 2008 and beyond.

Financial highlights of 2007:

- We declared a policyholder dividend of \$14 million while keeping rates stable in the three main states where we actively write business
- We offered a 15 percent base rate decrease to our Alaska policyholders, due to our favorable claims experience in the state

2008: Shaping a Changing Industry

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Our top initiatives for 2008 include:

- Develop our multi-year e-communications strategy, which will allow us to leverage emerging technologies to provide best-in-class customer service
- Launch our new product development initiative to rewrite our clinic and excess policy forms
- Fully automate our risk management CME registration, attestation and evaluation processes to enhance the policyholder's CME experience

During this time of increased market competition and new challenges, NORCAL remains a strong and viable long-term insurer. I will continue to work with the Board of Directors, management, staff and our strategic business partners to evaluate new approaches to our strategic plan and focus on initiatives that allow for a more global approach to the changes facing you, our policyholders.



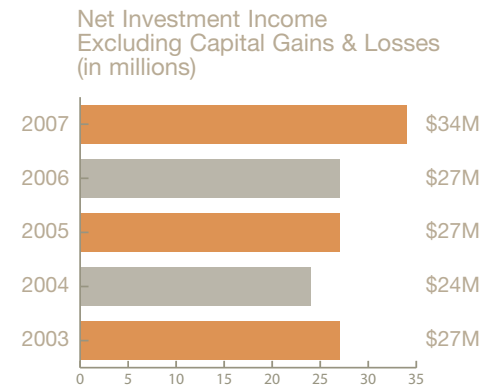
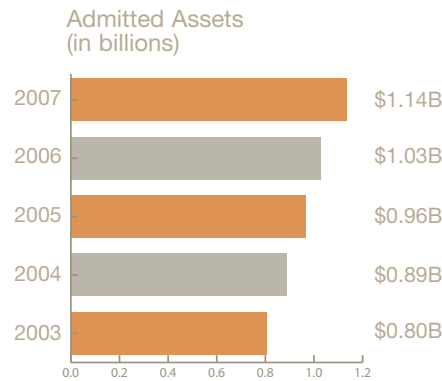
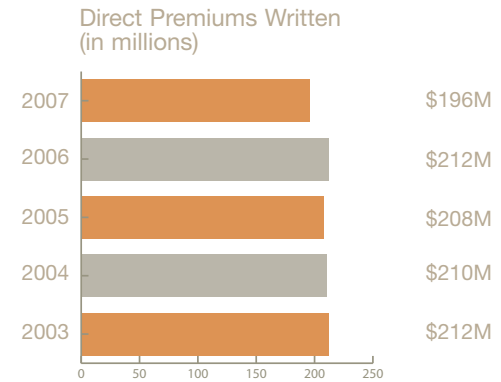
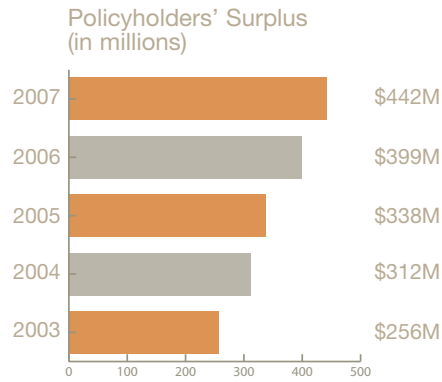
James Sunseri
President + Chief Executive Officer

2007 Financial Results

In 2007, NORCAL maintained our “A” (Excellent) A.M. Best rating for the twenty-fourth consecutive year. Among our peer medical professional liability insurance companies domiciled in California, NORCAL is the only company with this exemplary track record of financial strength and stability.

In 2007, cash and investments, excluding investments in affiliates, totaled \$924 million. NORCAL’s 2007 investment returns remained very strong. Net investment income totaled \$34 million, our strongest results since 2002. Our nonaffiliated equity portfolio earned a strong 10.9 percent (on a total return basis) compared to the Standard & Poor’s 500 Index of 5.5 percent. Our bond portfolio returned 5.6 percent.

