

# SECURITIES AND EXCHANGE COMMISSION

## FORM S-1/A

General form of registration statement for all companies including face-amount certificate companies [amend]

Filing Date: **1999-07-27**  
SEC Accession No. **0001047469-99-028734**

([HTML Version](#) on [secdatabase.com](#))

### FILER

#### MIDWEST MEDICAL INSURANCE HOLDING CO

CIK: **894353** | IRS No.: **411625287** | State of Incorpor.: **MN** | Fiscal Year End: **1231**  
Type: **S-1/A** | Act: **33** | File No.: **333-76999** | Film No.: **99671079**  
SIC: **6351** Surety insurance

#### Mailing Address

6600 FRANCES AVE SOUTH  
STE 245  
MINNEAPOLIS MN 554351891

#### Business Address

6600 FRANCE AVE SOUTH  
SUITE 245  
MINNEAPOLIS MN 55435-1891  
6129225445

As filed with the Securities and Exchange Commission on July 27, 1999  
Registration No. 333-76999\*

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

AMENDMENT NUMBER 1 TO  
FORM S-1  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

MIDWEST MEDICAL INSURANCE HOLDING COMPANY  
(Exact name of registrant as specified in its Charter)

State or other jurisdiction of incorporation or organization: Minnesota  
Primary Standard Industrial Classification Code Number: 6749  
IRS Employer Identification Number: 41-1625287

6600 France Avenue South, Suite 245  
Minneapolis, MN 55435, (612) 922-5445  
(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)

David P. Bounk, President  
Midwest Medical Insurance Holding Company  
6600 France Avenue South, Suite 245  
Minneapolis, MN 55435, (612) 922-5445  
(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

COPIES TO:  
Ross C. Formell, Esq.  
Best & Flanagan LLP  
4000 U.S. Bank Place  
601 Second Avenue South  
Minneapolis, MN 55402

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Approximate date of commencement of proposed sale of the securities to the public: As soon as possible after the effective date of this registration statement. If the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. X

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<TABLE>  
<CAPTION>

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Amount to be Registered | Proposed Maximum Offering Price Per Unit | Proposed Maximum Aggregate Offering Price | Amount of Registration Fee |
|--|-------------------------|--|---|----------------------------|
| <S>  | <C>                     | <C>                                      | <C>                                       | <C>                        |
| Class A Common Stock                               | 20,000 shares           | \$1,080 (1)                              | \$21,600,000 (1)                          | \$6,372.00                 |

(1) Estimated solely for the purpose of calculating the registration fee, based upon book value of securities of the registrant to be issued as of December 31, 1998.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

\* THIS FILING ALSO CONSTITUTES POST-EFFECTIVE AMENDMENT NUMBER 2 TO THE REGISTRANT'S FORM S-1 FILING, REGISTRATION NUMBER 333-29047, PURSUANT TO RULE 429.

CROSS REFERENCE SHEET

Pursuant to Rule 501(b) of Regulation S-K

<TABLE>

<CAPTION>

| Form S-1 Item Number and Caption<br>-----   | Location in the Prospectus<br>-----  |
|---|--|
| <S>   | <C>  |
| 1. Forepart of the Registration Statement and Outside Front Cover Page of Prospectus    | Cover Page   |
| 2. Inside Front and Outside Back Cover Pages of Prospectus                              | Inside Front Cover Page;<br>Outside Back Cover Page  |
| 3. Summary Information, Risk Factors, and Ratio of Earnings to Fixed Charges            | PROSPECTUS SUMMARY   |
| 4. Use of Proceeds  | Not Applicable   |
| 5. Determination of Offering Price  | THE OFFERING   |
| 6. Dilution   | Not Applicable   |
| 7. Selling Security Holders   | Not Applicable   |
| 8. Plan of Distribution   | THE OFFERING   |
| 9. Description of Securities to be Registered   | DESCRIPTION OF CAPITALSTOCK  |
| 10. Interests of Named Experts and Counsel  | Not Applicable   |
| 11. Information with Respect to the Registrant  | SELECTED FINANCIAL<br>INFORMATION; MANAGEMENT'S<br>DISCUSSION AND ANALYSIS OF<br>FINANCIAL CONDITION AND<br>RESULTS OF OPERATIONS;<br>BUSINESS; MANAGEMENT;<br>DESCRIPTION OF CAPITAL STOCK;<br>FINANCIAL STATEMENTS |
| 12. Disclosure of Commission Position on Indemnification for Securities Act Liabilities | Not Applicable   |

</TABLE>

PROSPECTUS

MIDWEST MEDICAL INSURANCE HOLDING COMPANY

35,000 shares of Class A Common Stock

Shares of Class A Common Stock, are being offered by Midwest Medical Insurance Holding Company ("Midwest Holding") only to purchasers of insurance from Midwest Holding's wholly-owned subsidiary, Midwest Medical Insurance Company. Midwest Medical is a physician-controlled medical malpractice insurance company which provides professional liability insurance to physicians in Minnesota, Iowa, Nebraska, Wisconsin, Illinois, North Dakota and South Dakota. These shares are offered and issued to you as part of your purchase of insurance from Midwest Medical. You are not required to pay anything for these shares in addition to your insurance premiums. You will earn these shares each day you are insured by Midwest Medical. Policyholders in Nebraska receive fewer shares than policyholders of other states due to the lower premiums charged by Midwest Medical in Nebraska. New purchasers of insurance will not actually receive these shares until they have been continuously insured by Midwest Medical for at least five years. See "The Offering."

You may not transfer, sell or assign these shares to anyone else. These shares must be redeemed by Midwest Holding at net book value, excluding the value of Midwest Medical (Midwest Holding's principal asset), upon your termination of your insurance coverage with Midwest Medical for any reason. See "Description of Capital Stock." As of December 31, 1998, the redemption value of Midwest Holding was \$64.81 per share.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED  
BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE  
SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE  
COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED  
UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY  
REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.  
-----

The date of this Prospectus is July 26, 1999.

No one is authorized to give you any information about this offering, or to make any representations about this offering to you, other than those contained in this prospectus. If someone does, you cannot rely upon that information or representation. The delivery of this prospectus and distribution of the shares does not imply that there has been no change in Midwest Holding's affairs since the date of this prospectus, or that the information is correct as of any later date. This Prospectus is not an offer to sell, or a solicitation of an offer to buy, any securities other than these shares.

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#### PROSPECTUS SUMMARY

The entire following summary is qualified by the more detailed information and the consolidated financial statements and notes appearing elsewhere in this prospectus. This should be read along with the information on the cover page.

#### THE COMPANIES

Midwest Medical is in the business of providing professional liability insurance to physicians. It also provides such insurance, as well as general and umbrella excess liability insurance, to clinics, hospitals and healthcare systems. It is a wholly-owned subsidiary of Midwest Holding. The address and telephone number of the principal executive offices of Midwest Holding and

#### THE SHARES

You will not receive a certificate for these shares. These shares may be owned by individual physicians or by individual physicians jointly with the legal entities in which they practice. In the latter case, only the physicians can vote the shares. See "Description Of Capital Stock."

You are entitled to only one vote, regardless of the number of the shares you hold. The Minnesota Medical Association holds the single class B common share of Midwest Holding presently outstanding. This gives it the exclusive right to vote for the election of directors. The holders of these shares, at any time, may vote to cause Midwest Holding to redeem the class B common share for \$1,000. If they do this, they will obtain the right to elect directors.

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#### THE OFFERING

These shares are being offered only to purchasers of insurance from Midwest Medical, who will earn shares each day they are insured by Midwest Medical. Purchasers of insurance are not required to pay anything for the shares in addition to their insurance premiums. The shares will be allocated semi-annually, according to the allocation schedule, which is set forth in the appendix to this Prospectus. The shares allocated to new purchasers of insurance are not issued until the end of five years of continuous coverage by Midwest Medical. Termination of coverage before the completion of five years of coverage will result in a forfeiture of accrued but unissued shares. Persons who were purchasers of insurance from the Iowa Physician's Mutual Insurance Trust or Medical Liability Mutual Insurance Company of Nebraska at the time of the merger between those entities and Midwest Medical, were not subject to the five-year vesting requirement. Those persons were issued shares upon completion of those transactions and shares they accrue currently are deemed issued when they are allocated.

The allocation schedule contained in the Appendix lists the number of shares accrued by each physician for each year of insurance coverage based upon his or her insurance risk class. The risk class each physician is assigned is based on his or her medical specialty and is the same risk class to which the physician has been assigned by Midwest Medical for purposes of writing the professional liability insurance for the physician. Annual insurance premiums are based on these risk classes. The number of shares shown in the table therefore reflect, indirectly, the relative premiums paid to Midwest Medical by each policyholder. This has changed since Midwest Medical began its business. Midwest Holding reserves the right to change the allocation schedule in the future.

The shares allocated to Nebraska physicians are reduced because policy limits, and therefore premiums, are lower in Nebraska. The amount of this reduction is determined by Midwest Medical's regular external actuaries to adjust for the difference between the policy limit of policies issued in Nebraska as compared to the base policy limit issued by Midwest Medical in all other states in which it does business. Currently, a Nebraska policyholder of Midwest Medical would be allocated the right to receive 58.1% of the shares of Midwest Holding otherwise indicated by the allocation schedule. This is based upon current information and policy limits, and the factor used may be recalculated from time-to-time.

No certificates for these shares are issued. Although the shares have been registered under the Securities Act of 1933 and state securities laws, they are nontransferable, and there is no market in which they may be sold. Upon termination of a physician's insurance policy with Midwest Medical for any reason, the shares must be redeemed by Midwest Holding. See "Description Of Capital Stock."

No independent brokers, dealers, or underwriters have been engaged to represent Midwest Holding in this offering and no commissions will be paid to any person. These shares will be offered and sold solely by officers of Midwest Holding.

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SELECTED FINANCIAL INFORMATION

The following selected financial data of Midwest Holding for the five years ended December 31, 1998 are derived from the audited financial statements of Midwest Holding. The financial data for the three-month period, ended March 31, 1999 and 1998 are derived from unaudited statements. The unaudited statements include all adjustments, consisting of normal recurring accruals, which Midwest Holding considers necessary for a fair representation of the financial position and the results of operations for these periods. This data should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this prospectus.

<TABLE>  
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| OPERATIONS DATA                                  | YEAR ENDED DECEMBER 31 |             |           |           | THREE MONTHS ENDED MARCH 31 |           |           |
|--|------------------------|-------------|-----------|-----------|-----------------------------|-----------|-----------|
|  | 1994 (2)               | 1995 (2)    | 1996 (1)  | 1997 (1)  | 1998 (1)                    | 1998      | 1999      |
| (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)    |                        |             |           |           |                             |           |           |
| <S>  | <C>                    | <C>         | <C>       | <C>       | <C>                         | <C>       | <C>       |
| Net premiums earned                              | \$ 26,246              | \$ 29,798   | \$ 31,177 | \$ 32,916 | \$ 35,014                   | \$ 10,291 | \$ 10,512 |
| Net investment and other income                  | 11,509                 | 14,258      | 15,558    | 19,276    | 21,404                      | 6,437     | 10,049    |
| Total revenue                                    | 37,755                 | 44,056      | 46,735    | 52,192    | 56,418                      | 16,728    | 20,561    |
| Loss and loss adjustment expenses                | 11,334                 | 37,560      | 32,257    | 31,834    | 37,494                      | 9,285     | 9,485     |
| Underwriting and other operating expenses        | 5,509                  | 6,482       | 5,539     | 6,595     | 10,287                      | 2,978     | 4,044     |
|  | 16,843                 | 44,042      | 37,796    | 38,429    | 47,781                      | 12,263    | 13,529    |
| Income before income taxes                       | 20,912                 | 14          | 8,939     | 13,763    | 8,637                       | 4,465     | 7,032     |
| Income taxes (benefit)                           | 6,417                  | (1,711)     | 1,458     | 4,463     | 2,689                       | 1,563     | 2,463     |
| Net income                                       | \$ 14,495              | \$ 1,725    | \$ 7,481  | \$ 9,300  | \$ 5,948                    | 2,902     | 4,569     |
| Net income per common share -- assuming dilution | \$ 114.84              | \$ 13.74    | \$ 58.33  | \$ 70.23  | \$ 43.65                    | \$ 21.68  | \$ 32.45  |
| Number of shares used in per share calculation   | 126,222                | 125,536 (3) | 128,259   | 132,427   | 136,251                     | 133,881   | 140,802   |
| Net income/total revenue                         | 38.4%                  | 3.9%        | 16.0%     | 17.8%     | 10.5%                       | 17.3%     | 22.2%     |
| Return on average equity                         | 15.8%                  | 1.7%        | 6.5%      | 7.4%      | 4.2%                        | 2.4%      | 3.5%      |

</TABLE>

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<TABLE>  
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| FINANCIAL CONDITION                                  | DECEMBER 31 |           |           |            | MARCH 31  |           |
|--|-------------|-----------|-----------|------------|-----------|-----------|
|  | 1994 (2)    | 1995 (2)  | 1996 (2)  | 1997 (1)   | 1998 (1)  | 1999      |
| (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)        |             |           |           |            |           |           |
| <S>  | <C>         | <C>       | <C>       | <C>        | <C>       | <C>       |
| <b>ASSETS</b>  |             |           |           |            |           |           |
| Fixed maturities at fair value                       | \$174,203   | \$182,817 | \$183,561 | \$ 171,975 | \$164,652 | \$156,862 |
| Equity securities at fair value                      | 19,782      | 28,311    | 38,001    | 49,759     | 86,553    | 86,718    |
| Short-term investments                               | 9,755       | 15,015    | 7,898     | 13,909     | 3,556     | 8,703     |
| Other  | -           | -         | -         | 10,000     | 10,000    | 10,000    |
| Total investments                                    | 203,740     | 226,143   | 229,460   | 245,643    | 264,761   | 262,283   |
| Reinsurance recoverable                              | 23,637      | 25,112    | 22,174    | 19,117     | 16,499    | 19,786    |
| Other assets   | 19,100      | 13,329    | 10,359    | 10,755     | 14,223    | 41,607    |
| Total assets   | \$246,477   | \$264,584 | \$261,993 | \$ 275,515 | \$295,483 | 323,676   |
| <b>LIABILITIES</b>                                   |             |           |           |            |           |           |
| Unpaid losses and loss adjustment expenses           | \$110,967   | \$120,264 | \$110,037 | \$ 107,806 | \$110,964 | 111,612   |
| Other liabilities                                    | 38,358      | 34,053    | 33,074    | 33,942     | 33,926    | 59,594    |
|  | 149,325     | 154,317   | 143,111   | 141,748    | 144,890   | 171,206   |
| <b>REDEEMABLE STOCK</b>                              |             |           |           |            |           |           |
| Class A and Class B Common Stock at redemption value | 7,712       | 6,975     | 7,604     | 7,477      | 8,147     | 7,630     |
| <b>OTHER SHAREHOLDERS' EQUITY</b>                    |             |           |           |            |           |           |

|  | 89,440     | 103,292    | 111,278   | 126,290    | 142,446   | 144,840  |
|--|------------|------------|-----------|------------|-----------|----------|
| Total liabilities, redeemable stock and shareholders' equity | \$246,477  | \$264,584  | \$261,993 | \$ 275,515 | \$295,483 | 323,676  |
| Midwest Medical Insurance Holding Company:                   |            |            |           |            |           |          |
| Class A Common shares issued and outstanding                 | 116,855(3) | 116,251(3) | 118,209   | 121,322    | 125,682   | 127,873  |
| Redemption value per share                                   | \$ 66.00   | \$ 60.00   | \$ 64.33  | \$ 61.63   | \$ 64.81  | \$ 64.81 |
| Class A Common shares redeemed                               | 12,640     | 12,424     | 10,272    | 10,306     | 9,005     | 1,031    |
| Amount paid to terminating policyholders upon redemption     | \$ 840     | \$ 829     | \$ 608    | \$ 648     | \$ 523    | \$ 66    |

- </TABLE>
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- (1) Amounts derived from audited consolidated financial statements of Midwest Holding included in this prospectus.
  - (2) Amounts derived from audited consolidated financial statements of Midwest Holding.
  - (3) Includes pro forma shares computed to give retroactive effect to the merger of Midwest Holding/Midwest Medical with Medical Liability Mutual Insurance Company of Nebraska. See Note 1 to the consolidated financial statements included in this prospectus.

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#### BUSINESS

**BACKGROUND.** Midwest Medical was originally organized in 1980 under the direction of the Minnesota Medical Association to provide professional liability insurance to Minnesota physicians who were its members. At that time, claims and awards in medical malpractice cases had been increasing dramatically, and physicians were faced with substantial premium increases and a declining number of insurers offering medical malpractice coverage. The business was reorganized in 1988 into a stock insurance company, Midwest Medical, wholly owned by a holding company, Midwest Holding, which could pursue other business opportunities. The reorganization also was effected to give physicians a limited equity interest in their malpractice insurer, which would give them input into the operations of the insurer and an opportunity to share in any profits, while preserving the capital and surplus of Midwest Medical. On July 1, 1993, the Iowa physician-owned malpractice insurer, Iowa Physician's Mutual Insurance Trust, was merged into Midwest Medical, and on June 5, 1996, the Nebraska physician-owned malpractice insurer, Medical Liability Mutual Insurance Company of Nebraska, was merged into Midwest Medical.

Midwest Medical now provides professional liability insurance to physicians and clinics in Minnesota, Iowa, Nebraska, Wisconsin, Illinois, North Dakota and South Dakota. Professional liability, general liability and umbrella excess liability insurance is also available to hospitals, and healthcare systems through Midwest Medical. Midwest Medical has had the sponsorship of the Minnesota Medical Association since inception and also has the sponsorship of the Iowa and North Dakota medical associations.

During 1997, Midwest Holding formed Midwest Medical Solutions, Inc. as a business development company to strengthen and promote the independence and interdependencies of physicians, clinics and hospitals served by Midwest Medical. Solutions is currently considering several business development opportunities. These include practice enhancement, strategic consulting, and electronic processing and integration services and support. Solutions purchased the assets of MedPower Information Services, Inc. effective January 1, 1998. Solutions then contributed those assets to its newly formed, wholly-owned subsidiary, MedPower Information Resources, Inc. MedPower processes and electronically submits medical claims for over 100 healthcare providers in the Upper Midwest. MedPower also provides various information consulting and network support services. Together, Solutions and MedPower had assets of less than \$3,000,000 at December 31, 1998 and revenues of less than \$400,000 for the year ended December 31, 1998.

