

COASTAL INSURANCE RISK RETENTION GROUP, INC.

CIRRG

STOCKHOLDERS' MEETING

MAY 18, 2006

Presentation by:

Melvin L. Capell CPCU, MBA, ARM

President/CEO

Opening

Mr. Chairman, Board Members, Stockholder Insureds, Staff and other Guests. Thank you for attending the 2006 Annual Stockholders' meeting of Coastal Insurance Risk Retention Group, Inc. (hereinafter called CIRRG). At the close of my presentation, I want you to understand the current financial status of CIRRG and where your company is planning to go in the future.

2005 Results

Good News – Summary. As you have already heard from our Certified Public Accountants, CIRRG's bottom line shows a profit for the year 2005. Much of that profit is attributable to positive claims experience since we began the company 3 years ago. Compared to historic claim experience, we are having fewer claims per exposure unit. In insurance terms, this means that our claim frequency has been lower than expected. The size of the average claim has grown as compared to historic claim experience. However, we are carefully watching two indicators in regard to this measurement. One, what is the actual average size of settled claims – our current measurements include claim reserves which are best guesses and will only be truly accurate when each claim is settled. And, two; how does the increase look as compared to actual economic inflation? I, and I might add, the overall medical malpractice industry feel that the average claim size is rising faster than inflation. But, until the large claims have been settled, and compared to similar claims that were settled in prior years, we cannot be certain that the

average size is rising. By the way, in insurance terms this is stated as “the claim severity is increasing.”

Additional good news of significance:

1. CIRRG has strengthened its Surplus
2. CIRRG has accomplished continued growth in a competitive environment
3. The terms of CIRRG’s reinsurance treaty have improved; and,
4. Risk Management services have been expanded

Good News – Detail. The good news listed above is the result of outstanding jobs being performed by the managers and staff of CIRRG. I would like to take a few minutes and complement some of those responsible for these outstanding results.

- Wray Smith and the Underwriting department staff have developed and fine tuned a rating system which has given the Alabama Insurance Department and our reinsurers a real comfort level about our operation and our ability to get the correct amount of premium for the exposures.
- Frank Parsons, Pat Shaw, Wayne Smithson, Cathy Coggin and our network of defense attorneys have been managing our claims in a very professional manner.
- Jack Posey, Emily Windham, Aleta Smithson and our risk management staff have worked aggressively in responding to your needs in the areas of preventing and controlling incidents and future claims.
- Mark Killingsworth and the accounting staff have built the accounting systems necessary to monitor and measure our financial operation. Three years ago we had zero accounting systems.
- Donald Eagen and the IT staff have built and maintain a computer support system that gives this company the ability to move forward in a positive, organized fashion.
- And, Bill Green, who through his regular legal opinions has kept us on track and in compliance with the myriad of regulations that we must comply with as an admitted insurance carrier. In addition, Bill and Danae Whatley have established our stockholder records system so that we can operate as a stockholder owned Corporation.

Specific Results Information . There are a few specific pieces of December 31, 2005 financial data that I would like to bring to your attention.

- During 2005, CIRRG wrote total gross premium of \$15 million.
- Starting with that \$15 million of premium, taking away the dollars spent on operating expenses, the dollars paid to settle claims and the net claim reserve change amounts, CIRRG earned an underwriting profit of \$1.28 million during 2005.
- Starting with that \$1.28 million of underwriting profit, adding net investment income of \$637 thousand and subtracting the \$880 thousand of taxes we calculate the company’s net income of \$1,037,763.
- This raises CIRRG’s surplus to \$11.7 million. And, produces a Risk Based Capital (commonly called RBC) figure of well over 400%. In accordance with the National

Association of Insurance Commissioners' regulations any insurance company with an RBC of over 200% is considered to be in excellent financial condition.

Overall, CIRRG is financially strong and doing excellent.

Mission

When CIRRG started three years ago its directed mission was to provide a stable medical malpractice and general liability insurance market at a competitive level. And, to provide professional, value added claims and risk management services.

I would like to address the question – Has CIRRG met its directed mission? Every indication we have received is that CIRRG has fulfilled its mission. In discussions with insureds that have looked at comparisons, CIRRG offers coverage that is at least and in many cases broader than the competition. Insured hospitals that have sought competitive quotes indicate that our pricing is very competitive. Thus, we have been successful in writing several new hospitals in competitive situations. Another perspective, we have been told that small, rural hospitals that have looked for other coverage have found that without CIRRG they would have been in a very bad insurance situation.