2007 Financial Performance

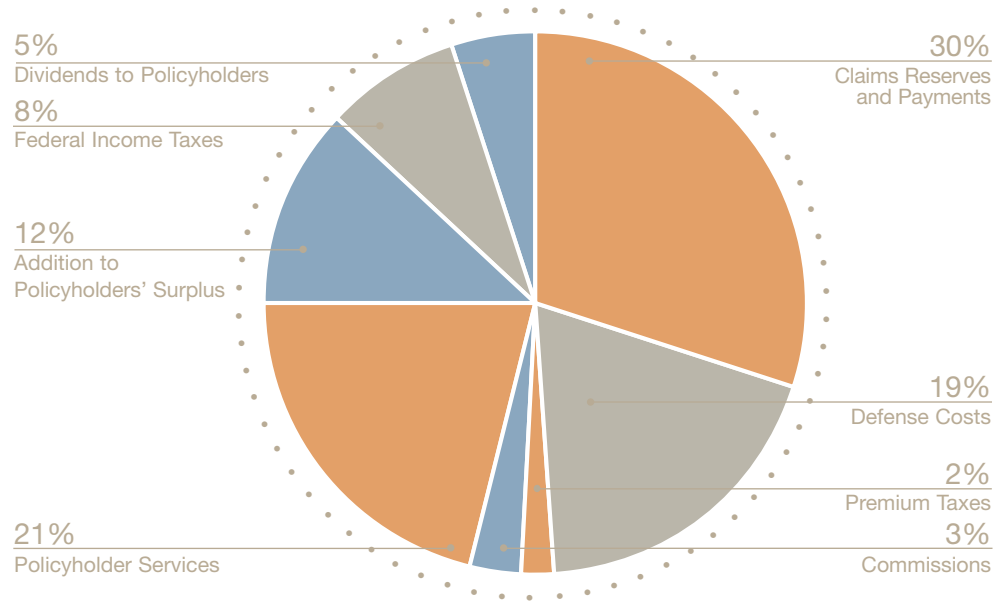


Access Our Annual Reports Online

Each year, NORCAL’s Annual Report provides an overview of the company’s core values, product and service initiatives, and superior financial standing. To download electronic copies of our reports, visit the NORCAL website at www.norcalmutual.com.

Our Corporate Values

How Your Premium Was Allocated



Financial Strength and Stability

We maintain a strong financial base to provide policyholders the utmost in quality and security.

Innovative Customer Service

We tirelessly explore new ways to deliver exceptional service.

Underwriting to the Standard of Care

We underwrite and defend our policyholders based on their adherence to the standard of care.

Clinically Driven Risk Management

We offer risk management services that help our policyholders provide the best possible medical care and prevent claims.

Aggressive Claims Defense

We deliver unparalleled expertise, guidance and support if a claim is filed.

Support of Organized Medicine

We support our endorsing medical societies and advocate for pro-medicine and patient safety legislative reform.

Discover MyNORCAL Log-In

At MyNORCAL Log-In, you can make payments, generate COIs, update your contact information and much more. Contact Policyholder Services and create your easy-to-use online account today!



2007 At a Glance

90 percent
of claims were
closed without
indemnity payments

79 percent
of claims that
went to trial were
closed in favor of
our policyholders

93 percent
of policyholders
renewed their
coverage

2,030
risk management
phone inquiries
were responded to

2007 Service Achievements

In our approach to new initiatives, NORCAL strives for an optimal balance between innovation and tradition. In 2007, NORCAL undertook a number of new initiatives aimed at providing our policyholders with innovative products and services that support them in their practices.

Key Constituents Initiative

Our relationships with our insurance brokers, endorsing medical societies and medical group administrators—what we call our “other key constituents”—are critical in how we understand and respond to the needs of our policyholders. In 2007 we completed over a dozen projects in an effort to provide the utmost support and service to these important stakeholders.