MMIHC INSURANCE SERVICES, INC. WAS INCORPORATED IN 1995 AND BEGAN ACTIVE OPERATIONS IN JANUARY 1999 WITH THE ACQUISITION OF A BOOK OF BUSINESS FROM JOHNSON-MCCANN BENEFITS, INC. Midwest Holding provided \$1,500,000 of capital to Services to fund the first of three installment payments on this purchase as

well as to provide additional funds for future agency acquisitions. The remaining two installment payments will be made in 2000 and 2001. Services is an insurance agency specializing in providing clients with group insurance products such as health, dental, life, and disability. Commission income from insurance carriers is the principal source of revenue. Services had assets of approximately \$1,512,000 at March 31, 1999 and had revenues of approximately \$349,000 for the three months ended March 31, 1999.

MANAGEMENT AGREEMENT. Midwest Medical pays Midwest Holding for comprehensive management, administration, and underwriting services, and for use of Midwest Holding's facilities, equipment and personnel. Midwest Holding receives a management fee generally equal to the cost of providing such services, plus 10

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percent. Midwest Holding employs all of the employees, and owns all of the non-financial assets, used in the operation of the businesses of the Midwest Medical and Midwest Holding. The agreement must be reviewed and approved periodically by the Minnesota Department of Commerce.

INSURANCE POLICIES. Midwest Medical primarily writes policies of medical professional liability insurance to: (1) individual physicians, and (2) clinics formed as partnerships or professional corporations comprised of physicians", and (3) hospitals and healthcare systems. In addition, Midwest Medical writes business liability insurance providing coverage for claims against a medical business entity resulting from acts by its employees, and office premises liability insurance providing coverage for claims arising out of the ownership, maintenance or use of office space.

In addition to meeting Midwest Medical's underwriting standards, insured physicians must be licensed to practice in Minnesota, Iowa, Nebraska, Wisconsin, Illinois, North Dakota or South Dakota, and conduct a majority of their practice in such states. All insured clinics must have their principal place of business in one of Midwest Medical's states and all full-time physicians practicing with insured clinics must be insured by Midwest Medical.

Midwest Medical offers a "claims-made" medical malpractice liability insurance policy. Under a claims-made policy, coverage is provided for claims asserted and reported to Midwest Medical while the policy is in effect concerning occurrences which took place after a certain date set forth in the policy. Finally, Midwest Medical also offers extended reporting endorsements, which are commonly called "tails", which provide coverage of claims first made after the insured physician or clinic terminates basic insurance coverage with Midwest Medical, but concerning occurrences which took place while the insurance coverage was in effect.

Midwest Medical offers basic limits of coverage from \$1,000,000 for each claim, with a \$3,000,000 annual aggregate limit, up to \$12,000,000 for each claim, with a \$14,000,000 annual aggregate limit. Excess coverage above the basic limits is available from Midwest Medical's reinsurers.

REINSURANCE. Midwest Medical purchases reinsurance in order to reduce its liability on individual risks and to protect against catastrophic losses. A reinsurance transaction takes place when an insurance company transfers, or "cedes", to another insurance company a portion of its risk exposure on insurance it writes. The reinsurer assumes the exposure in return for a portion of the premium. The reinsurer's liability is limited to losses it assumes. However, if the reinsurer fails to pay, Midwest Medical remains primarily liable for the loss. Midwest currently uses reinsurance to limit its risk on any single claim to \$750,000.

Midwest Medical currently has a single reinsurance treaty with liability distributed among General Reinsurance Corporation of Stamford, Connecticut (80%), Hanover Reinsurance Company of Hanover, Germany (7%), Transatlantic Reinsurance Corp. (6.5%), and CNA Re, UK (6.5%). General Reinsurance Corporation is the largest reinsurer of medical professional liability in the United States and one of the largest in the world and has received the highest rating of A++ by A.M. Best & Company, Inc. Hanover Reinsurance Company is rated A+; Transatlantic Re is rated A++; and CNA Re, UK is rated A by A.M. Best & Company, Inc. Coverage under the treaty was initially issued on January 1, 1998, and is continuous until canceled by any party. Midwest Medical currently cedes about \$4,400,000 of premium per year under the reinsurance treaty.



MARKETING AND DISTRIBUTION. Marketing of Midwest Medical policies in Minnesota, South Dakota, North Dakota, Nebraska, Illinois and Wisconsin primarily is handled directly by Midwest Medical through salaried marketing representatives. Midwest Medical also has marketing arrangements with a select group of large national brokers to assist Midwest Medical in the production of large accounts and in the production of new coverages as they are developed. These brokers will sell Midwest Medical's products in all states in which Midwest Medical is licensed to do business. IMS Services Company, a wholly-owned subsidiary of the Iowa Medical Society, is the exclusive agent for marketing Midwest Medical policies to physicians and clinics in Iowa. Midwest Medical does not believe that the loss of this exclusive agent would have a material adverse effect on its business because other agents are available and Midwest Medical has the in-house capacity to market directly. Midwest Medical hospital insurance policies are marketed directly by Midwest Medical and through independent agents and brokers. Midwest Medical approves all policies sold by agents prior to their becoming effective, and no commissions are earned by agents until approval has been granted.

INVESTMENTS. Midwest Medical's investment portfolio is under the direction of the Board of Directors acting through the Investment Committee. The Investment Committee establishes Midwest Medical's investment policy which, in summary, is to assist in maintaining Midwest Medical's financial stability by preserving assets and maximizing pre-tax investment income. Adequate liquidity is maintained to assure that Midwest Medical has the ability to meet its insurance operational requirements, in particular the payment of claims. Midwest Medical employs outside investment managers who have discretion to manage the portfolio consistent with the policies set by Midwest Medical. In addition, the Investment Committee utilizes the services of a consultant who calculates performance measures and provides an independent opinion on the overall results being obtained by the investment managers.

Midwest Medical's investment portfolio consists primarily of investment grade fixed income instruments, including United States Government, governmental agency, and corporate bonds. Fixed income investments comprised approximately 62% of total invested assets at December 31, 1998 compared to 70% at December 31, 1997. Equity securities comprised approximately 33% of total invested assets at December 31, 1998 compared to 20% at December 31, 1997. The increase in the proportion of equity securities was due to an increase in equity market values and a reallocation of \$15,000,000 from fixed income investments to international equities in January 1998. The objectives of this reallocation were to further diversify the portfolio and maximize pre-tax total return. The remainder of Midwest Medical's investment portfolio, 5% and 10% at December 31, 1998 and 1997, respectively, was invested in a real estate investment trust and short-term instruments.

The following table sets forth the composition of the combined investment portfolio of Midwest Medical at the dates indicated:

|   | BOOK VALUE AT DECEMBER 31, |           |           |
|---|----------------------------|-----------|-----------|
|   | (IN THOUSANDS)             |           |           |
| INVESTMENTS   | 1996                       | 1997      | 1998      |
| <S>   | <C>                        | <C>       | <C>       |
| Fixed maturities at fair value<br>(cost: 1996 - \$179,979,<br>1997 - \$170,590, 1998 - \$161,430) | \$183,561                  | \$171,975 | \$164,652 |
| Equity securities at fair value<br>(cost: 1996 - \$20,237,<br>1997 - \$20,595, 1998 - \$41,906,)  | \$ 38,001                  | 49,759    | 86,554    |
| Short-term  | 7,898                      | 13,909    | 3,556     |
| Other   |                            | 10,000    | 10,000    |
| Total Investments   | \$229,460                  | \$245,643 | \$264,761 |

</TABLE>

The following schedule compares the average yield on investments during the last three years.

<TABLE>  
<CAPTION>

|               | YEAR ENDING DECEMBER 31, |      |      |
|---------------|--------------------------|------|------|
|               | 1996                     | 1997 | 1998 |
| <S>           | <C>                      | <C>  | <C>  |
| Average yield | 5.4%                     | 4.9% | 4.3% |

</TABLE>

The fair value of fixed maturities at December 31, 1998, by contractual maturity, is shown below as a percentage of the total fixed maturities portfolio:

<TABLE>  
<CAPTION>

| MATURITY      | PERCENTAGE OF FIXED MATURITY PORTFOLIO AT FAIR VALUE |
|---------------|--|
| <S>           | <C>  |
| 0 - 1 year    | 4%   |
| 1 - 5 years   | 25   |
| 5 - 10 years  | 17   |
| Over 10 years | 54   |
|               | --   |
|               | 100%   |
|               | ----   |
|               | ----   |

</TABLE>

RATING. A. M. Best & Company, Inc. ("Best's"), publisher of BEST'S INSURANCE REPORTS, PROPERTY-CASUALTY, has assigned Midwest Medical an A, or excellent, rating in 1998. Best's ratings range from A++ to F, and are based on an analysis of the financial condition and operation of an insurance company compared with the industry in general. Midwest Holding believes that a favorable rating has a positive effect since customers and their advisors often review Best's ratings when selecting an insurer and are more apt to purchase insurance from a company with a positive rating because of the greater security and stability associated

with a positive rating. A positive rating indicates the ability of an insurer to meet its insurance obligations and does not directly indicate the value of the insurer's securities.

GOVERNMENT REGULATION. Governmental regulation applies to Midwest Medical in the states in which it conducts business - Minnesota, Iowa, Nebraska, Illinois, Wisconsin, North Dakota and South Dakota. Regulation is conducted by state agencies which have broad administrative power dealing with all aspects of Midwest Medical's business, including policy terms, rates, dividends and retroactive premium adjustments to purchasers of insurance, and dividends to Midwest Holding.

Without prior approval from the Minnesota Commissioner of Commerce, annual dividends from Midwest Medical to Midwest Holding cannot exceed 10 percent of unassigned surplus of Midwest Medical, or the prior year's net income from operations of Midwest Medical, whichever is greater. State statutes also require Midwest to file periodic information with state regulatory authorities, and these authorities conduct a financial and business conduct examination every three years. Statutes governing insurance holding company systems in Minnesota apply to Midwest Holding. These statutes concern primarily the acquisition of control of insurance companies.

COMPETITION. Midwest Medical's major competitor is the St. Paul Companies. The St. Paul Companies is a major national property-casualty insurance company. It is the largest writer of medical professional liability insurance in the United States, and it is many times larger than Midwest Medical. In addition to the St. Paul Companies, several other national companies have become active in the last several years, including Medical Protective Insurance Company, CNA Insurance Company, Zurich Insurance Company, Fireman's Fund Insurance Company and American Continental Insurance Company. At this time these additional competitors have achieved limited market penetration, but represent an

increasing competitive pressure for the future. In addition, several other physician-owned specialty carriers have entered the market, but have yet to be a significant factor in Midwest Medical's area. Finally, in the mid-1990's, several large self-insured hospitals in Minneapolis and Des Moines purchased Midwest Medical insured clinics, and other physician practices were purchased by large, self-insured clinics such as the Mayo Clinic. In response to the consolidation occurring among health care providers, Midwest Medical expanded its underwriting capacity by partnering with its reinsurers to provide the types of coverages needed by larger health organizations. Midwest Medical is the only carrier in Minnesota, Iowa and North Dakota markets endorsed by local medical societies and owned by its insured physicians-, which management believes gives Midwest Medical a competitive advantage in marketing to physicians.

The market for medical professional liability insurance is changing, especially with the dramatic changes proposed and occurring in the broader health care industry. Various changes in the market for medical professional liability insurance are possible as a result of developments such as practice consolidation and integration, physician-hospital organizations, various forms of managed health care, various forms of alliances between providers, proposals for enterprise liability, and many others. Management is developing new programs and products which it believes will allow it to remain competitive as such change occurs, although no assurance can be given that these programs and products will succeed.

EMPLOYEES. On December 31, 1998, Midwest Holding employed 82 persons, of whom six were executives, 52 were supervisory employees or specialists, and 24 were clerical employees. None of the employees is covered by a collective bargaining agreement and management believes that relations with employees are good.

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PROPERTIES. Midwest Holding owns the following fixed assets, all of which are used in the conduct of its business:

<TABLE>  
<CAPTION>

|  | Net Book Value<br>December 31, 1998<br>----- |
|--|--|
| <S>  | <C>  |
| Office furniture and equipment   | \$ 250,291                                   |
| Leasehold improvements at leased premises,<br>6600 France Ave. S., Minneapolis, MN | 37,819                                       |
| Computer hardware  | 728,593                                      |
| Computer system software   | 1,911,712                                    |
|  | -----  |
| Total  | \$2,928,415                                  |
|  | -----  |

</TABLE>

The Company owns no real estate. Midwest Holding leases approximately 15,765 square feet of office space in Edina, Minnesota under a 10-year lease that expires in 2001. Midwest Holding has the option to renew the lease for an additional five years after the original term. Solutions and MedPower operated out of a separate, leased, 3,149 square foot facility also located in Edina, Minnesota. This lease expires in 2001. Midwest Holding also leases 4,060 square feet of office space in West Des Moines, Iowa under a 10-year lease that expires in 2000, with an option for Midwest Holding to extend the term for an additional five years. Finally, Midwest Holding leases 1,249 square feet of office space in Omaha, Nebraska under a three year lease that expires November 30, 2000. Aggregate annual rent expense was \$501,032 for 1998 and \$427,646 for 1997.

LITIGATION. Midwest Medical believes that its reserves are adequate to cover possible liability from claims and lawsuits on policies which arise in the normal course of its insurance business. Midwest Medical is not a party to any other pending or threatened legal proceeding which it believes could have a material adverse effect on its operations.

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MANAGEMENT

DIRECTORS

The names and ages of the directors of Midwest Holding and Midwest Medical, the year each first became a director, and the number of shares owned by each as of December 31, 1998, are as follows:

<TABLE>  
<CAPTION>

| NAME  | AGE | DIRECTOR SINCE | PRINCIPAL OCCUPATION           | CLASS A COMMON SHARES OWNED |
|---|-----|----------------|--------------------------------|-----------------------------|
| <S>   | <C> | <C>            | <C>                            | <C>                         |
| Michael Abrams                                | 37  | 1996           | Exec V.P. Iowa Medical Society | -                           |
| John R. Balfanz, M.D.                         | 53  | 1995           | Physician                      | 15                          |
| Gail P. Bender                                | 51  | 1996           | Physician                      | 23                          |
| James R. Bishop, M.D.                         | 57  | 1994           | Physician                      | -                           |
| David P. Bounk                                | 52  | 1995           | President and CEO              | -                           |
| Roger L. Frerichs, M.D.                       | 59  | 1988           | Surgeon                        | 88                          |
| Richard Geier, Jr., M.D.                      | 58  | 1995           | Physician                      | 24                          |
| Anthony C. Jaspers, M.D.                      | 51  | 1996           | Physician                      | 52                          |
| Russel J. Kuzel, M.D.                         | 46  | 1997           | Physician                      | 27                          |
| Wayne F. Leebaw, M.D.                         | 55  | 1994           | Physician                      | 25                          |
| Steven A. McCue, M.D.                         | 57  | 1995           | Physician                      | 126                         |
| William J. McMillan, Jr. M.D.                 | 51  | 1997           | Physician                      | 70                          |
| Harold W. Miller, M.D.                        | 51  | 1996           | Physician                      | 27                          |
| Anton S. Nesse, M.D.                          | 60  | 1989           | Radiologist                    | 54                          |
| Mark D. Odlund, M.D.                          | 46  | 1996           | Physician                      | 88                          |
| G. William Orr, M.D.                          | 63  | 1996           | Physician                      | 56                          |
| Norman Rinderknecht, M.D.                     | 64  | 1993           | Physician                      | 97                          |
| Paul S. Sanders, M.D.                         | 54  | 1984           | CEO-MN Medical Assoc.          | -                           |
| Richard D. Schmidt, M.D.<br>Secretary         | 55  | 1990           | Physician                      | 152                         |
| Judith F. Shank, M.D.                         | 56  | 1999           | Physician                      | 15                          |
| Andrew J. K. Smith, M.D.<br>Chairman of Board | 56  | 1990           | Neurological Surgeon           | 199                         |
| G. David Spoelhof, M.D.                       | 45  | 1989           | Physician                      | 48                          |
| Tom D. Throckmorton, M.D.                     | 53  | 1997           | Physician                      | 72                          |
| R. Bruce Trimble, M.D.<br>Vice Chair of Board | 58  | 1993           | Physician                      |                             |

</TABLE>

On December 31, 1998 the directors of Midwest Holding, as a group, owned 1,283 shares, or one percent of the total shares outstanding. No executive officer owned any shares.

All of the directors have been principally engaged in the practice of medicine for more than five years, except for Dr. Sanders who has been the Executive Vice President of the Minnesota Medical Association since 1990; Michael Abrams, who has been the Executive Director of the Iowa Medical Society since 1996;

and David P. Bounk, who has been President and CEO of Midwest Holding since 1991. Prior to 1996, Mr. Abrams was Director, Governmental Relations of the Indiana Medical Association for nine years.

The Bylaws of Midwest Holding require its Board of Directors to include the following: (1) up to 20 physicians divided into three classes and elected for staggered three-year terms; (2) for as long as the Class B Common Share is outstanding, the Chief Executive Officer of the Minnesota Medical Association and the Executive Vice President of the non-voting Iowa Medical Society, both of whom are non-voting directors; (3) the President of Midwest Holding as a non-voting director; and (4) such additional non-voting and advisory members as the Board of Directors may determine. At least two-thirds of the voting members of the Board of Directors must be members of a state medical association and insured by Midwest Medical. The Minnesota Medical Association, which has the exclusive right to elect directors, has agreed to elect the directors nominated by a committee of the Board of Directors. Directors serve until their successors are elected and qualified or until their prior resignation, removal, death or disqualification.

The Bylaws of Midwest Holding also require the election of directors who are members of the Iowa Medical Society in a number, when compared to the total number of directors, which is proportionate to the number of Iowa purchasers of insurance compared to the total number of Midwest Medical purchasers of

insurance, with a minimum of two Iowa directors, one of whom shall be the Executive Vice President of the Iowa Medical Society, for as long as the Class B Common Share is outstanding. The Minnesota Medical Association has placed the Class B Voting Share in a voting trust which requires the trustee to vote the share for the election of the Iowa directors nominated by the Iowa Medical Society.

The Board of Directors of Midwest Holding has the following standing committees:

- Executive;
- Audit and Budget;
- Nomination;
- Compensation.