CIRRG's claims and risk management staff are proud of the professional services that they provide. Over and over, at seminars we have presented, at individual visits to insureds' facilities and offices, during telephone consultations and other contacts with insureds, our staff is told that they are appreciated and respected for the services that they provide.

I am proud to pronounce that CIRRG is fulfilling its' mission.

Challenges

Along with the good news, I feel that it is appropriate to inform you of the challenges that CIRRG is addressing. I will address this in two pieces:

1. Where are we in addressing the challenges mentioned in last years' report?
2. What new challenges must be addressed?

Challenges identified last year:

1. Obtaining Growth. Utilizing the benefits of Class 'C' and Class 'D' stock, CIRRG has been able to add several new hospitals and physicians to its' list of insureds. In addition, our ability to be flexible in establishing excess insurance programs has made it possible for CIRRG to add some larger accounts to our list of insureds. Future growth is going to be at a moderate rate; but, it is going to continue.

2. **Potential Loss of A Large Client.** This will always be a possibility. To address it , steps have been taken to assure the financial and operational stability of the company even if it does occur.
3. **Controlling Expense.** Expense reports prepared for management show actual expenses compared to budgeted expenses on a monthly basis. Additionally, monthly financial reports show actual to budgeted entries. These are key management tools being used by CIRRG's management to monitor and control expenses.
4. **Grow the Physician Business.** This challenge has been carefully analyzed and studied by management and a Board Committee. The current environment is not conducive to profitable growth of physician business in CIRRG. Therefore, a plan has been prepared and implemented to properly manage the physician business in CIRRG at an acceptable level until the environment changes.

Current and Future Challenges:

1. **Threat of A Massive Loss or Losses Which Would Dramatically Impact CIRRG.** This is a challenge which was brought home to insurance companies worldwide by Hurricane Katrina last year. CIRRG purchases reinsurance to address this exposure. However, there are some potential situations that we need to address during the coming year.
2. **Control of Loss Cost.** As we obtain a more comprehensive claims data base, we need to learn how to use this information to the long term benefit of the company. It is easy to get interesting information, it is harder to get useful information. We have to develop tools that will help us develop useful information that will help us control claim cost.
3. **Complacency.** It is so easy to fall into the trap of saying (unconsciously) – CIRRG is up and running and doing fine, all we have to do now is ride along. That method of thinking will get us in trouble. To continue to fulfill our mission we must continue to innovate, develop, and move forward.

Preparing For The Future

The last challenge is a great entry into a discussion of what management is currently doing to prepare for the future and the continued success of CIRRG. I would like to discuss three current projects.

1. **Warehousing Project.** The IT department is in the lead on a major upgrade of our data management capabilities. We are developing a data warehouse system. This will allow us to do many things better than we can do them now. Examples: (1) We will be able to build output reports in a more timely and useable manner. (2) We will have the ability to drill down into data whenever we see things in our reports that we need to understand better. (3) We will be able to make information and reports

available to our insureds over the internet on a 24/7 basis. And, (4) We will be able to integrate information and data from multiple sources into informative management information tools.

2. Coastal Insurance Services, Inc. (CIS). This is a corporation created by CIRRG to provide services to parties other than CIRRG and the Fund. This company is currently operating an independent insurance agency operation which writes property insurance and Directors & Officers insurance for healthcare facilities in Alabama through multiple national insurance companies. CIS also provides underwriting, computer and risk management services to other medical malpractice insurance companies located around the United States. The strategy of CIS is to spread the overhead expenses of operating an insurance operation over several companies rather than having CIRRG bear all of the expense by itself. Additionally, it is intended to broaden the services that we can provide to you our clientele and owners.
3. Listening. We, the staff of CIRRG, want to know what you, our clients and owners want from your company. We have adopted the motto "Your Company Cares About You". We want this to be more than a motto, we want it to be a corporate culture. If you are pleased with the service you are getting we would like to know it. If you are not happy about the service you are getting, we would like to know it. Bottom line, we want to know if we are providing you what you expect from us.

Closing

Summarizing my comments, CIRRG is doing excellent. It is financially strong, operationally sound and competitive. It is serving the Alabama healthcare industry in a positive and successful manner. With all of this, it can be proudly stated that the future for CIRRG is bright and positive.

Mr. Chairman that concludes my comments.