Physician Performance Improvement (PPI) Program

We launched this 20-credit interactive CME course, which is available exclusively to policyholders on the secure MyNORCAL Log-In section of the NORCAL website. PPI is a practice self-assessment that results in policyholders developing an action plan to correct practice deficiencies they identify.

Monthly *Claims Rx* CME Program

We began offering CME credit for all 12 monthly issues of the *Claims Rx* risk management publication to provide policyholders with yet another opportunity for no-cost CME materials.

2007 At a Glance

15,264
CME registrations were processed

\$57 million
was spent defending our policyholders against claims

\$60 million
was paid for indemnity (settlements and plaintiff judgments)

31 organizations
continued to endorse NORCAL as the professional liability insurer for their members

Electronic Document Imaging Project

Our Insurance Operations Department successfully made the transition from paper policy files to electronically imaged files. The new electronic file system will allow us to access information more efficiently and continue to serve our policyholders in the event of a business interruption.

Business Continuity Plan

Each department at NORCAL developed business continuity plans to ensure orderly recovery of business processes in the event of a disaster or other unforeseen event, ensuring uninterrupted service for our policyholders.

\$14 Million Policyholder Dividend

In addition to these new initiatives, we declared a \$14 million dividend for eligible policyholders in California, Alaska and Rhode Island, providing significant premium relief on policyholders' 2008 premiums.

Core Operational Service Areas

In addition to our continued financial strength and drive to deliver innovative service enhancements, NORCAL excels in our core operational areas: underwriting and policyholder services, risk management and claims handling. We also cultivate partnerships with local medical societies and other healthcare organizations in an effort to protect the interests of physicians and other healthcare professionals.

Dedicated Underwriting & Policyholder Services

As a policyholder-owned mutual company, NORCAL goes beyond simply insuring our policyholders against allegations of medical malpractice. Our mission is to be your ally in medicine.

We have kept rates stable for four years in California and Alaska and in 2007 were able to keep rates stable for the second consecutive year in Rhode Island. NORCAL returned approximately \$44.1 million in policyholder dividends between 2002 and 2007, providing significant premium relief for eligible policyholders. The dividend declared in 2007 was approximately \$14 million.

In 2007, we achieved a 93 percent policyholder retention ratio, and brought in \$5 million in new business. As they continue to face new challenges, our policyholders can rely on us to develop innovative ways to support and protect the art of medicine.

Clinically Driven Risk Management Program

NORCAL has one of the most comprehensive, innovative and successful risk management programs of any medical liability insurer in the country. Focusing on both clinical and administrative issues, the program provides 24/7 emergency risk management consultations, risk management-based continuing medical education (CME) materials with distinct emphasis on quality improvement and patient safety, onsite practice assessments in thirteen different specialties, the monthly *Claims Rx* risk management newsletter and more.

All services are provided to policyholders at no additional cost and are geared toward helping them improve patient care and lower the risk of a malpractice claim.

In 2007, over 5,000 individual policyholders requested risk management consultation services, and over 12,000 individuals registered for our continuing medical education (CME) programs, totaling over 18,000 registrations and course completions. Through these extraordinary efforts, we are supporting systemic change in healthcare delivery and protecting physicians and patients alike from adverse medical outcomes.

Supportive Claims Handling

NORCAL's supportive, locally based claims experts work closely with the policyholder, the defense attorney and expert witnesses to develop the strongest possible defense of the policyholder's medical care. In addition, we protect the policyholder's right to consent to settle any malpractice claim and provide uncapped defense costs in addition to policy limits, preserving full coverage for indemnity payments.

NORCAL's claims defense results are consistently among the best in the industry as a result of the policyholder-focused claims strategies we employ. In 2007, we closed 90 percent of claims without indemnity payments. Our trial win ratio was a strong 79 percent. NORCAL's aggressive approach to claims handling is one of the key components in our efforts to create a better environment for our physicians.