The activities and current membership of each of these committees are described below:

The Executive Committee has the full power to act for the Board between its meetings. The members of the Executive Committee include the Chairman, Vice Chairman and Secretary of the Board of Midwest Holding, the President, and other individuals appointed by the Board of Directors. The persons currently on the Executive Committee are as follows:

- Andrew J.K. Smith, Chairman
- David P. Bounk
- Roger L. Frerichs, M.D.
- Richard Geier, M.D.
- Paul S. Sanders, M.D.
- Richard D. Schmidt, M.D.
- R. Bruce Trimble, M.D.
- Michael Abrams.

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The Audit and Budget Committee reviews and approves the annual audit of the books and records and annual budget of Midwest Holding. The members of the Audit and Budget Committee are:

- R. Bruce Trimble.
- Andrew J.K. Smith, M.D.
- Richard Geier, M.D.
- John Balfanz, M.D.
- Norman Rinderknecht, M.D.

The Nominating Committee submits to the Board of Directors all nominees for election to the Board. The Chairman of the Board is a member of the Nominating Committee together with the Vice-Chairman of the Board, the Chairman of the Board of the Minnesota Medical Association or his or her designate, the Chief Executive Officer of the Minnesota Medical Association, and two members appointed by the Board. The members of the Nominating Committee are:

- Andrew J.K. Smith, M.D.
- Paul S. Sanders, M.D.
- Michael Abrams
- R. Bruce Trimble, M.D.
- Anthony Jaspers, M.D.
- Stephan A. McCue, M.D.
- Paul Matson, M.D.

The Compensation Committee reviews and establishes the compensation and benefits of all executives of Midwest Holding. The Committee consists of the Chairman of the Board, the Vice Chairman of the Board, and three additional members appointed by the Board. The current members of the Compensation Committee are:

- Andrew J.K. Smith, M.D.
- R. Bruce Trimble, M.D.
- and James Bishop, M.D.
- Harold W.. Miller, M.D.

The Bylaws of Midwest Medical provide that the directors of Midwest Holding shall also serve as the directors of Midwest Medical, with the exception of any outside directors of Midwest Holding. Outside directors are persons who are not policyholders of Midwest Medical or members of the Minnesota Medical Association. There are currently no outside directors of Midwest Holding so the Boards of Midwest Holding and Midwest Medical are identical.

The Chairman of Midwest Holding Board of Directors (currently Dr. Smith) is paid an annual fee of \$38,520. All members of the Board of Directors are paid \$750 for each meeting of the Board of Directors they attend. In addition, members of the Executive Committee are paid \$750 for each meeting of the Executive Committee they attend, and committee chairmen are paid \$600 for each meeting of the standing committee they chair. Other members of standing committees are paid between \$300 and \$500, depending upon distance traveled, for each committee meeting they attend.

EXECUTIVE OFFICERS

The names, ages and positions of the executive officers of Midwest Holding and Midwest Medical are as follows:

<TABLE>  
<CAPTION>

| NAME                  | AGE    | POSITION WITH COMPANY                             | PERIOD OF SERVICE AS AN OFFICER | PRINCIPAL OCCUPATION                              |
|-----------------------|--------|---|---------------------------------|---|
| <S><br>David P. Bounk | <C> 52 | <C> President and Chief Executive Officer         | <C> 8/1/90 to date              | <C> President and Chief Executive Officer         |
| Niles A. Cole         | 37     | Vice President-Finance and Treasurer              | 1998 to date                    | Vice President-Finance and Treasurer              |
| Jack L. Kleven        | 52     | Senior Vice President and Chief Operating Officer | 1986 to date                    | Senior Vice President and Chief Operating Officer |
| Elizabeth S. Lincoln  | 45     | Vice President-Law and Health Policy              | 1990 to date                    | Vice President-Law and Health Policy              |
| Gerald M. O'Connell   | 44     | Vice President - Marketing                        | 1998 to date                    | Vice President - Marketing                        |
| Michael G. Rutz       | 45     | Vice President-Underwriting                       | 5/15/95 to date                 | Vice President-Underwriting                       |

</TABLE>

Mr. Bounk has over 30 years experience in the insurance industry and joined Midwest Holding and Midwest Medical as President and Chief Executive Officer in August 1990. From July 1982 through July 1990, he was Executive Vice President and Chief Operating Officer of Missouri Medical Insurance Company, a corporation providing malpractice insurance to physicians in Missouri. Mr. Bounk has an MBA degree in finance.

Mr. Bounk has an employment agreement which renews annually for successive calendar-year terms unless it is terminated by either party at least 60 days prior to any renewal date. The agreement provides that Mr. Bounk's base salary will be adjusted annually by the Executive Committee. If the agreement is terminated by Midwest Holding for cause or by Mr. Bounk voluntarily, he is entitled to receive his base salary for 30 days thereafter. If the agreement is terminated by Midwest Holding without cause, Mr. Bounk is entitled to receive his base salary for six months thereafter, plus one additional month for each year of service, up to a maximum of 12 additional months, and then only until he commences new employment or self-employment. The agreement also prohibits Mr. Bounk from competing with Midwest Holding for one year following his termination of employment.

Effective January 1, 1997, the Midwest Holding entered into termination agreements with the executive officers. These agreements provide a severance package to these executives in the event of termination of employment without cause.

Mr. Cole has over 15 years experience in the insurance industry. He joined Midwest Holding in December 1996 and he has been in his current position since March 1998. He was Vice President of Physicians Insurance Exchange in Seattle, Washington for seven years prior to joining Midwest Holding. He has BS degrees in accounting and finance.

Mr. Kleven has over 25 years experience in medical malpractice claims adjusting and management. He joined Midwest Holding in 1983, and was Vice President, Claims since March 1986. He was promoted to Chief Operating Officer on January 1, 1998. Prior to joining Midwest Holding, he was a liability manager at The St. Paul Companies for six years. He has a BS degree in business.

Ms. Lincoln has over 15 years experience in medical professional liability risk management. She joined Midwest Holding in 1982, and was Vice President, Risk Management since January 1990. She transferred to Vice President, Law and Health Policy, effective January 1, 1998. She has a law degree.

Mr. Rutz has over 20 years experience in the insurance industry, including 10 years in medical malpractice. From June 1986 through April 1994, he was Senior Regional Underwriting Manager with St. Paul Fire and Marine Insurance Company. From May 1994 through April 1995, he was Vice President with Alexander and Alexander, insurance brokers. He joined Midwest Holding in May 1995 as Vice President-Underwriting. He has a BS degree in resource management.

Mr. O'Connell has over 22 years in the medical malpractice segment of the insurance industry. From 1977 to 1995, he was with St. Paul Fire and Marine Insurance Company holding various marketing and underwriting management positions. He joined Midwest Holding in October 1996. He has a BS in agriculture business management with an emphasis in insurance.

Officers serve until their successors are appointed by the Board of Directors, or until their prior resignation, removal or death.

SUMMARY COMPENSATION TABLE

The following table summarizes compensation paid by Midwest Holding to its five most highly compensated executive officers for services rendered in all capacities during the last three years. The "All Other Compensation" Column includes employer contributions to qualified retirement plans and the term and cash surrender value of supplemental life insurance premiums.

<TABLE>

<CAPTION>

| NAME OF INDIVIDUAL<br>OR NUMBER IN GROUP | CAPACITIES IN<br>WHICH SERVED                        | YEAR                 | CASH COMPENSATION               |                              | ALL OTHER<br>COMPENSATION    |
|--|--|----------------------|---------------------------------|------------------------------|------------------------------|
|  |  |                      | SALARY                          | BONUS                        |                              |
| <S>                                      | <C>  | <C>                  | <C>                             | <C>                          | <C>                          |
| David P. Bounk                           | President and Chief<br>Executive Officer             | 1998<br>1997<br>1996 | \$200,187<br>187,088<br>170,080 | \$85,830<br>56,126<br>51,024 | \$32,272<br>20,963<br>17,687 |
| Jack L. Kleven                           | Senior Vice President and<br>Chief Operating Officer | 1998<br>1997<br>1996 | 167,716<br>145,840<br>132,420   | 61,636<br>43,752<br>39,796   | 30,847<br>17,193<br>17,384   |
| Elizabeth S. Lincoln                     | Vice President-Law<br>and Health Policy              | 1998<br>1997<br>1996 | 108,015<br>102,871<br>97,020    | 33,080<br>30,861<br>29,106   | 29,242<br>13,286<br>14,319   |
| Gerald M. O'Connell                      | Vice President-Marketing                             | 1998<br>1997<br>1996 | 109,000<br>95,077<br>24,900     | 34,749<br>11,530<br>2,423    | 21,739<br>17,850<br>4,608    |
| Michael G. Rutz                          | Vice President-<br>Underwriting                      | 1998<br>1997<br>1996 | 119,816<br>114,110<br>108,680   | 36,694<br>34,233<br>32,604   | 31,406<br>14,113<br>14,980   |

</TABLE>

Midwest Holding also maintains a Supplemental Executive Retirement Plan which provides an annual retirement benefit of 70% of the officer's final average salary for an executive officer who retires at age 62 with 10 years of service. Benefits are reduced for years of service less than 10 and retirement

prior to age 62. The benefit is also reduced by 50% of the officer's primary Social Security benefit and by the annual value (expressed in the form of an annuity) of the officer's accrued benefits under Midwest Holding's current money purchase pension plan and a predecessor plan. The estimated annual benefits payable upon retirement at normal retirement age for the executive officers in the Summary Compensation table are as follows: Mr. Bounk--\$201,500; Mr. Kleven--\$125,900; Ms. Lincoln--\$82,000; Mr. Rutz--\$147,100 and Mr. O'Connell--\$96,400. These benefits were calculated assuming salary increases of five percent per year, discounted four percent per year for future inflation to express the estimated benefits in today's dollars.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MANNER OF PRESENTATION. The financial statements of Midwest Holding and its Subsidiaries are presented on a consolidated basis. In future references in this analysis, which should be read together with the 1998 consolidated financial statements and notes thereto appearing elsewhere in this prospectus, references to Midwest Holding should be considered to include its subsidiaries.

#### LIQUIDITY AND CAPITAL RESOURCES

The majority of Midwest Holding's assets are invested in investment-grade bonds, stocks, a real estate investment trust and short-term instruments. These investments totaled \$264,761,000 and \$246,746,000 at December 31, 1998 and 1997, respectively, which represented 89.6% and 89.5% of total assets. The primary objectives of Midwest Holding's investment policy established by the Investment Committee are the preservation of assets, maximizing pre-tax total portfolio return, and assuring adequate liquidity to meet operational requirements primarily the payment of insurance claims. Fixed maturity investments and equity securities are classified as available for sale and carried at fair value. The real estate investment trust and short-term instruments are recorded at cost, which approximates fair value.

During 1997, Midwest Holding adopted a revised Investment Policy resulting in a portfolio restructuring designed to increase the pre-tax total return from investments. The benchmark total return goal set for the fixed portfolio manager was increased. This resulted in a turnover of most of the fixed income portfolio which included selling all municipal bonds. To further diversify the portfolio and maximize total return, Midwest Holding invested \$10 million in a private placement real estate investment trust in September of 1997 and invested \$15 million in international equities in January of 1998. These changes reflect Midwest Holding's strong financial position relative to the risk inherent in the amount of premium written.

Midwest Holding's cash flow from operations decreased in 1998 versus 1997 and 1996. The 1998 cash flow from operations of \$(9,605,000) was unfavorably impacted by premium adjustments paid to reinsurers on reinsurance contracts for prior years, less premium received in advance at the end of the year due to later billing of policies with January effective dates, and an increase in underwriting and other operating expenses. 1998 underwriting expenses increased primarily from additional staff needed to manage Midwest Holding's growth and added costs from the conversion to a new insurance company operating system. 1998 other operating expenses increased primarily from launching the operations of Solutions, including the acquisition of MedPower. The positive cash flow from 1997 operations of \$4,002,000 was primarily the result of a decrease in claim payments, whereas the negative cash flow from 1996 operations of \$(2,072,000) was primarily driven by an increase in claim payments.

Premium rates in general have remained stable with slight rate increases in regions where Midwest Holding has experienced unfavorable claim trends. Consequently, cash receipts from policyholder premiums have been relatively level. Midwest Medical, however, has returned substantial amounts of premiums to policyholders in recent years in the form of retrospective premium credits. The retrospective premium credits have been paid to policyholders in the first quarter of each year. Loss and operating expense payments have generally been met from policyholder premium receipts with any excess cash allocated to the investment portfolio. Midwest Holding regularly analyzes loss liabilities to project the cash flow required in future years. Since the overall portfolio is

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highly liquid, exact matching of bond maturities and liabilities is not a goal. Bond maturities are primarily selected to maximize total return. Midwest Holding believes that its cash and investments combined with its internally generated funds will be sufficient to meet its present and reasonably foreseeable operating and capital requirements and will not need to borrow funds from external sources. Midwest Holding had no material capital expenditure commitments as of December 31, 1998.

Midwest Holding's bylaws require that Midwest Holding class A common stock issued to Midwest Medical policyholders be redeemed when a physician ceases to be insured by Midwest Medical for any reason. The redemption value per share is calculated by dividing the net book value of Midwest Holding, excluding the net book value of Midwest Medical (other shareholders' equity) from the calculation, by the number of Midwest Holding Class A Common shares outstanding. More details about the redeemable stock and the actual redemptions during the years 1998, 1997 and 1996 are found in Note 2 to the consolidated financial statements. This limited redemption value preserves the capital of Midwest Medical which is separately disclosed as other shareholders' equity in the consolidated financial statements. The consolidated statements of changes in other shareholders' equity found in Midwest Holding's consolidated financial statements provide the details of additions to, and reductions in, other shareholders' equity.

From time to time the Board of Directors of Midwest Medical declares dividends payable to Midwest Holding to maintain the redemption value of Midwest Holding's class A common stock and to provide capital for new ventures entered into by Solutions. A \$2,000,000 dividend was declared in September of 1998 and paid in November of 1998 for those reasons mentioned above. No dividends were declared or paid by Midwest Medical to Midwest Holding in 1997. In July 1996, a dividend of \$327,000 was paid to Midwest Holding as required by a provision of the Midwest Medical/Minnesota Liability Mutual Insurance Company of Nebraska merger agreement. As required by the merger agreement, the amount was sufficient to maintain the per share redemption value of Midwest Holding's class A common stock at the same per share value immediately after the merger as immediately before the merger. A \$260,000 dividend was declared in November of 1995 and paid in February of 1996 primarily to maintain the redemption value of Midwest Holding's class A common stock.

#### RESULTS OF OPERATIONS

NET PREMIUMS EARNED increased \$2,098,000 in 1998 from 1997. Although policyholder rates remained relatively level, new business generated approximately \$1,263,000 of additional earned premium. The remaining increase was the result of the following significant factors:

1. The estimated reinsurance premium applicable to the treaty years 1992-1994 and 1995-1997, which is based in part on reinsured claims experience, was reduced \$2,550,000 on a net basis in 1998. This compares to a net reduction for those treaty years of \$2,950,000 in 1997 resulting in a net DECREASE in premium between years of \$400,000.

2. Midwest Holding negotiated lower rates on its 1998 reinsurance contract that reduced ceded premiums by \$1,031,000 compared to 1997. This INCREASED 1998 net premiums earned.

3. In 1998, \$789,000 was received from the commutation of a reinsurance treaty covering the 1991 year. Since no reinsurance commutation occurred in 1997, premiums INCREASED from 1997 to 1998 by \$789,000.

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4. Retrospective premium credits of \$5,200,000 for Minnesota policyholders and \$280,000 for North Dakota policyholders were recorded in 1998. The premium credits for 1997 were \$5,000,000 for Minnesota policyholders only. The difference between years resulted in a \$480,000 DECREASE in 1998 net premiums earned.

Net premiums earned increased \$1,749,000 in 1997 from 1996. Although policyholder rates remained relatively level for 1996 and 1997, an increase in the number of policyholders in 1997 resulted in additional earned premium of \$500,000. The remaining increase was the result of the following significant factors:

1. The estimated reinsurance premium applicable to the treaty years 1992-1994 and 1995-1997, which is based in part on reinsured claims experience, was reduced \$2,950,000 in 1997 versus an increase of \$925,000 in 1996. This resulted in a net INCREASE in premium between years of \$3,875,000.

2. Midwest Holding recorded an increase of \$1,171,000 in the Iowa Development Experience Liability account in 1997. A similar increase of \$2,901,000 was recorded in 1996. While these increased liabilities both reduce premium, the difference in the amounts between years caused an INCREASE in net premiums earned from 1996 to 1997 of \$1,730,000.

3. In 1996, \$2,194,000 was received from the commutation of a reinsurance treaty covering the years 1989 and 1990. This increased 1996 premiums. Since there was no counterpart in 1997, premiums DECREASED \$2,194,000 from 1996 to 1997.

4. A number of other prior year reinsurance premium adjustments recorded in 1996 increased 1996 premiums by \$2,143,000. With no counterpart in 1997, the difference between years DECREASED 1997 premiums by \$2,143,000.

NET INVESTMENT INCOME decreased \$590,000 from 1997 to 1998 and \$552,000 from 1996 to 1997. Although total invested assets has increased over the same time period, the fixed maturity component of invested assets has decreased due to Midwest Holding's efforts to maximize total return and diversify the portfolio as referred to earlier under the Liquidity and Capital Resources section. Since it is the largest contributor to Midwest Holding's investment income, the decrease in fixed maturity investments decreased investment income. Yields on fixed maturity investments also declined over the same time period further contributing to the decrease in investment income.

REALIZED CAPITAL GAINS increased \$2,465,000 to \$8,949,000 in 1998 and increased \$4,713,000 to \$6,484,000 in 1997. During 1998, approximately \$1,175,000 of net capital gains were realized through the allocation of \$15,000,000 to international equities in January of 1998. The remaining \$7,774,000 of 1998 net realized capital gains resulted from the management of the portfolio on a pre-tax total return basis within the parameters set by the Investment Committee. During 1997, the fixed income portfolio was restructured to pursue the newly adopted pre-tax total return objective resulting in net realized capital gains of \$4,916,000. An additional \$1,568,000 of net capital gains were realized in 1997 in the normal course of managing the investment portfolio. Midwest Holding employs three outside professional advisors to manage the portfolio: one to manage investment-grade fixed income securities, one to manage large-cap domestic equities, and one to manage international equities. The managers operate within Midwest Holding's adopted investment policy as approved by the Investment Committee. This policy was revised in 1997 as previously discussed under the Liquidity and Capital Resources section. The Investment Committee meets with outside investment managers approximately four times

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per year.

LOSSES AND LOSS ADJUSTMENT EXPENSES are the costs associated with the settlement of insurance claims and are Midwest Holding's principal expense. Incurred loss and loss adjustment expenses were \$37,494,000 for 1998 compared to \$31,834,000 in 1997 and \$32,257,000 in 1996. This results in an increase of 17.8% between 1998 and 1997 versus a slight decrease of 1.3% between 1997 and 1996. As shown in Note 5 of the consolidated financial statements, the current year's provision for loss and loss adjustment expense, which is based upon policyholder exposure, expected frequency of losses, and severity of losses, was fairly stable for the years 1998, 1997 and 1996. Loss and loss adjustment expenses also include adjustments of prior years' estimates. These adjustments to the liability for loss and loss adjustment expense are evaluated by management and supported by an outside actuarial review performed at the conclusion of the year. As shown in Note 5 of the consolidated financial statements, these evaluations resulted in a reduction in estimated liabilities applicable to prior years of \$4,433,000, \$8,352,000 and \$8,844,000, respectively in 1998, 1997 and 1996. The less favorable development on prior years is the primary reason for the greater incurred loss and loss adjustment expenses in 1998.

The following schedule summarizes the development of the liability for loss and loss adjustment expense from 1988 through 1998. This schedule is presented

net of reinsurance which Midwest Holding believes best explains the development as it affects operating results. Midwest Holding has a conservative loss reserving policy which, when coupled with a moderation of malpractice insurance losses beginning approximately in 1986 for Midwest Holding and across the industry, has resulted in redundancies in liabilities greater than expected. The table indicates that the redundancy in loss liabilities, which develop as actual results become known, has significantly decreased from the high at December 31, 1990. Loss and loss adjustment expense liabilities have not been discounted in Midwest Holding's financial statements.

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<TABLE>  
<CAPTION>

Development of Liability for Loss and Loss Adjustment Expense  
(THOUSANDS OF DOLLARS)

|   | 1988     | 1989     | 1990     | 1991      | 1992     | 1993      | 1994     | 1995     | 1996     | 1997     | 1998     |
|---|----------|----------|----------|-----------|----------|-----------|----------|----------|----------|----------|----------|
| <S>   | <C>      | <C>      | <C>      | <C>       | <C>      | <C>       | <C>      | <C>      | <C>      | <C>      | <C>      |
| Liability for unpaid loss and loss adjustment expense | \$74,577 | \$89,630 | \$97,375 | \$100,167 | \$98,617 | \$105,589 | \$88,227 | \$96,424 | \$90,342 | \$89,394 | \$94,467 |
| Cumulative amount of liability paid through:          |          |          |          |           |          |           |          |          |          |          |          |
| 1 year later  | 12,067   | 10,585   | 13,973   | 19,112    | 21,422   | 25,251    | 26,879   | 33,454   | 30,097   | 28,755   |          |
| 2 years later   | 19,043   | 21,890   | 28,643   | 32,798    | 37,498   | 42,685    | 46,925   | 53,132   | 44,562   |          |          |
| 3 years later   | 24,143   | 30,869   | 35,305   | 39,906    | 45,227   | 51,087    | 55,534   | 59,568   |          |          |          |
| 4 years later   | 26,241   | 35,015   | 37,624   | 42,752    | 46,226   | 53,594    | 57,129   |          |          |          |          |
| 5 years later   | 27,561   | 35,115   | 38,298   | 43,994    | 46,823   | 53,288    |          |          |          |          |          |
| 6 years later   | 27,695   | 35,187   | 39,505   | 44,370    | 46,810   |           |          |          |          |          |          |
| 7 years later   | 27,695   | 35,295   | 39,861   | 44,420    |          |           |          |          |          |          |          |
| 8 years later   | 27,695   | 35,295   | 39,862   |           |          |           |          |          |          |          |          |
| 9 years later   | 27,695   | 35,295   |          |           |          |           |          |          |          |          |          |
| 10 years later  | 27,695   |          |          |           |          |           |          |          |          |          |          |
| Liability re-estimated as of:                         |          |          |          |           |          |           |          |          |          |          |          |
| 1 year later  | 65,928   | 73,244   | 83,359   | 83,991    | 94,633   | 80,960    | 85,595   | 87,580   | 81,990   | 84,961   |          |
| 2 years later   | 51,379   | 62,056   | 64,876   | 74,883    | 69,490   | 75,364    | 76,365   | 79,665   | 76,542   |          |          |
| 3 years later   | 43,516   | 52,010   | 56,351   | 53,538    | 65,568   | 64,586    | 67,891   | 77,294   |          |          |          |
| 4 years later   | 35,753   | 44,582   | 42,075   | 52,833    | 56,426   | 57,851    | 65,794   |          |          |          |          |
| 5 years later   | 31,052   | 37,872   | 41,771   | 45,892    | 52,388   | 56,785    |          |          |          |          |          |
| 6 years later   | 29,052   | 37,617   | 39,519   | 43,760    | 53,014   |           |          |          |          |          |          |
| 7 years later   | 29,002   | 35,882   | 38,929   | 43,563    |          |           |          |          |          |          |          |
| 8 years later   | 28,724   | 35,882   | 38,929   |           |          |           |          |          |          |          |          |
| 9 years later   | 28,724   | 35,882   |          |           |          |           |          |          |          |          |          |
| 10 years later  | 28,724   |          |          |           |          |           |          |          |          |          |          |
| Cumulative redundancy                                 | 45,853   | 53,748   | 58,446   | 56,604    | 45,603   | 48,804    | 22,433   | 19,130   | 13,800   | 4,433    |          |

</TABLE>

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UNDERWRITING, ACQUISITION AND INSURANCE EXPENSES increased \$1,189,000 from \$5,509,000 in 1997 to \$6,698,000 in 1998. Approximately \$469,000 of the increase came from increases in variable expenses such as commissions and premium taxes that resulted from the greater premium volume. The remaining increase was largely due to additional staff needed to manage growth and added costs from the conversion to a new insurance operating system.

Underwriting, acquisition and insurance expenses increased \$828,000 from 1996 to 1997. Approximately \$425,000 of the increase was due to payments to state medical societies, for the first time in 1997, under license and endorsement agreements. The remaining increase reflected the increase in overall cost of operating Midwest Holding in 1997 with employee salaries and benefits being the largest component.

OTHER OPERATING EXPENSES increased \$2,503,000 from \$1,086,000 in 1997 to \$3,589,000 in 1998. Approximately \$2,344,000 of the increase was from operating two new, non-insurance companies, Solutions and MedPower. Both Solutions and MedPower began active operations as of the beginning of 1998. The remaining increase resulted primarily from added costs of operating company.

Other operating expenses increased \$228,000 from \$858,000 in 1996 to \$1,086,000 in 1997. Approximately \$131,000 of the increase was from researching and forming Solutions. The remaining increase resulted primarily from additional stock issuance expenses.

INCOME BEFORE INCOME TAXES decreased to \$8,637,000 in 1998 compared to \$13,763,000 in 1997. The decrease resulted primarily from less favorable development on loss liabilities estimated in prior years and added expenses from operating two non-insurance companies newly formed at the beginning of 1998.

Income before income taxes increased to \$13,763,000 in 1997 from \$8,939,000 in 1996 primarily from the reversal of loss liabilities established in prior years and additional net realized capital gains from the repositioning of the investment portfolio.

INCOME TAXES decreased to \$2,689,000 for 1998 compared to \$4,463,000 for 1997. The effective tax rates for 1998 and 1997 were 31.1% and 32.4%, respectively. The principal factor in the decline in the effective tax rate was a recovery of prior taxes recorded in 1998.

Income taxes increased to \$4,463,000 for 1997 compared to \$1,458,000 for 1996. The effective tax rates for 1997 and 1996 were 32.4% and 16.3%, respectively. The increase in the effective tax rate for 1997 was primarily due to a reduction in tax-exempt investment income due to the 1997 repositioning of the investment portfolio that eliminated tax-exempt municipal bonds. A 1997 payment of prior year taxes and tax-exempt life insurance proceeds received in 1996 also contributed to the increase in the effective tax rate in 1997.

NET INCOME realized by Midwest Holding was \$5,948,000 for 1998 compared to

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\$9,300,000 for 1997 because of the factors discussed above. Basic net income per share decreased to \$48.36 for 1998 from \$77.79 per share for 1997. Diluted net income per share decreased to \$43.65 for 1998 from \$70.23 per share for 1997.

Also due to the factors discussed above, Midwest Holding realized net income of \$9,300,000 for 1997 compared to net income of \$7,481,000 for 1996. Basic net income per share increased to \$77.79 for 1997 from \$64.45 per share for 1996. Diluted net income per share increased to \$70.23 for 1997 from \$58.33 per share for 1996.

#### INTERIM PERIODS

The following is management's discussion and analysis of financial conditions and results of operations for the three months ended March 31, 1999 and should be read in conjunction with the selected financial information.

#### CAPITAL RESOURCES AND LIQUIDITY

The majority of Midwest Holding's assets, 81%, continue to be invested in investment-grade bonds, equities and short-term instruments. Under Statement of Financial Accounting Standards (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities", Midwest Holding's investments in debt and equity securities are classified as available for sale and therefore carried at fair value with unrealized gains and losses, net of applicable taxes, reflected as a separate component of equity. Other investments are equity interests in non-traded real estate investment trusts and are recorded at cost which approximates fair value.

The retrospective premium liability of \$8,543,000 at December 31, 1998 consisted of two items. One represented amounts due to policyholders under a retrospective premium rating plan. This liability consisted of \$5,480,000 due to Minnesota and North Dakota policyholders. The second component represented amounts due to Iowa policyholders under terms of the Midwest Medical /Iowa Physicians Mutual Insurance Trust July 1, 1993 merger agreement. The merger agreement provided that if financial results for years prior to 1993 are more favorable than expected, the favorable development must be returned to former Iowa Physicians policyholders who were insured by Iowa Physicians on December

31, 1992 and who renew their coverage with Midwest Medical. This second liability totaled \$3,063,000. Both the retrospective and merger premium liabilities were paid to policyholders in the first quarter of 1999.

Cash flow from operations was negative during the first three months of both 1999 and 1998, \$(3,823,000) and \$(9,297,000) respectively. The primary reason for the negative cash flows was the payment, in the first quarter of both years, of the retrospective premium credit and the premium credit under the terms of the merger agreement. These payments totaled \$8,889,000 in 1999 and \$8,100,000 in 1998. The merger premium credit of \$3,063,000 paid to Iowa policyholders during the first quarter of 1999 was the final payment under the terms of the merger agreement. The negative cash flow was lower in the first three months of 1999 compared to the same period in 1998 primarily due to greater premium receipts. Fewer policyholders paid

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premiums in advance of 1/1/99 policy renewals due to later policy billings. Consequently, more policy premiums were paid after January 1 rather than prior to that date compared to the same period the previous year.

Total equity consisting of redeemable stock and other shareholders' equity, increased by \$1,877,000 during the first three months of 1999. Equity increases were from net income of \$4,569,000 and Class A stock issuances of \$56,000. These increases were offset by net unrealized depreciation in the fair value of investments, net of deferred taxes, of \$(2,682,000) and class A stock redemptions of \$(66,000).

#### RESULTS OF OPERATIONS

Net premiums earned increased \$221,000 over the same period of 1998 primarily as a result of writing approximately \$3,500,000 of new business. The new business was generated primarily from sales of policies to large, healthcare systems. The increase from new business was offset by a 5% decrease in 1999 premium rate levels for policyholders in Minnesota, North Dakota, and South Dakota. Also negatively impacting first quarter 1999 premiums were greater retrospective premium credits paid during the first quarter to Minnesota and North Dakota policyholders than what had been estimated and accrued at December 31, 1998. The additional retrospective premium credit payments recognized in the first quarter of 1999 totaled approximately \$346,000. Finally, the first quarter of 1998 contained a favorable premium adjustment of approximately \$789,000 for the commutation of a 1991 reinsurance contract. The first quarter of 1999 did not contain a similar type of premium adjustment.

Net capital gains of \$6,309,000 were realized during the first three months of 1999. Most of these capital gains resulted from the sale of common stock to fund the payment of retrospective and merger premium credits during the first quarter. Midwest Holding's investment portfolio is managed by professional, outside investment advisors on a total return basis under guidelines set by the Investment Committee of Midwest Holding's Board of Directors. Midwest Holding's investment managers may take advantage of opportunities to increase total return through sales of selected securities in response to changing market conditions. Consequently, management has no estimate for future levels of realized capital gains or losses.

Other revenues consist primarily of finance charges on Midwest Medical's premium billings, commission income from Services, and claim processing fees from MedPower. The increase for the first three months of 1999 over the same period of 1998 is primarily due to Services beginning active operations in January 1999.

Losses and loss adjustment expenses increased \$200,000 for the first three months of 1999 versus 1998. The increase in 1999 was primarily driven by the increase in premium volume as interim period losses are estimated based on a ratio of net premiums earned. The estimated loss ratio was developed while determining 1999 premium rates. At year-end, an outside actuarial analysis of losses is completed. Although the effects of interim claim frequency and severity statistics are not analyzed, management did not observe any discernable loss trends during the first

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three months of 1999 that would materially alter loss expectations.

Underwriting, acquisition and insurance expenses increased \$275,000 for the first three months of 1999 compared to the same period in 1998. The majority of the increase is due to staff additions to handle Midwest Medical's business growth and the continuing implementation of a new insurance company operating system.

Other operating expenses increased \$791,000 for the first three months of 1999 compared to the same period in 1998. The increase can be attributed primarily to Services beginning active operations in January 1999 and additional salary, benefits, and outside consulting expenses incurred by Solutions from intensifying its business development efforts.

As a result of the factors discussed above, Midwest Holding realized net income of \$4,569,000 for the three months ended March 31, 1999 compared to net income of \$2,902,000 for the same period of 1998. Basic net income per share increased to \$36.03 from \$24.01 for the three months ended March 31, 1999 and 1998, respectively. Diluted net income per share increased to \$32.45 for the three months ended March 31, 1999 from the \$21.68 per share reported a year ago.

#### YEAR 2000 ISSUE

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of Midwest Holding's computer programs that have time sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculation causing disruptions of operations, including, among other things, a temporary inability to process transactions, send billings, or engage in similar normal business activities.

A Year 2000 Task Force was formed in early 1998 consisting of members of senior and departmental management to evaluate and monitor the Year 2000 issue, identify the causes and consequences to Midwest Holding, and develop courses of action including contingency plans as deemed necessary. The Year 2000 Task Force assessment includes the following key areas: internal computer hardware and software, significant business partners and vendors and insurance policy exposure.

An evaluation of the Year 2000 readiness of all significant internal computer hardware and software applications and devices was completed in the latter part of 1998. The evaluation identified three pieces of network hardware and one subsidiary operating system that were not Year 2000 compliant. The three pieces of network hardware did not impact time sensitive operations and therefore did not pose any significant Year 2000 risk to Midwest Holding. The operating system used by the MedPower subsidiary is in the process of being converted to a new, Year 2000 compliant platform. The new operating system is expected to be fully operational by June 1999 with a total conversion cost estimated at \$250,000. The conversion was approximately 60% completed and had expenditures of approximately \$150,000 as of the date of this

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prospectus. As a result of the above evaluation, management believes that the Year 2000 issue has been adequately addressed with respect to internal use hardware and software.

A Year 2000 compliance inquiry was prepared and mailed in early October of 1998 to all of Midwest Holding's key business partners and service vendors. Responses are being evaluated and follow-up will be performed during 1999 as appropriate. No assurances, however, can be given that the systems of other companies on which Midwest Holding's operations rely will become Year 2000 compliant in a timely manner, or that the failure by a third party to become Year 2000 compliant would not have a material adverse effect on Midwest Holding.

A multi-departmental team consisting of claims, risk management and underwriting management studied and carefully assessed the exposure that might exist in the policies issued by Midwest Medical. The majority of the exposure is related to medical equipment that contains computer chips and may be affected by the Year 2000 bug. This is primarily an exposure for the products liability carrier. All hospital purchasers of insurance have been surveyed to monitor their compliance to Midwest Medical guidelines on medical equipment. All current hospital purchasers of insurance are in compliance. At this point, no coverage

change or exclusion has been enacted for the medical malpractice professional liability policy. A Year 2000 exclusion became effective January 1, 1999 on all premises and general liability policies issued by Midwest Medical. This exclusion will continue through the 2000 policy year. Midwest Medical has communicated its Year 2000 exposure preparedness to its reinsurers and they fully support the plan as developed. While Midwest Medical feels confident in the completeness of its due diligence on Year 2000 exposure, it is not yet possible to determine whether Year 2000 claims will be made against these policies or if such claims will be held to have merit and what potential financial impact may result.

Although Midwest Holding expects to complete its Year 2000 remediation in 1999, there are risks if its efforts are delayed or fail. A delay or failure in remedying a Year 2000 issue, caused by internal computer hardware or software errors or failures, or by key business partners and service vendors who fail to become Year 2000 compliant could, in a worst case, interrupt Midwest Holding's business. Depending upon the extent and duration of the business interruption resulting from non-compliance issues, such interruption could have a material adverse effect on Midwest Holding's business, financial condition, and results of operations. Although Midwest Holding believes the likelihood is remote based on the due diligence performed as described previously, the potential does exist in a worst case scenario for claims to be made by Midwest Medical policyholders for Year 2000 failures they experience. Depending on whether such claims are deemed to have merit and to the extent and amount these claims are awarded compensation, such claims could have a material adverse effect on Midwest Holding's business, financial condition, and results of operations.

The Year 2000 Task Force has developed contingency plans for Midwest Holding with the exception of the MedPower subsidiary which is in the process of developing a separate contingency plan. MedPower's contingency plan is expected to be completed in the third quarter of 1999. If Midwest Holding encounters Year 2000 problems with respect to internal computer hardware and software, core functions can be processed manually until the problems are remedied.

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If unanticipated Year 2000 problems occur with key service vendors, essential services can be handled manually or through other vendors until the problems are resolved. The Year 2000 Task Force will be evaluating the need to test backup manual systems and identify alternative key service vendors. In the event Year 2000 claims are made on policies written by Midwest Medical, Midwest Holding believes these claims will be without merit and will vigorously defend its position. Although Midwest Holding believes its contingency plans will be adequate, no assurances can be given that such plans will address all risks that may actually arise.