Support of Organized Medicine and Tort Reform

We remain closely connected to our twenty-eight endorsing county medical society partners in California, the Rhode Island Medical Society (RIMS), the Alaska Physicians & Surgeons, Inc. and the Osteopathic Physicians & Surgeons of California.

Through our ties to organized medicine, we are building coalitions of like-minded individuals and groups who are focused on a singular cause—reforming the healthcare system in order to create an environment that is stable, supportive and conducive to the delivery of quality patient care.

Tort Reform Advocacy

NORCAL maintains four MICRA political action committees (PACs)—one each in California, Alaska and Rhode Island and one at the federal level—to advocate for medical liability tort reform. We recently created a new Government & Regulatory Affairs Department to oversee PAC activities and identify new ways that NORCAL can support changes within the healthcare industry.

NORCAL's commitment to shaping the future of health-care is more resolute than ever. With the support and involvement of our nearly 12,000 policyholders, as well as our partners in organized medicine, we seek to educate, inspire and transform. Whether participating in your local or specialty society, supporting the MICRA PACs, writing letters to your governmental representatives or simply letting us know how we can serve you better, you can make a difference. Together, we have the power to shape the future of the system—our system—for the better.

Board of Directors

David R. Holley, MD 1
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Harry B. Richardson, Jr., MD 2
Vice Chairman
Hematology/Oncology

William R. Vetter, MD 3
Secretary of the Board
Cardiology

Patricia A. Dailey, MD 4
Anesthesiology

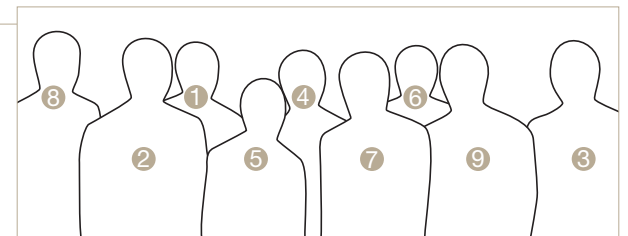
Candace L. Dyer, MD 5
Surgery

Steven S. Fountain, MD 6
Orthopedic Surgery

Roger M. Hayashi, MD 7
Vascular Surgery

W. James MacGinnitie 8
Actuary + Consultant

Michael D. Stephens 9
President + CEO, Hoag Memorial
Hospital Presbyterian (retired)



Board of Directors

Our distinguished and diverse Board, made up of physicians, insurance industry professionals and medical executives, speaks to our thirty-plus year tradition of excellence, strong leadership and medicine-focused values.

NORCAL Advisory Council

William C. Parrish, Jr.
Chairman
Santa Clara County

Dolores L. Green
Riverside County

Ronald E. Keller, MD
Alaska Advisory Committee

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San Mateo County

Sandi Palumbo
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Sharon A. Mullen
Vice President + Controller