The anticipated completion dates for Year 2000 compliance and Midwest Holding's contingency plans and the cost estimates for the completion of Year 2000 modifications are based on management's best estimates utilizing current data regarding available resources, coordination with third parties and other relevant factors and information about systems conversion. No assurances, however, can be given that these estimates will be achieved and actual results may differ from those anticipated.

Readers are reminded that forward-looking statements contained in this description of Midwest Holding's treatment of the Year 2000 issue should be read in conjunction with Midwest Holding's following disclosures under the heading "Cautionary Note Regarding Forward-Looking Statements."

#### Cautionary Note Regarding Forward-Looking Statements

Statements other than historical information contained in this prospectus are considered to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934, as amended.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, in addition to the factors discussed in this prospectus, there are or will be other important factors that could cause actual results to differ materially from those indicated in such statements. These factors include, but are not limited to:

- the impact of changing market conditions on Midwest Holding's business strategy;

- the effects of increased competition on pricing, coverage terms, retention of customers and ability to attract new customers;
- greater severity or frequency of the types of losses that Midwest Holding insure;
- faster or more adverse loss development experience than that on which Midwest Holding based its underwriting, reserving, and investment practices;
- developments in global financial markets which could adversely affect the performance of Midwest Holding's investment portfolio;
- litigation, regulatory or tax developments which could adversely affect Midwest Holding's

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business;

- risks associated with the introduction of new products and services;
- dependence on key personnel;
- the impact of mergers and acquisitions; and
- failure of Midwest Holding or significant third parties to achieve Year 2000 compliance or material expense incurred in connection with such compliance.

The facts set forth above should be considered in reviewing any forward-looking statement contained in this prospectus. The important factors that could affect such forward-looking statements are subject to change, and Midwest Holding does not intend to update any forward-looking statement or the forgoing list of important factors. By this cautionary note, Midwest Holding intends to rely upon the safe harbor from liability with respect to forward-looking statements provided by Section 27A and Section 21E referred to above.

Market risk is the risk of loss that may occur when fluctuations in interest and currency exchange rates and equity and commodity prices change the value of a financial instrument. Both derivative and nonderivative financial instruments have market risk. Midwest Holding is primarily exposed to interest rate risk on its investment in fixed maturities and equity price risk on its investment in equity securities.

As disclosed previously, Midwest Holding's fixed maturity and equity investments are classified as available for sale and are managed to preserve assets, maximize pre-tax total return, and assure adequate liquidity to meet the funding needs of Midwest Holding. Under the current investment policy, management does not use derivative instruments to manage exposure to either interest rate risk or equity price risk. Professional outside investment managers adjust portfolio characteristics, such as sector and average life, based on their outlook of market conditions within the parameters set by Midwest Holding's investment policy as approved by the Investment Committee of the Board of Directors.

Based on the effective duration of the fixed maturity investment portfolio as of December 31, 1998, an abrupt 1% increase in interest rates along the entire interest rate yield curve would adversely affect the fair value of fixed maturity investments by approximately \$8,500,000. Based primarily on past annual performance relative to the Standard & Poors 500 Market Index, an abrupt ten percent decrease in the S&P 500 would adversely affect the fair value of equity securities by approximately \$10,000,000 at December 31, 1998. Midwest Holding believes that there would be no material effect on its net income and cash flows in either scenario. This effect on net income and cash flows does not consider the possible effects a change in economic activity could have in such an environment. Investors, customers, regulators and legislators could respond to



these fluctuations in ways Midwest Holding cannot foresee. Because Midwest Holding cannot be certain what specific actions would be taken and their effects, the above sensitivity analyses

assume no significant changes in Midwest Holding's financial structure.

#### DESCRIPTION OF CAPITAL STOCK

DESCRIPTION OF CLASS A COMMON SHARES. Class A Common shares, \$.01 par value, which may be owned by individual physicians or by individual physicians jointly with the legal entities in which they practice. In the latter case the shares can be voted only by the physicians, although they have the right to grant proxies. No certificates are issued. Each individual holder of shares has only one vote, regardless of the number of shares that he or she owns. Holders of shares have the right to vote on all corporate matters except for the election of members of the Board of Directors of Midwest Holding. This right has been granted to the Minnesota Medical Association, the holder of the sole authorized and outstanding Class B Voting Share. The Minnesota Medical Association has agreed to elect the directors nominated by a committee of the Board of Directors. See "Description of Class B Voting Share."

As long as the class B share remains outstanding, the holders of these class A shares may, at any time, cause Midwest Holding to redeem the Class B Common Share at par value (\$1,000), and thereby gain the right to elect directors. This requires the vote of two-thirds of the class A shareholders who vote on the question who also are a majority of the class A shareholders.

These shares are restricted shares that cannot be sold to any person other than Midwest Holding. Midwest Holding must redeem these shares when a physician insured by Midwest Medical terminates his or her insurance coverage for any reason. The redemption price will be the net book value of Midwest Holding, excluding the net book value of Midwest Medical, which is Midwest Holding's primary asset. By excluding the value of Midwest Medical from the calculation of the redemption price, Midwest Medical's capital and surplus will be preserved. The redemption amount thus reflects primarily Midwest Holding's net income from operations, which is primarily management fees paid by Midwest Medical, earnings on investments, and any dividends paid by Midwest Medical to Midwest Holding. Other terms and conditions of the redemption will be established by the board of directors of Midwest Holding.

Holders of these shares will share in any remaining assets upon liquidation of Midwest Holding proportionately on the basis of the number of shares held by each shareholder. All of the assets of Midwest Holding will be included, including Midwest Medical if Midwest Medical remains a subsidiary of Midwest Holding at the time of liquidation. In the event of any merger, sale of all or substantially all of the assets, or other extraordinary event, any consideration payable to holders of these shares will reflect their full value and will not be limited to the redemption amount.

These shares do not entitle shareholders to preemptive rights or cumulative voting, and no assignment or other transfer is permitted. Shareholders are permitted to enter into voting

agreements and appoint proxies to vote the shares, and are permitted to assign their rights to the proceeds from any redemption of the shares.

There is no market for these shares, and it is not anticipated that there ever will be a public or private market in which these shares are traded. Therefore, all holders of these shares must expect to retain them until they cease to be insured by Midwest Medical. Midwest Holding has never paid a dividend, nor does it intend to within the foreseeable future. If it ever does, shareholders, will have the right to receive that dividend.

Purchasers of insurance from Midwest Medical accrue and are issued additional shares pursuant to the Allocation schedule (reduced for Nebraska purchasers of insurance, see "The Offering") for each day they remain insured with Midwest Medical after the completion of those transactions. New purchasers of insurance of Midwest Medical are not issued shares until they have been insured by Midwest Medical for five years, and all rights will be forfeited if

insurance coverage is not continuous for five years. This limitation does not apply to Nebraska physicians who were insured by Medical Liability Mutual Insurance Company of Nebraska when it was merged with Midwest Medical. The Allocation schedule has been modified since 1988 and Midwest Holding reserves the right to modify it in the future.

As of December 31, 1998, there were 125,682 of these shares outstanding held by 3,496 physicians; 2,557 additional physicians have accrued the right to receive 13,770 additional shares upon completion of the five-year vesting period.

DESCRIPTION OF CLASS B COMMON SHARE. The holder of the one class B share authorized by Midwest Holding's Articles of Incorporation is the Minnesota Medical Association. The class B share has no rights or preferences other than the right to elect the members of the Board of Directors of Midwest Holding. This right gives the Minnesota Medical Association the effective right to elect the Board of Directors of Midwest Medical, since the Bylaws of both corporations provide that each member of the Board of Directors of Midwest Medical will be a member of the Board of Directors of Midwest Holding, and the Minnesota Medical Association and Midwest Holding have entered into an agreement to exercise their respective voting rights to elect the same persons to the Board of Directors of Midwest Holding and Midwest Medical. A nominating committee of Midwest Holding nominates persons to be elected as members of the Board of Directors, and the Midwest Medical Association has agreed to elect these persons to the Board of Directors.

The class B share is currently held in a voting trust which requires the trustee to vote the share for the election of at least two Iowa directors nominated by the Iowa Medical Society. See, "MANAGEMENT - Directors."

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#### LEGAL MATTERS

The validity of the shares of Midwest Holding to be issued in this offering, and other legal matters are being passed upon for Midwest Holding by Best & Flanagan LLP, Minneapolis, Minnesota.

#### EXPERTS

The consolidated financial statements and schedules of Midwest Medical Insurance Holding Company at December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report appearing elsewhere in this prospectus and in the registration statement, and are included in reliance upon that report given upon the authority of that firm as experts in accounting and auditing.

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#### AVAILABLE INFORMATION

Midwest Holding is subject to the information reporting requirements of the Securities Exchange Act of 1934, and files Form 10-K, Form 10-Q and other reports and information with the Securities and Exchange Commission. Reports and other information filed by Midwest Holding can be inspected and copied at the Public Reference Room maintained by the Commission at 450 Fifth Street N.W., Washington, D.C. 20549, and at the following Regional Offices: 26 Federal Plaza, New York, New York 10278; and 219 South Dearborn Street, Chicago, Illinois 60604. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

Midwest Holding provides its shareholders with an annual report containing consolidated Midwest Holding and subsidiaries year-end financial statements presented in accordance with generally accepted accounting principles. Midwest Medical's separate net income and shareholders' equity are presented on both a GAAP and statutory accounting basis in the notes to the consolidated financial statements. Midwest Medical is subject to the insurance company filing

requirements of the Minnesota Department of Commerce and files the National Association of Insurance Commissioners annual statement each year with the Department of Commerce, which includes financial statements presented in accordance with statutory requirements, together with an independent auditor's report on those financial statements. Insurance holding company regulations apply to Midwest Holding and it files Form B with the Minnesota Department of Commerce annually. Form B contains current information about management, the Board of Directors, and significant operating agreements, as well as a financial report. Copies of any of these reports, or any of the documents referred to in this prospectus, can be obtained by requesting them from David P. Bounk, President and Chief Executive Officer, Midwest Medical Insurance Holding Company, 6600 France Avenue South, Suite 245, Minneapolis, Minnesota 55435; (612) 922-5445.

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MIDWEST MEDICAL INSURANCE HOLDING COMPANY and SUBSIDIARIES

Condensed Consolidated Balance Sheets  
(Dollars in thousands)

|  |             |             |
|--|-------------|-------------|
| <TABLE>                                  |             |             |
| <CAPTION>                                |             |             |
|  | March 31    | December 31 |
|  | 1999        | 1998        |
|  | -----       | -----       |
|  | (Unaudited) | (Note A)    |
| <S>                                      | <C>         | <C>         |
| ASSETS                                   |             |             |
| Fixed maturity investments at fair value |             |             |
| (amortized cost: 1999 \$156,947;         |             |             |

|   |            |            |
|---|------------|------------|
| 1998 \$161,430)   | \$ 156,862 | \$ 164,652 |
| Equity securities at fair value (cost:<br>1999 \$42,890; 1998 \$41,907)   | 86,718     | 86,553     |
| Short-term investments  | 8,703      | 3,556      |
| Other investments   | 10,000     | 10,000     |
|   | -----      | -----      |
|   | 262,283    | 264,761    |
| <br>  |            |            |
| Cash  | 1,454      | 647        |
| Accrued investment income   | 1,740      | 1,739      |
| Reinsurance recoverable   | 16,805     | 16,499     |
| Uncollected premiums - Note C   | 31,159     | 2,023      |
| Amounts due from reinsurers   | 2,981      | 3,191      |
| Other assets  | 7,254      | 6,623      |
|   | -----      | -----      |
|   | \$ 323,676 | \$ 295,483 |
|   | -----      | -----      |
|   | -----      | -----      |
| LIABILITIES, REDEEMABLE STOCK AND OTHER<br>SHAREHOLDERS' EQUITY   |            |            |
| LIABILITIES   |            |            |
| Unpaid losses and loss adjustment expenses  | \$ 111,612 | \$ 110,964 |
| Unearned premiums - Note C  | 43,986     | 8,173      |
| Retrospective premiums  | -          | 8,543      |
| Deferred income taxes   | 9,521      | 10,966     |
| Other liabilities   | 6,087      | 6,244      |
|   | -----      | -----      |
|   | 171,206    | 144,890    |
| REDEEMABLE STOCK  |            |            |
| Class A Common Stock; authorized 300,000 shares,<br>shares issued and outstanding 127,873 and<br>125,682 in 1999 and 1998, respectively | 7,629      | 8,146      |
| Class B Common Stock; authorized, issued and<br>outstanding 1 share   | 1          | 1          |
|   | -----      | -----      |
|   | 7,630      | 8,147      |
| OTHER SHAREHOLDERS' EQUITY  |            |            |
| Paid-in capital   | 12,789     | 12,789     |
| Retained earnings   | 103,771    | 98,695     |
| Accumulated other comprehensive income:<br>Net unrealized appreciation of investments   | 28,280     | 30,962     |
|   | -----      | -----      |
|   | 144,840    | 142,446    |
|   | -----      | -----      |
|   | \$ 323,676 | \$ 295,483 |
|   | -----      | -----      |
|   | -----      | -----      |

</TABLE>

See notes to condensed consolidated financial statements

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MIDWEST MEDICAL INSURANCE HOLDING COMPANY and SUBSIDIARIES

Condensed Consolidated Statements of Income  
(Dollars in thousands, except per share dollars)  
(Unaudited)

<TABLE>

<CAPTION>

|   | Three Months Ended |           |
|---|--------------------|-----------|
|   | March 31           |           |
|   | 1999               | 1998      |
|   | -----              | -----     |
| <S>   | <C>                | <C>       |
| Revenues:   |                    |           |
| Net premiums earned                                 | \$ 10,512          | \$ 10,291 |
| Net investment income                               | 2,873              | 2,980     |
| Net realized capital gains                          | 6,309              | 3,064     |
| Other   | 867                | 393       |
|   | -----              | -----     |
|   | 20,561             | 16,728    |
| Losses and expenses:                                |                    |           |
| Losses and loss adjustment expenses                 | 9,485              | 9,285     |
| Underwriting, acquisition and<br>insurance expenses | 2,517              | 2,242     |

|  |          |          |
|--|----------|----------|
| Other operating expenses                       | 1,527    | 736      |
|  | -----    | -----    |
|  | 13,529   | 12,263   |
|  | -----    | -----    |
| Income before income taxes                     | 7,032    | 4,465    |
| Incomes taxes - Note B                         | 2,463    | 1,563    |
|  | -----    | -----    |
| Net income                                     | \$ 4,569 | \$ 2,902 |
|  | -----    | -----    |
|  | -----    | -----    |
| Income per common share                        | \$ 36.03 | \$ 24.01 |
|  | -----    | -----    |
|  | -----    | -----    |
| Income per common share -<br>assuming dilution | \$ 32.45 | \$ 21.68 |
|  | -----    | -----    |
|  | -----    | -----    |

</TABLE>

See notes to condensed consolidated financial statements.

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MIDWEST MEDICAL INSURANCE HOLDING COMPANY and SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows  
(Dollars in thousands)  
(Unaudited)

<TABLE>

<CAPTION>

|  | Three Months Ended |           |
|--|--------------------|-----------|
|  | March 31           |           |
|  | 1999               | 1998      |
|  | -----              | -----     |
| <S>  | <C>                | <C>       |
| OPERATING ACTIVITIES   |                    |           |
| Net Income   | \$ 4,569           | \$ 2,902  |
| Adjustments to reconcile net income to net cash<br>used in operating activities: |                    |           |
| Increase in uncollected premiums   | (29,136)           | (26,164)  |
| Increase in unearned premiums  | 35,813             | 31,474    |
| Decrease in retrospective premiums   | (8,543)            | (8,073)   |
| Decrease in other liabilities  | (157)              | (6,103)   |
| Net realized capital gains   | (6,309)            | (3,064)   |
| Other changes  | (60)               | (269)     |
|  | -----              | -----     |
|  | (3,823)            | (9,297)   |
| INVESTING ACTIVITIES   |                    |           |
| Purchases of fixed maturity investments and equity<br>securities                 | (59,619)           | (176,645) |
| Sales of fixed maturity investments and equity<br>securities                     | 69,461             | 177,972   |
| Net (purchases) sales of short-term investments                                  | (6,646)            | 2,903     |
| Capitalization of MMIHC Insurance Services, Inc.                                 | 1,500              | -         |
| Capitalization of Midwest Medical Solutions, Inc.                                | -                  | 1,850     |
|  | -----              | -----     |
|  | 4,696              | 6,080     |
| FINANCING ACTIVITIES   |                    |           |
| Redemption of Class A Common Stock   | (66)               | (132)     |
|  | -----              | -----     |
| INCREASE (DECREASE) IN CASH  | 807                | (3,349)   |
| Cash at beginning of period  | 647                | 2,378     |
|  | -----              | -----     |
| CASH AT MARCH 31   | \$ 1,454           | \$ (971)  |
|  | -----              | -----     |
|  | -----              | -----     |

</TABLE>

See notes to condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements  
(Unaudited)

March 31, 1999

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements of Midwest Medical Insurance Holding Company and its subsidiaries (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for any interim period are not necessarily indicative of the results that may be expected for the full year. These interim financial statements should be read in conjunction with the 1998 consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

The balance sheet at December 31, 1998 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

Certain amounts applicable to prior periods have been reclassified to conform to the classifications followed in the current year. All intercompany amounts have been eliminated.

NOTE B - INCOME TAXES

The Company calculates its income tax provision for interim periods by estimating its annual effective tax rate and applying this rate to the income of the interim period. The estimated annual effective tax rate used for the three months ended March 31, 1999 and 1998 was approximately 35%.

NOTE C - UNEARNED PREMIUMS and UNCOLLECTED PREMIUMS

The majority of the Company's insurance policies expire at December 31 and renew on January 1 of each year. As a result, the majority of the unearned premium amount at March 31, 1999 represents nine months of unearned premium for every active policy renewed or newly written with an expiration date of December 31, 1999. At December 31, 1998, most active 1998 policies expired and therefore had no unearned premium.

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NOTE C - UNEARNED PREMIUMS and UNCOLLECTED PREMIUMS (continued)

Of the total unearned premium balance of \$8,173,000 at December 31, 1998, \$6,520,000 is reserved to recognize the Company's obligation to provide reporting endorsement coverage without additional premium upon the death, disability or retirement of policyholders. That same amount is also included in the unearned premium balance at March 31, 1999 and represents the actuarially determined present value of future benefits to be provided less the present value of future revenues to be received.

The increase of \$29,136,285 in uncollected premiums from December 31, 1998 to March 31, 1999 is primarily due to the renewal of most active policies on January 1. The full year's premium is recorded as written and collectible at January 1. Premiums may be paid annually or quarterly and the majority of each year's premium is collected during the year. The uncollected balance remaining at the end of the year primarily relates to the few policies underwritten by the Company that have other than December 31 expiration dates.

NOTE D - COMPREHENSIVE INCOME

The components of the Company's comprehensive income are net income and changes in unrealized appreciation of investments. Total comprehensive income for the three-month periods ended March 31, 1999 and 1998 was \$1,887,000 and \$6,955,000, respectively.

NOTE E - EARNINGS PER SHARE DATA

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except for share and per share amounts):

<TABLE>  
<CAPTION>

|  | Three Months Ended<br>March 31 |                |
|--|--------------------------------|----------------|
|  | 1999                           | 1998           |
| <S><br>Numerator for basic and dilutive earnings per share<br>available to common shareholders           | <C><br>\$4,569                 | <C><br>\$2,902 |
| Denominator:<br>Denominator for basic earnings per share--weighted average<br>shares                     | 126,811                        | 120,853        |
| Effect of dilutive securities:<br>Unvested shares  | 13,991                         | 13,028         |
| Denominator for dilutive earnings per share--adjusted<br>weighted-average shares and assumed conversions | 140,802                        | 133,881        |
| Basic earnings per share   | \$36.03                        | \$24.01        |
| Diluted earnings per share   | \$32.45                        | \$21.68        |

</TABLE>

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Report of Independent Auditors

Board of Directors  
Midwest Medical Insurance Holding Company  
and Subsidiaries

We have audited the accompanying consolidated balance sheets of Midwest Medical Insurance Holding Company and Subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in other shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Midwest Medical Insurance Holding Company and Subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with

generally accepted accounting principles.

/s/ Ernst & Young LLP

Minneapolis, Minnesota  
February 1, 1999

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Midwest Medical Insurance Holding Company and Subsidiaries

Consolidated Balance Sheets

(IN THOUSANDS, EXCEPT FOR SHARE AMOUNTS)

<TABLE>

<CAPTION>

|   | DECEMBER 31 |           |
|---|-------------|-----------|
|   | 1998        | 1997      |
| <S>   | <C>         | <C>       |
| ASSETS  |             |           |
| Investments:  |             |           |
| Fixed maturities at fair value (cost: 1998--\$161,430;<br>1997--\$170,590)  | \$164,652   | \$171,975 |
| Equity securities at fair value (cost: 1998--\$41,907;<br>1997--\$21,576)   | 86,553      | 50,862    |
| Short-term  | 3,556       | 13,909    |
| Other   | 10,000      | 10,000    |
|   | -----       | -----     |
|   | 264,761     | 246,746   |
| Cash  | 647         | 2,378     |
| Accrued investment income   | 1,739       | 2,341     |
| Reinsurance recoverable   | 16,499      | 19,117    |
| Amounts due from reinsurers   | 3,191       | -         |
| Other assets  | 8,646       | 4,933     |
|   | -----       | -----     |
| Total assets  | \$295,483   | \$275,515 |
|   | -----       | -----     |
| LIABILITIES, REDEEMABLE STOCK AND OTHER<br>SHAREHOLDERS' EQUITY   |             |           |
| Liabilities:  |             |           |
| Unpaid losses and loss adjustment expenses  | \$110,964   | \$107,806 |
| Unearned premiums   | 8,173       | 6,072     |
| Retrospective premiums  | 8,543       | 9,905     |
| Deferred income taxes   | 10,966      | 3,592     |
| Amounts due reinsurers  | -           | 2,984     |
| Other liabilities   | 6,244       | 11,389    |
|   | -----       | -----     |
| Total liabilities   | 144,890     | 141,748   |
| Redeemable stock:   |             |           |
| Class A Common Stock--authorized 300,000 shares,<br>issued and outstanding 125,682 shares in 1998 and<br>121,322 shares in 1997 | 8,146       | 7,476     |
| Class B Common Stock--authorized, issued<br>and outstanding 1 share   | 1           | 1         |
|   | -----       | -----     |
|   | 8,147       | 7,477     |
| Other shareholders' equity  | 142,446     | 126,290   |
|   | -----       | -----     |
| Total liabilities, redeemable stock and other<br>shareholders' equity   | \$295,483   | \$275,515 |
|   | -----       | -----     |

</TABLE>

SEE ACCOMPANYING NOTES

F-7

Midwest Medical Insurance Holding Company and Subsidiaries

Consolidated Statements of Income

(IN THOUSANDS, EXCEPT FOR PER SHARE AMOUNTS)



<TABLE>  
<CAPTION>

|  | YEAR ENDED DECEMBER 31 |          |          |
|--|------------------------|----------|----------|
|  | 1998                   | 1997     | 1996     |
| <S>  | <C>                    | <C>      | <C>      |
| Revenues:  |                        |          |          |
| Net premiums earned                              | \$35,014               | \$32,916 | \$31,177 |
| Net investment income                            | 10,919                 | 11,509   | 12,061   |
| Realized capital gains                           | 8,949                  | 6,484    | 1,771    |
| Other  | 1,536                  | 1,283    | 1,726    |
|  | 56,418                 | 52,192   | 46,735   |
| Losses and expenses:                             |                        |          |          |
| Losses and loss adjustment expenses              | 37,494                 | 31,834   | 32,257   |
| Underwriting, acquisition and insurance expenses | 6,698                  | 5,509    | 4,681    |
| Other operating expenses                         | 3,589                  | 1,086    | 858      |
|  | 47,781                 | 38,429   | 37,796   |
| Income before income taxes                       | 8,637                  | 13,763   | 8,939    |
| Income taxes                                     | 2,689                  | 4,463    | 1,458    |
| Net income                                       | \$5,948                | \$9,300  | \$7,481  |
| Income per common share                          | \$48.36                | \$77.79  | \$64.45  |
| Income per common share--assuming dilution       | \$43.65                | \$70.23  | \$58.33  |

</TABLE>

SEE ACCOMPANYING NOTES.

F-8

Midwest Medical Insurance Holding Company and Subsidiaries

Consolidated Statements of Changes in Other Shareholders' Equity

(IN THOUSANDS)

<TABLE>  
<CAPTION>

|  | TOTAL      | PAID-IN CAPITAL | RETAINED EARNINGS | ACCUMULATED OTHER COMPREHENSIVE INCOME |
|--|------------|-----------------|-------------------|--|
| <S>  | <C>        | <C>             | <C>               | <C>                                    |
| Balance at December 31, 1995   | \$ 103,292 | \$ 12,789       | \$ 78,204         | \$ 12,299                              |
| Comprehensive income:  |            |                 |                   |  |
| Net income   | 7,481      | -               | 7,481             | -                                      |
| Other comprehensive income:  |            |                 |                   |  |
| Unrealized gains on securities net of \$1,468 in taxes                                   | 2,726      | -               | -                 | 2,726                                  |
| Reclassification adjustment for gains included in net income net of \$620 in taxes       | (1,151)    | -               | -                 | (1,151)                                |
| Total comprehensive income   | 9,056      |                 |                   |  |
| Net income of non-insurance entities includable in Class A Common Stock redemption value | (1,070)    | -               | (1,070)           | -                                      |
| Balance at December 31, 1996   | 111,278    | 12,789          | 84,615            | 13,874                                 |
| Comprehensive income:  |            |                 |                   |  |
| Net income   | 9,300      | -               | 9,300             | -                                      |
| Other comprehensive income:  |            |                 |                   |  |
| Unrealized gains on securities net of \$5,491 in taxes                                   | 10,199     | -               | -                 | 10,199                                 |
| Reclassification adjustment for gains included in net income net of \$2,269 in taxes     | (4,215)    | -               | -                 | (4,215)                                |
| Total comprehensive income   | 15,284     |                 |                   |  |
| Net income of non-insurance entities includable in Class A Common Stock redemption value | (272)      | -               | (272)             | -                                      |
| Balance at December 31, 1997   | 126,290    | 12,789          | 93,643            | 19,858                                 |

|   |            |           |           |           |
|---|------------|-----------|-----------|-----------|
| Comprehensive income:   |            |           |           |           |
| Net income  | 5,948      | -         | 5,948     | -         |
| Other comprehensive income:   |            |           |           |           |
| Unrealized gains on securities net of \$9,111 in taxes  | 16,921     | -         | -         | 16,921    |
| Reclassification adjustment for gains included in net income net of \$3,132 in taxes            | (5,817)    | -         | -         | (5,817)   |
|   | -----      |           |           |           |
| Total comprehensive income  | 17,052     |           |           |           |
| Dividend paid by Midwest Medical Insurance Company to Midwest Medical Insurance Holding Company | (2,000)    | -         | (2,000)   | -         |
| Net loss of non-insurance entities includable in Class A Common Stock redemption value          | 1,104      | -         | 1,104     | -         |
|   | -----      |           |           |           |
| Balance at December 31, 1998  | \$ 142,446 | \$ 12,789 | \$ 98,695 | \$ 30,962 |
|   | -----      |           |           |           |

</TABLE>

SEE ACCOMPANYING NOTES.

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Midwest Medical Insurance Holding Company and Subsidiaries

Consolidated Statements of Cash Flows

(IN THOUSANDS)

<TABLE>

<CAPTION>

|   | YEAR ENDED DECEMBER 31 |           |          |
|---|------------------------|-----------|----------|
|   | 1998                   | 1997      | 1996     |
|   | -----                  | -----     | -----    |
| <S>   | <C>                    | <C>       | <C>      |
| OPERATING ACTIVITIES  |                        |           |          |
| Net income  | \$ 5,948               | \$ 9,300  | \$ 7,481 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                        |           |          |
| Decrease in accrued investment income   | 602                    | 437       | 97       |
| Decrease in reinsurance recoverable   | 2,618                  | 3,057     | 2,938    |
| Increase in amounts due from reinsurers   | (3,191)                | -         | -        |
| (Increase) decrease in other assets   | (3,713)                | 1,518     | 1,015    |
| Deferred tax provision  | 1,354                  | 1,494     | 298      |
| Increase (decrease) in unpaid losses and loss adjustment expenses                           | 3,158                  | (2,231)   | (10,227) |
| Increase (decrease) in unearned premiums  | 2,101                  | (788)     | (173)    |
| Decrease in retrospective premiums  | (1,362)                | (933)     | (26)     |
| Decrease in amounts due reinsurers  | (2,984)                | (4,290)   | (544)    |
| (Decrease) increase in other liabilities  | (5,145)                | 3,287     | (236)    |
| Accretion of bond discount, net of premium amortization                                     | (266)                  | (618)     | (1,080)  |
| Realized capital gains  | (8,949)                | (6,484)   | (1,771)  |
| Compensation expense for vested Class A common shares                                       | 224                    | 253       | 156      |
|   | -----                  | -----     | -----    |
|   | (9,605)                | 4,002     | (2,072)  |
| INVESTING ACTIVITIES  |                        |           |          |
| Purchases of fixed maturity investments and equity securities                               | (401,922)              | (311,947) | (75,684) |
| Sales of fixed maturity investments and equity securities                                   | 398,717                | 316,982   | 54,293   |
| Calls and maturities of fixed maturity investments  | 1,250                  | -         | 16,250   |
| Net sales (purchases) of short-term investments   | 6,502                  | (6,011)   | 7,117    |
| Capitalization of Midwest Medical Solutions, Inc.   | 3,850                  | -         | -        |
|   | -----                  | -----     | -----    |
|   | 8,397                  | (976)     | 1,976    |
| FINANCING ACTIVITIES  |                        |           |          |
| Redemption of Class A Common Stock  | (523)                  | (648)     | (608)    |
|   | -----                  | -----     | -----    |
| (Decrease) increase in cash   | (1,731)                | 2,378     | (704)    |
| Cash at beginning of year   | 2,378                  | -         | 704      |
|   | -----                  | -----     | -----    |
| Cash at end of year   | \$ 647                 | \$ 2,378  | \$ -     |
|   | -----                  | -----     | -----    |

</TABLE>

SEE ACCOMPANYING NOTES.

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Midwest Medical Insurance Holding Company and Subsidiaries

Notes to Consolidated Financial Statements

1. ACCOUNTING POLICIES

ORGANIZATION AND OPERATIONS

The Minnesota Medical Insurance Exchange (Exchange) began operations in October 1980 as a reciprocal or inter-insurance exchange organized under Chapter 71A of the Minnesota Statutes. Minnesota Medical Management, Inc. (MMMI) was the Exchange's attorney-in-fact and was responsible for management of the Exchange.

On November 30, 1988, the Exchange was reorganized into a stock insurance company, Midwest Medical Insurance Company (Midwest Medical), under the statutes of the State of Minnesota. Concurrently, MMMI merged with the Midwest Medical Insurance Holding Company (Midwest Holding) which then acquired all outstanding shares of the reorganized stock company.

Effective July 1, 1993, Midwest Medical merged with Iowa Physicians Mutual Insurance Trust (IPMIT), a physician-owned professional liability insurance company providing insurance coverage to Iowa physicians. As provided for in the agreement and plan of merger, IPMIT was merged into Midwest Medical. The merger was accounted for as a pooling-of-interests.

During 1995, Midwest Holding formed Midwest Holding Insurance Services, Inc. (Services) to provide agency services for the distribution of complementary insurance products and services to physicians, clinics and hospitals.

Effective June 5, 1996, Midwest Medical merged with Medical Liability Mutual Insurance Company of Nebraska (MLM), a physician-owned professional liability insurance company providing insurance coverage to Nebraska physicians. As provided for in the agreement and plan of merger, MLM was merged into Midwest Medical. The merger was accounted for as a pooling-of-interests and, accordingly, the consolidated financial statements include the combined financial position and results of operations of Midwest Holding and MLM for all periods presented.

During 1997, Midwest Holding formed Midwest Medical Solutions, Inc. (Solutions) as a business development company to strengthen and promote the independence and interdependencies of physicians, clinics and hospitals that Midwest Medical serves. Business development opportunities being pursued include practice enhancement, strategic consulting, and electronic processing and integration services and support.

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1. ACCOUNTING POLICIES (CONTINUED)

Effective January 1, 1998, Solutions purchased the assets and operations of MedPower Information Resources, Inc. (MedPower). MedPower processes and electronically submits medical claims for a network of over 100 provider entities. MedPower also provides various information consulting and network support services.

Midwest Holding provides management and administrative services to Midwest Medical for a fee generally equal to the cost of services provided plus ten percent. The insurance company provides professional liability insurance to physicians, clinics, hospitals and healthcare systems in Minnesota, Iowa, Nebraska, Wisconsin, Illinois, North Dakota and South Dakota.

Insurance policies issued by Midwest Medical are on a "claims made" basis and provide coverage for the policyholder for claims first made against the policyholder and reported to Midwest Medical during the policy period for claims which occurred on or after the retroactive date stated in the policy.

Midwest Medical provides, upon payment of an additional premium, a reporting endorsement which extends the period in which claims otherwise covered by the "claims made" policy may be reported to Midwest Medical. In the event of death or permanent disability of a policyholder, the reporting endorsement is issued without additional premium. Upon retirement, as defined in the policy, a policyholder with at least five years of consecutive coverage with Midwest Medical is eligible for a credit toward the additional premium for the reporting endorsement.

Prior acts coverage may be purchased by policyholders who were previously insured under a "claims made" policy with another professional liability insurer for an additional premium at the option of the insured in lieu of purchasing reporting endorsement coverage from the previous insurer.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Midwest Holding and its wholly-owned subsidiaries, Midwest Medical, Services, and Solutions,

which includes Solution's wholly-owned subsidiary, MedPower. All transactions between Midwest Holding and its subsidiaries have been eliminated in consolidation with the exception of the distribution of capital to Midwest Holding by Midwest Medical in the form of dividends.

F-12

#### 1. ACCOUNTING POLICIES (CONTINUED)

Hereafter, Midwest Holding, Midwest Medical, Services, Solutions and MedPower shall be collectively referred to as the Company unless the reference pertains to a specific entity.

##### BASIS OF PRESENTATION

The consolidated financial statements have been presented in conformity with generally accepted accounting principles, which differ in certain respects from statutory accounting practices followed by Midwest Medical in reporting to the Department of Commerce of the State of Minnesota (see Note 10).

##### COMPREHENSIVE INCOME

As of January 1, 1998, the Company adopted Statement 130, REPORTING COMPREHENSIVE INCOME. Statement 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this Statement had no impact on the Company's net income or shareholders' equity. Statement 130 requires unrealized gains or losses on the Company's available-for-sale securities, which prior to adoption were reported separately in shareholders' equity, to be included in other comprehensive income. Prior year financial statements have been reclassified to conform to the requirements of Statement 130.

##### USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

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#### 1. ACCOUNTING POLICIES (CONTINUED)

##### INVESTMENTS

The Company manages its investment portfolio to achieve its long-term investment objective of providing for the financial stability of the Company through preservation of assets and maximization of total portfolio return. Although management believes the Company has the ability to hold its fixed maturity investment portfolio to maturity, these investments are classified as "available for sale" as management may take advantage of opportunities to increase total return through sales of selected securities in response to changing market conditions.

Consistent with management's classification of its investment in debt and equity securities as available for sale, such investments are carried at fair value with unrealized holding gains and losses reflected as a component of other comprehensive income, net of applicable deferred taxes.

Fair values are based on quoted market prices, where available. For fixed maturity investments not actively traded, fair values are estimated using values obtained from independent pricing services.

Short-term investments are principally money market funds backed by U.S. government securities and are recorded at cost which approximates fair value.

Other investments are less than twenty percent equity interests in non-traded real estate investment trusts and are recorded at cost.

Realized gains and losses on sales of investments are reported on a pre-tax basis as a component of income and are determined on the specific identification basis.

F-14

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### LOSSES AND LOSS ADJUSTMENT EXPENSES

The liability for unpaid losses and loss adjustment expenses represents an estimate of the ultimate cost of all such amounts which are unpaid at the balance sheet dates. The liability is based on both case-by-case estimates and statistical analysis and projections using the historical loss experience of Midwest Medical, and gives effect to estimates of trends in claim severity and frequency. These estimates are continually reviewed and, as adjustments become necessary, such adjustments are included in current operations. Midwest Medical believes that the estimate of the liability for losses and loss adjustment expenses is reasonable.