Jane M. Tishkoff
Associate Vice President
+ Assistant General Counsel

Bruce Williams
Associate Vice President + Actuary

Endorsing Organizations

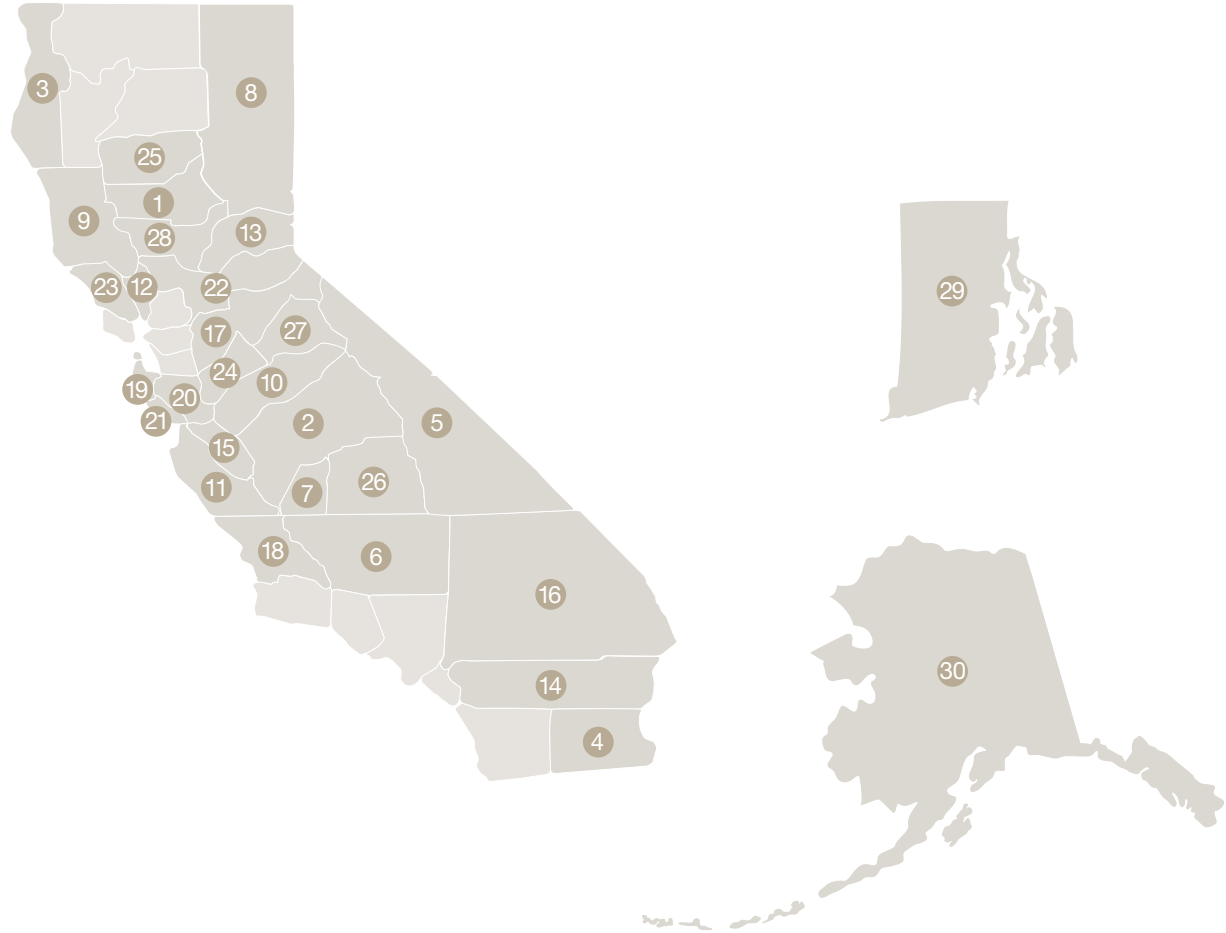
Medical Societies

- Butte-Glenn 1
- Fresno-Madera 2
- Humboldt-Del Norte 3
- Imperial 4
- Inyo-Mono 5
- Kern 6
- Kings 7
- Lassen-Plumas-Modoc-Sierra 8
- Mendocino-Lake 9
- Merced-Mariposa 10
- Monterey 11
- Napa 12
- Placer-Nevada 13
- Riverside 14
- San Benito 15
- San Bernardino 16
- San Joaquin 17
- San Luis Obispo 18
- San Mateo 19
- Santa Clara 20
- Santa Cruz 21
- Sierra-Sacramento Valley 22
- Sonoma 23
- Stanislaus 24
- Tehama 25
- Tulare 26
- Tuolumne 27
- Yuba-Sutter-Colusa 28

Rhode Island Medical Society 29

Professional Organizations

- Alaska Physicians & Surgeons, Inc. 30
- Osteopathic Physicians & Surgeons of California



NORCAL Goes Green

As an industry leader, we recognize that it is our duty to anticipate and influence not only changes in healthcare, but changes in our world as well. NORCAL is committed to producing products and services that help make the earth a better place.



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