#### PREMIUMS

Premiums received are recorded as earned ratably over the lives of the policies to which they apply. A portion of premiums received is deferred to recognize Midwest Medical's obligation to provide reporting endorsement coverage without additional premium upon the death, disability or retirement of policyholders. This amount is recorded as an unearned premium reserve and represents the actuarially determined present value of future benefits to be provided less the present value of future revenues to be received.

Midwest Medical has a retro premium program whereby physicians may receive credits against future premiums based upon loss experience of Midwest Medical. Amounts to be returned under the program are accrued when approved by the Board of Directors and reflected as a reduction in net premiums earned.

#### REINSURANCE

Midwest Medical cedes reinsurance in order to reduce its liability on individual risks and to enable it to write business at limits it otherwise would be unable to accept. All reinsurance contracts are excess-of-loss contracts which indemnify Midwest Medical for losses in excess of a stated retention limit up to the policy limits.

Reinsurance receivables and recoverables and prepaid reinsurance premiums are reported as assets and reserve liabilities are reported gross of reinsurance credits.

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### 1. ACCOUNTING POLICIES (CONTINUED)

#### ACQUISITION COSTS

Acquisition costs are expensed when incurred. Due to the nature of its operations, Midwest Medical does not pay significant amounts in commissions.

#### INCOME TAXES

The Company files a consolidated tax return with its subsidiaries. Income tax expense is allocated to the subsidiaries based upon separate company taxable income under a tax-sharing agreement. The Company uses the asset and liability method of accounting for income taxes. Deferred income tax assets or liabilities are recognized for the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes.

#### EARNINGS PER SHARE

Basic earnings per share (EPS) is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if earned but unissued shares of Class A common stock were issued.

#### RECLASSIFICATIONS

Certain amounts in the prior years' financial statements have been reclassified to conform with the current year presentation.

### 2. REDEEMABLE STOCK

Effective November 30, 1988, Midwest Medical policyholders earn Class A Common shares for each month of service pursuant to a stock allocation formula based on underwriting risk classification. Shares earned by new policyholders are not issued until the end of five years of continuous coverage under an Midwest Medical policy (the vesting date). The Company does not record any amounts related to unissued Class A Common shares. At the vesting date, the issued shares are recorded at the then current redemption value (see Note 12).

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2. REDEEMABLE STOCK (CONTINUED)

The Company accounts for these shares by increasing Common Stock by the par value (\$.01 per share) of the newly issued shares, increasing paid-in capital by the excess of the redemption value over par and charging stock compensation expense for the full redemption value. Once vested, policyholders will continue to earn shares for each month they remain insured with Midwest Medical according to the stock allocation formula. The Company accounts for additional shares issued to vested policyholders by increasing Common Stock for the par value of the shares and decreasing retained earnings by the same amount.

Midwest Medical policyholders whose initial effective date was on or before the November 30, 1988 reorganization, IPMIT policyholders whose initial effective date was on or before December 31, 1992 and MLM policyholders whose initial effective date was on or before December 31, 1995 became fully vested upon initial receipt of their shares without regard to their length of coverage. These policyholders will continue to earn and receive additional Class A shares for each month they remain insured with Midwest Medical. The Company accounts for these shares similar to additional shares issued to other fully vested shareholders.

In accordance with the Articles of Incorporation and By-laws of Midwest Holding, only active policyholders of Midwest Medical may own shares of Class A Common Stock of Midwest Holding. At each meeting of the shareholders, every Class A shareholder having the right to vote shall be entitled to one vote, either in person or by proxy, regardless of the number of Class A shares held by the individual.

Class A shareholders are required to redeem their shares with Midwest Holding upon termination as policyholders of Midwest Medical. The net redemption value (NRV) of the shares is equal to the net book value of Midwest Holding, excluding the amount of net book value that is attributable to Midwest Medical, divided by the number of outstanding Class A Common Shares of Midwest Holding at the semi-annual valuation dates of June 30 and December 31 of each year. The amount paid upon redemption is the redemption value determined at the most recent semi-annual valuation.

Midwest Holding has issued one share of Class B voting stock which carries with it the right to elect the Board of Directors of Midwest Holding. The voting rights are currently exercised by the Minnesota Medical Association and the Iowa Medical Society. A majority of the Class A shareholders may at any time, by a two-thirds vote, elect to redeem the Class B share at cost.

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2. REDEEMABLE STOCK (CONTINUED)

Following is the detail of changes in redeemable stock for each of the three years in the period ended December 31, 1998 (in thousands, except for share and per share amounts):

<TABLE>  
<CAPTION>

|  | CLASS A COMMON STOCK |         |        | CLASS B      |
|--|----------------------|---------|--------|--------------|
|  | TOTAL                | SHARES  | AMOUNT | COMMON STOCK |
| <S>  | <C>                  | <C>     | <C>    | <C>          |
| Balance at December 31, 1995   | \$ 6,975             | 116,251 | \$ 1   | \$ 1         |
| Comprehensive income:  |                      |         |        |              |
| Net income of non-insurance entities includable in Class A               |                      |         |        |              |
| Common Stock redemption value  | 1,070                | -       | -      | -            |
| Other comprehensive income:  |                      |         |        |              |
| Unrealized gains on securities net of \$6 in taxes                       | 11                   | -       | -      | -            |
|  | -----                |         |        |              |
| Total comprehensive income   | 1,081                |         |        |              |
| Redemption of shares due to policyholder terminations by effective date: |                      |         |        |              |
| January 1, 1996 to June 30, 1996; NRV of \$60.00                         | (377)                | (6,277) | (1)    | -            |
| July 1, 1996 to December 31, 1996; NRV of \$57.84                        | (231)                | (3,995) | -      | -            |
| Issuance of shares to vested policyholders                               | -                    | 9,540   | 1      | -            |
| Initial issuance of shares to policyholders upon vesting                 | 156                  | 2,690   | -      | -            |
|  | -----                | -----   | -----  | -----        |
| Balance at December 31, 1996 (CARRIED FORWARD)                           | 7,604                | 118,209 | 1      | 1            |

<CAPTION>

|         |          |               |
|---------|----------|---------------|
|         |          | ACCUMULATED   |
| MIDWEST | MIDWEST  | OTHER         |
| HOLDING | HOLDING  | COMPREHENSIVE |
| PAID-IN | RETAINED |               |

|  | CAPITAL  | EARNINGS | INCOME |
|--|----------|----------|--------|
| <S>  | <C>      | <C>      | <C>    |
| Balance at December 31, 1995   | \$ 4,752 | \$ 2,164 | \$ 57  |
| Comprehensive income:  |          |          |        |
| Net income of non-insurance entities includable in Class A               |          |          |        |
| Common Stock redemption value  | -        | 1,070    | -      |
| Other comprehensive income:  |          |          |        |
| Unrealized gains on securities net of \$6 in taxes                       | -        | -        | 11     |
| Total comprehensive income   |          |          |        |
| Redemption of shares due to policyholder terminations by effective date: |          |          |        |
| January 1, 1996 to June 30, 1996; NRV of \$60.00                         | (259)    | (117)    | -      |
| July 1, 1996 to December 31, 1996; NRV of \$57.84                        | (159)    | (72)     | -      |
| Issuance of shares to vested policyholders                               | -        | (1)      | -      |
| Initial issuance of shares to policyholders upon vesting                 | 156      | -        | -      |
| Balance at December 31, 1996 (CARRIED FORWARD)                           | 4,490    | 3,044    | 68     |

</TABLE>

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2. REDEEMABLE STOCK (CONTINUED)

<TABLE>  
<CAPTION>

|  | TOTAL   | CLASS A COMMON STOCK<br>SHARES | CLASS A COMMON STOCK<br>AMOUNT | CLASS B<br>COMMON<br>STOCK | MIDWEST<br>HOLDING<br>PAID-IN<br>CAPITAL | MIDWEST<br>HOLDING<br>RETAINED<br>EARNINGS | ACCUMULATED<br>OTHER<br>COMPREHENSIVE<br>INCOME |
|--|---------|--------------------------------|--------------------------------|----------------------------|--|--|---|
| <S>  | <C>     | <C>                            | <C>                            | <C>                        | <C>                                      | <C>  | <C>   |
| Balance at December 31, 1996 (BROUGHT FORWARD)   | \$7,604 | 118,209                        | \$1                            | \$1                        | \$4,490                                  | \$3,044                                    | \$ 68   |
| Comprehensive income:  |         |                                |                                |                            |  |  |   |
| Net income of non-insurance entities includable in Class A Common Stock redemption value | 272     | -                              | -                              | -                          | -  | 272  | -   |
| Other comprehensive income:  |         |                                |                                |                            |  |  |   |
| Unrealized gains on securities net of \$6 in taxes                                       | 11      | -                              | -                              | -                          | -  | -  | 11  |
| Total comprehensive income   | 283     |                                |                                |                            |  |  |   |
| Redemption of shares due to policyholder terminations by effective date:                 |         |                                |                                |                            |  |  |   |
| January 1, 1997 to June 30, 1997; NRV of \$64.33   | (278)   | (4,363)                        | -                              | -                          | (165)                                    | (113)                                      | -   |
| July 1, 1997 to December 31, 1997; NRV of \$62.12  | (370)   | (5,943)                        | (1)                            | -                          | (220)                                    | (149)                                      | -   |
| Issuance of shares to vested policyholders   | -       | 9,406                          | 1                              | -                          | -  | (1)  | -   |
| Initial issuance of shares to policyholders upon vesting                                 | 253     | 4,013                          | -                              | -                          | 253                                      | -  | -   |
| Other  | (15)    | -                              | -                              | -                          | -  | (15)                                       | -   |
| Balance at December 31, 1997 (CARRIED FORWARD)   | 7,477   | 121,322                        | 1                              | 1                          | 4,358                                    | 3,038                                      | 79  |

</TABLE>

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2. REDEEMABLE STOCK (CONTINUED)

<TABLE>  
<CAPTION>

|  | TOTAL    | CLASS A COMMON STOCK<br>SHARES | CLASS A COMMON STOCK<br>AMOUNT | CLASS B<br>COMMON<br>STOCK | MIDWEST<br>HOLDING<br>PAID-IN<br>CAPITAL | MIDWEST<br>HOLDING<br>RETAINED<br>EARNINGS | ACCUMULATED<br>OTHER<br>COMPREHENSIVE<br>INCOME |
|--|----------|--------------------------------|--------------------------------|----------------------------|--|--|---|
| <S>  | <C>      | <C>                            | <C>                            | <C>                        | <C>                                      | <C>  | <C>   |
| Balance at December 31, 1997 (BROUGHT FORWARD)   | \$ 7,477 | 121,322                        | \$ 1                           | \$ 1                       | \$ 4,358                                 | \$3,038                                    | \$ 79   |
| Comprehensive income:  |          |                                |                                |                            |  |  |   |
| Net loss of non-insurance entities includable in Class A Common Stock redemption value | (1,104)  | -                              | -                              | -                          | -  | (1,104)                                    | -   |
| Other comprehensive income:  |          |                                |                                |                            |  |  |   |
| Unrealized gains on securities net of \$39 in taxes                                    | 73       | -                              | -                              | -                          | -  | -  | 73  |
| Total comprehensive income   | (1,031)  |                                |                                |                            |  |  |   |
| Redemption of shares due to policyholder terminations by effective date:               |          |                                |                                |                            |  |  |   |
| January 1, 1998 to June 30, 1998; NRV of \$61.63                                       | (251)    | (4,070)                        | -                              | -                          | (147)                                    | (104)                                      | -   |

|  |          |         |      |      |          |         |       |
|--|----------|---------|------|------|----------|---------|-------|
| July 1, 1998 to December 31, 1998; NRV of \$54.70        | (272)    | (4,935) | (1)  | -    | (160)    | (111)   | -     |
| Issuance of shares to vested policyholders               | -        | 9,437   | 1    | -    | -        | (1)     | -     |
| Initial issuance of shares to policyholders upon vesting | 224      | 3,928   | -    | -    | 224      | -       | -     |
| Dividend from Midwest Medical                            | 2,000    | -       | -    | -    | 2,000    | -       | -     |
| Balance at December 31, 1998                             | \$ 8,147 | 125,682 | \$ 1 | \$ 1 | \$ 6,275 | \$1,718 | \$152 |

</TABLE>

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### 3. INVESTMENTS

Components of net investment income are summarized as follows (in thousands):

<TABLE>  
<CAPTION>

|                        | 1998              | 1997            | 1996            |
|------------------------|-------------------|-----------------|-----------------|
| <S>                    | <C>               | <C>             | <C>             |
| Fixed maturities       | \$ 9,340          | \$ 10,901       | \$ 11,561       |
| Equity securities      | 820               | 523             | 380             |
| Short-term investments | 926               | 939             | 904             |
| Other investments      | 855               | -               | -               |
| Investment expenses    | 11,941<br>(1,022) | 12,363<br>(854) | 12,845<br>(784) |
|                        | \$ 10,919         | \$ 11,509       | \$ 12,061       |

</TABLE>

The cost (amortized cost for fixed maturities) and fair value of available for sale investments are as follows (in thousands):

<TABLE>  
<CAPTION>

|                          | DECEMBER 31, 1998 |                        |                         |              |
|--------------------------|-------------------|------------------------|-------------------------|--------------|
|                          | COST              | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | MARKET VALUE |
| <S>                      | <C>               | <C>                    | <C>                     | <C>          |
| Fixed maturities:        |                   |                        |                         |              |
| Midwest Medical:         |                   |                        |                         |              |
| United States Government | \$110,729         | \$ 2,729               | \$ (70)                 | \$113,388    |
| Public utilities         | 1,609             | 5                      | -                       | 1,614        |
| Industrial and other     | 49,092            | 651                    | (93)                    | 49,650       |
| Total                    | \$161,430         | \$ 3,385               | \$ (163)                | \$164,652    |
| Equity securities:       |                   |                        |                         |              |
| Midwest Holding          | \$ 520            | \$ 234                 | \$ -                    | \$ 754       |
| Midwest Medical          | 41,387            | 45,297                 | (885)                   | 85,799       |
| Total                    | \$ 41,907         | \$ 45,531              | \$ (885)                | \$ 86,553    |

</TABLE>

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### 3. INVESTMENTS (CONTINUED)

<TABLE>  
<CAPTION>

DECEMBER 31, 1997



|  | COST      | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | MARKET VALUE |
|--|-----------|------------------------|-------------------------|--------------|
| <S>                                    | <C>       | <C>                    | <C>                     | <C>          |
| Fixed maturities:                      |           |                        |                         |              |
| Midwest Holding:                       |           |                        |                         |              |
| United States Government               | \$ 1,255  | \$ -                   | \$ -                    | \$ 1,255     |
| Industrial and other                   | 53        | -                      | -                       | 53           |
| Midwest Medical:                       |           |                        |                         |              |
| United States Government               | 97,234    | 801                    | (36)                    | 97,999       |
| State and other political subdivisions | 32,991    | 383                    | -                       | 33,374       |
| Industrial and other                   | 39,057    | 257                    | (20)                    | 39,294       |
| Total                                  | \$170,590 | \$ 1,441               | \$ (56)                 | \$171,975    |
| Equity securities:                     |           |                        |                         |              |
| Midwest Holding                        | \$ 981    | \$ 122                 | \$ -                    | \$ 1,103     |
| Midwest Medical                        | 20,595    | 29,164                 | -                       | 49,759       |
| Total                                  | \$ 21,576 | \$ 29,286              | \$ -                    | \$ 50,862    |

</TABLE>

The components of the unrealized appreciation on available for sale securities as of December 31 are as follows (in thousands):

<TABLE>  
<CAPTION>

|                         | 1998            |                    | 1997            |                    |
|-------------------------|-----------------|--------------------|-----------------|--------------------|
|                         | MIDWEST HOLDING | MIDWEST MEDICAL    | MIDWEST HOLDING | MIDWEST MEDICAL    |
| <S>                     | <C>             | <C>                | <C>             | <C>                |
| Fixed maturities:       |                 |                    |                 |                    |
| Gross unrealized gains  | \$ -            | \$ 3,385           | \$ -            | \$ 1,441           |
| Gross unrealized losses | -               | (163)              | -               | (56)               |
| Equity securities:      |                 |                    |                 |                    |
| Gross unrealized gains  | 234             | 45,297             | 122             | 29,164             |
| Gross unrealized losses | -               | (885)              | -               | -                  |
| Deferred income taxes   | 234<br>(82)     | 47,634<br>(16,672) | 122<br>(43)     | 30,549<br>(10,691) |
|                         | \$ 152          | \$ 30,962          | \$ 79           | \$19,858           |

</TABLE>

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### 3. INVESTMENTS (CONTINUED)

The amortized cost and market value of fixed maturities at December 31, 1998, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<TABLE>  
<CAPTION>

|  | AMORTIZED COST | MARKET VALUE |
|--|----------------|--------------|
| <S>                                    | <C>            | <C>          |
| Due in one year or less                | \$ 6,192       | \$ 6,221     |
| Due after one year through five years  | 40,322         | 40,982       |
| Due after five years through ten years | 27,671         | 28,309       |
| Due after ten years                    | 87,245         | 89,140       |
|  | \$161,430      | \$164,652    |

</TABLE>

Proceeds from sales of available for sale investments and the related gross realized gains and losses are as follows (in thousands):

<TABLE>  
<CAPTION>

|                               | PROCEEDS FROM<br>SALES | GROSS<br>REALIZED<br>GAINS | GROSS<br>REALIZED<br>LOSSES |
|-------------------------------|------------------------|----------------------------|-----------------------------|
| <S>                           | <C>                    | <C>                        | <C>                         |
| Year ended December 31, 1998: |                        |                            |                             |
| Fixed maturities              | \$382,048              | \$3,600                    | \$(769)                     |
| Equity securities             | 16,669                 | 6,404                      | (286)                       |
| Year ended December 31, 1997: |                        |                            |                             |
| Fixed maturities              | 310,235                | 5,806                      | (884)                       |
| Equity securities             | 6,747                  | 2,109                      | (547)                       |
| Year ended December 31, 1996: |                        |                            |                             |
| Fixed maturities              | 46,735                 | 803                        | (214)                       |
| Equity securities             | 7,558                  | 1,347                      | (165)                       |

Net unrealized appreciation of fixed maturities increased (decreased) by \$1,837,000, \$(2,197,000) and \$(4,691,000) and net unrealized appreciation of equity securities increased by \$15,360,000, \$11,417,000 and \$7,140,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

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#### 4. RETROSPECTIVE PREMIUMS

The components of retrospective premiums at December 31 are as follows (in thousands):

<TABLE>  
<CAPTION>

|   | 1998    | 1997    |
|---|---------|---------|
| <S>   | <C>     | <C>     |
| Retrospective premium credits declared:   |         |         |
| Minnesota policyholders   | \$5,200 | \$5,000 |
| North Dakota policyholders  | 280     | -       |
| Iowa policyholders active at date of merger and renewing in 1999 and 1998         | 3,063   | 3,100   |
| Favorable development on pre-merger IPMIT liabilities not yet approved for credit | -       | 1,805   |
|   | \$8,543 | \$9,905 |

</TABLE>

A provision of the agreement and plan of merger between IPMIT and the Company requires that any favorable development of certain pre-merger liabilities of IPMIT be paid to the former IPMIT policyholders who remain active Midwest Medical purchasers of insurance as of the date of payment through a retrospective premium credit. The agreement further stipulates that any amounts due under this provision must be finalized using financial information available as of December 31, 1998. Final amounts due under this provision will be paid to physician purchasers of insurance in early 1999. Actual payments of \$3,073,000 and \$2,501,000 were made to former IPMIT policyholders in 1998 and 1997, respectively. Actual retrospective premium payments made to Minnesota policyholders' accounts in 1998 and 1997 were \$5,008,000 and \$4,803,000, respectively.

A provision of the agreement and plan of merger between MLM and the Company requires that any favorable development of certain pre-merger liabilities of MLM be paid to the former MLM policyholders who remain active Midwest Medical purchasers of insurance as of the date of payment through a retrospective premium credit. The agreement further stipulates that any amounts due under this provision must be settled no later than June 5, 2001. As of December 31, 1998, there has been no favorable development and therefore there is no accrual related to this provision.

## 5. UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The reconciliation of the liability for unpaid losses and loss adjustment expenses is as follows (in thousands):

|  | 1998       | 1997       | 1996       |
|--|------------|------------|------------|
| <S>  | <C>        | <C>        | <C>        |
| Balance as of January 1, net of reinsurance recoverables   | \$ 89,394  | \$ 90,342  | \$ 96,424  |
| Incurred related to:                                       |            |            |            |
| Current year   | 41,927     | 40,186     | 41,101     |
| Prior years  | (4,433)    | (8,352)    | (8,844)    |
| Total incurred   | 37,494     | 31,834     | 32,257     |
| Paid related to:   |            |            |            |
| Current year   | 3,666      | 2,685      | 4,885      |
| Prior years  | 28,755     | 30,097     | 33,454     |
| Total paid   | 32,421     | 32,782     | 38,339     |
| Balance as of December 31, net of reinsurance recoverables | 94,467     | 89,394     | 90,342     |
| Reinsurance recoverables at December 31                    | 16,497     | 18,412     | 19,695     |
| Balance as of December 31, gross                           | \$ 110,964 | \$ 107,806 | \$ 110,037 |

&lt;/TABLE&gt;

The Company continually evaluates emerging trends in the development of loss liabilities including the trends related to the pre-merger IPMIT and MLM business. Based on this analysis, management periodically adjusts their estimates of ultimate losses. See Note 4 regarding retrospective premium credits paid and accrued.

## 6. INCOME TAXES

Components of income taxes are as follows (in thousands):

|                        | 1998    | 1997    | 1996    |
|------------------------|---------|---------|---------|
| <S>                    | <C>     | <C>     | <C>     |
| Current provision      | \$1,335 | \$2,969 | \$1,160 |
| Deferred tax provision | 1,354   | 1,494   | 298     |
|                        | \$2,689 | \$4,463 | \$1,458 |

&lt;/TABLE&gt;

The Company's income taxes differ from the federal statutory rate applied to income before tax as follows (in thousands):

|  | 1998    | 1997    | 1996    |
|--|---------|---------|---------|
| <S>  | <C>     | <C>     | <C>     |
| Income before tax at the federal statutory rate of 35% | \$3,023 | \$4,817 | \$3,129 |

|   |         |         |         |
|---|---------|---------|---------|
| Tax-exempt income (net of proration adjustment)             | -       | (775)   | (1,374) |
| Dividends received deductions (net of proration adjustment) | (99)    | (89)    | (78)    |
| State income taxes, net of federal tax benefit              | 37      | 198     | 50      |
| Payment of prior year taxes                                 | -       | 300     | -       |
| Recovery of prior year taxes                                | (267)   | -       | -       |
| Proceeds on life insurance                                  | -       | -       | (368)   |
| Other   | (5)     | 12      | 99      |
|   | -----   | -----   | -----   |
|   | \$2,689 | \$4,463 | \$1,458 |
|   | -----   | -----   | -----   |

</TABLE>

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6. INCOME TAXES (CONTINUED)

The deferred income tax provision includes the following differences between financial and income tax reporting (in thousands):

<TABLE>  
<CAPTION>

|   | 1998     | 1997     | 1996     |
|---|----------|----------|----------|
|   | -----    | -----    | -----    |
| <S>   | <C>      | <C>      | <C>      |
| Discounting of post-1986 unpaid losses and loss adjustment expenses | \$ 842   | \$ 323   | \$ 1,190 |
| Liabilities not currently deductible                                | 596      | 636      | (274)    |
| Unearned premiums   | (151)    | 57       | 6        |
| Utilization of alternative minimum tax carryforwards                | -        | 496      | -        |
| Alternative minimum tax carryforwards                               | -        | -        | (496)    |
| Other   | 67       | (18)     | (128)    |
|   | -----    | -----    | -----    |
|   | \$ 1,354 | \$ 1,494 | \$ 298   |
|   | -----    | -----    | -----    |

</TABLE>

The Company made income tax payments of \$3,041,000, \$1,518,000 and \$3,260,000 in 1998, 1997 and 1996, respectively.

The components of the net deferred income tax (liability) asset as of December 31 are as follows (in thousands):

<TABLE>  
<CAPTION>

|  | 1998        | 1997       |
|--|-------------|------------|
|  | -----       | -----      |
| <S>  | <C>         | <C>        |
| Deferred tax assets:                       |             |            |
| Unpaid losses and loss adjustment expenses | \$ 4,154    | \$ 4,996   |
| Liabilities not currently deductible       | 1,079       | 1,675      |
| Unearned premiums                          | 628         | 477        |
| Other                                      | 550         | 552        |
|  | -----       | -----      |
|  | 6,411       | 7,700      |
| Deferred tax liabilities:                  |             |            |
| Unrealized gains                           | (16,754)    | (10,734)   |
| Other                                      | (623)       | (558)      |
|  | -----       | -----      |
|  | (17,377)    | (11,292)   |
|  | -----       | -----      |
|  | \$ (10,966) | \$ (3,592) |
|  | -----       | -----      |

</TABLE>

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6. INCOME TAXES (CONTINUED)

Management has determined that no valuation allowances were necessary for

unrealizable portions of deferred tax assets. This was supported primarily through the presence of taxable income in carryback years and reversals of existing temporary differences which provide taxable income in future years. A portion of the deferred tax assets was supported through reliance on available tax planning strategies which could be implemented at no cost.

#### 7. REINSURANCE

To reduce overall risk, including exposure to large losses, the Company participates in various reinsurance programs. Midwest Medical would only become liable for losses in excess of stipulated amounts in the event that any reinsuring company were unable to meet its obligations under the existing agreement. Management is not aware of any such default at December 31, 1998. Reinsurance recoverables on paid and unpaid losses of \$16,277,000 and \$16,141,000 are associated with a single reinsurer, General Reinsurance Corporation, at December 31, 1998 and 1997, respectively.

Midwest Medical is authorized to issue policies with limits not to exceed \$12,000,000 for each claim and \$14,000,000 in the aggregate under each policy in any one policy year. Limits in excess of \$12,000,000 for each claim and \$14,000,000 annual aggregate are available to physicians and clinics through reinsurance placed on a facultative basis by Midwest Medical. The Company generally retains the first \$750,000 of each claim and reinsures the remainder through a treaty under which premiums are subject to adjustment based on experience.

Total ceded reinsurance premiums, before the effects of treaty commutations, for the years ended December 31, 1998, 1997 and 1996 were \$3,104,000, \$3,329,000 and \$6,416,000, respectively. Loss and loss adjustment expenses incurred are net of applicable reinsurance of \$2,240,000, \$2,455,000 and \$2,459,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

In 1998, the Company commuted reinsurance treaties covering the period January 1, 1991 through December 31, 1991. Net premiums recovered as a result of these commutations of \$789,000 have been included in net premiums earned in 1998.

In 1996, the Company commuted reinsurance treaties covering the period January 1, 1989 through December 31, 1990. Net premiums recovered as a result of these commutations of \$2,194,000 have been included in net premiums earned in 1996.

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#### 8. OTHER COMMITMENTS

In the normal course of claim settlement, Midwest Medical negotiates structured settlements including the purchase of annuities from life insurance companies with an A+ rating from A.M. Best (an industry rating organization) at the date of issue and a minimum of \$100 million in surplus. These annuities guarantee a stream of payments to the claimant holding the annuity. The majority of these settlements have been assigned to the life insurance company which releases Midwest Medical from any future contractual liability to the claimant. Midwest Medical and its reinsurers could only become liable for ultimate settlement of those claims which have not been assigned. At December 31, 1998 and 1997, respectively, non-assigned structured settlements guaranteed \$5,820,000 and \$12,299,000 of payments under annuity contracts for which Midwest Medical and its reinsurers paid \$2,627,000 and \$4,726,000. In the event that the insurance company issuing the annuity was unable to meet its obligation under the terms provided, Midwest Medical would be liable for the ultimate settlement.

#### 9. BENEFIT PLANS

The Company has a non-contributory defined contribution pension plan covering substantially all employees. Contributions to the plan are based upon each covered employee's salary. The Company also sponsors a 401(k) plan covering substantially all employees and provides a fifty percent match on employee contributions subject to certain limitations. Total contributions charged to expense for the years ended December 31, 1998, 1997 and 1996 were \$521,000, \$393,000 and \$371,000, respectively.

The Company provides an unfunded Supplemental Executive Retirement Plan (SERP) which is a non-qualified, defined benefit retirement plan covering certain Company officers. Benefits are based upon years of service and compensation. Although the plan is technically unfunded, the Company invests in specified assets which are designed to coordinate with the projected obligation under the SERP. The net periodic pension cost for this plan was \$404,000, \$363,000 and \$323,000 for the years ended December 31, 1998, 1997 and 1996, respectively. The liability recognized in the consolidated balance sheets at December 31, 1998 and 1997 related to this plan was \$2,439,000 and \$2,192,000, respectively.

## 9. BENEFIT PLANS (CONTINUED)

The Company also provides medical benefits to retirees through a defined benefit post-retirement plan which covers substantially all employees. The net periodic post-retirement benefit cost for the years ended December 31, 1998, 1997 and 1996 was \$41,000, \$27,000 and \$30,000, respectively. As of December 31, 1998 the plan was fully funded. As of December 31, 1997, the net post-retirement benefit plan liability was \$4,000.

## 10. RECONCILIATION WITH STATUTORY ACCOUNTING PRINCIPLES

The following is a reconciliation of net income and shareholders' equity under generally accepted accounting principles with that reported for Midwest Medical on a statutory basis (in thousands):

Net Income

<TABLE>

<CAPTION>

|  | YEAR ENDED DECEMBER 31 |           |          |
|--|------------------------|-----------|----------|
|  | 1998                   | 1997      | 1996     |
|  | -----                  | -----     | -----    |
| <S>  | <C>                    | <C>       | <C>      |
| As reported under generally accepted accounting principles                     | \$ 5,948               | \$ 9,300  | \$ 7,481 |
| (Income) loss of non-insurance entities  | 1,104                  | (272)     | (1,070)  |
|  | -----                  | -----     | -----    |
| On the basis of generally accepted accounting principles, Midwest Medical only | 7,052                  | 9,028     | 6,411    |
| Additions (deductions):  |                        |           |          |
| Deferred income taxes  | 1,390                  | 1,525     | 445      |
| Other  | -                      | -         | 123      |
|  | -----                  | -----     | -----    |
| On the basis of statutory accounting principles                                | \$ 8,442               | \$ 10,553 | \$ 6,979 |
|  | -----                  | -----     | -----    |

</TABLE>

## 10. RECONCILIATION WITH STATUTORY ACCOUNTING PRINCIPLES (CONTINUED)

Shareholders' Equity

<TABLE>

<CAPTION>

|  | DECEMBER 31 |            |            |
|--|-------------|------------|------------|
|  | 1998        | 1997       | 1996       |
|  | -----       | -----      | -----      |
| <S>  | <C>         | <C>        | <C>        |
| As reported under generally accepted accounting principles | \$ 142,446  | \$ 126,290 | \$ 111,278 |
| Additions (deductions):                                    |             |            |            |
| Deferred income taxes                                      | 11,526      | 4,158      | (590)      |
| Unrealized (gain) loss on fixed maturities                 | (3,222)     | (1,385)    | (3,580)    |
| Other  | (34)        | (3)        | (41)       |
|  | -----       | -----      | -----      |
| On the basis of statutory accounting principles            | \$ 150,716  | \$ 129,060 | \$ 107,067 |
|  | -----       | -----      | -----      |

</TABLE>

The equity of Midwest Holding, exclusive of the carrying value of its investment in Midwest Medical, is subject to redemption and therefore reported outside of shareholders' equity under the caption redeemable stock. As a result, consolidated other shareholders' equity as reported on the balance sheets represents equity of Midwest Medical only under generally accepted accounting principles.

Under Minnesota insurance statutes, Midwest Medical is required to maintain statutory surplus in excess of ten times its per occurrence reinsurance retention limit. The minimum level is \$7,500,000 for 1998 and 1997.

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#### 11. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except for share and per share amounts):

|   | 1998     | 1997     | 1996     |
|---|----------|----------|----------|
| <S>   | <C>      | <C>      | <C>      |
| Numerator for basic and dilutive earnings per share available to common shareholders                  | \$ 5,948 | \$ 9,300 | \$ 7,481 |
| Denominator:  |          |          |          |
| Denominator for basic earnings per share--weighted average shares                                     | 123,004  | 119,554  | 116,071  |
| Effect of dilutive securities:  |          |          |          |
| Unvested shares   | 13,247   | 12,873   | 12,188   |
| Denominator for dilutive earnings per share--adjusted weighted-average shares and assumed conversions | 136,251  | 132,427  | 128,259  |
| Basic earnings per share  | \$ 48.36 | \$ 77.79 | \$ 64.45 |
| Diluted earnings per share  | \$ 43.65 | \$ 70.23 | \$ 58.33 |

</TABLE>

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#### 12. NET REDEMPTION VALUE

The net redemption value per share of the Class A common shares was as follows:

|                   | MIDWEST<br>HOLDING<br>NET EQUITY | CLASS A<br>COMMON SHARES<br>OUTSTANDING | NET REDEMPTION<br>VALUE PER<br>SHARE |
|-------------------|----------------------------------|---|--------------------------------------|
| <S>               | <C>                              | <C>                                     | <C>                                  |
| December 31, 1994 | \$7,712                          | 116,855*                                | \$66.00                              |
| December 31, 1995 | \$6,975                          | 116,251*                                | \$60.00                              |
| December 31, 1996 | \$7,604                          | 118,209                                 | \$64.33                              |
| December 31, 1997 | \$7,477                          | 121,322                                 | \$61.63                              |
| December 31, 1998 | \$8,147                          | 125,682                                 | \$64.81                              |

</TABLE>

Report of Independent Auditors

Board of Directors  
Midwest Medical Insurance Holding Company  
and Subsidiaries

We have audited the consolidated financial statements of Midwest Medical Insurance Holding Company and Subsidiaries as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, and have issued our report thereon dated February 1, 1999 (included elsewhere in this Registration Statement). Our audits also included the financial statement schedules listed in Item 16(b) of this Registration Statement. These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Minneapolis, Minnesota  
February 1, 1999

MIDWEST MEDICAL INSURANCE HOLDING COMPANY AND SUBSIDIARIES  
(PARENT COMPANY)  
SCHEDULE II--CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
  
BALANCE SHEETS

<TABLE>  
<CAPTION>

|   | DECEMBER 31    |           |
|---|----------------|-----------|
|   | 1998           | 1997      |
|   | -----          |           |
|   | (IN THOUSANDS) |           |
| <S>   | <C>            | <C>       |
| ASSETS  |                |           |
| Fixed maturities  | \$ -           | \$ 1,308  |
| Short-term investments  | 1,310          | 2,730     |
| Investment in subsidiaries  | 145,032        | 126,290   |
| Accrued investment income   | -              | 40        |
| Other   | 8,385          | 6,881     |
|   | -----          | -----     |
| Total assets  | \$154,727      | \$137,249 |
|   | -----          | -----     |
| LIABILITIES, REDEEMABLE STOCK AND<br>OTHER SHAREHOLDERS' EQUITY           |                |           |
| LIABILITIES   |                |           |
| Accounts payable  | \$ 43          | \$ 111    |
| Accrued expenses and other liabilities                                    | 4,091          | 3,371     |
|   | -----          | -----     |
|   | 4,134          | 3,482     |
| REDEEMABLE STOCK  |                |           |
| Class A Common Stock  | 8,146          | 7,476     |
| Class B Common Stock  | 1              | 1         |
|   | -----          | -----     |
|   | 8,147          | 7,477     |
| OTHER SHAREHOLDERS' EQUITY  |                |           |
| Additional paid-in capital  | 12,789         | 12,789    |
| Retained earnings, comprised of undistributed earnings<br>of subsidiaries | 98,695         | 93,643    |



|  |           |           |
|--|-----------|-----------|
| taxes  | 30,962    | 19,858    |
|  | -----     | -----     |
|  | 142,446   | 126,290   |
| Total liabilities, redeemable stock and other shareholders' equity | \$154,727 | \$137,249 |
|  | -----     | -----     |

</TABLE>

SEE ACCOMPANYING NOTE.

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Midwest Medical Insurance Holding Company and Subsidiaries  
(Parent Company)

Schedule II--Condensed Financial Information of Registrant (continued)

Statements of Income

<TABLE>  
<CAPTION>

|  | YEAR ENDED DECEMBER 31 |         |         |
|--|------------------------|---------|---------|
|  | 1998                   | 1997    | 1996    |
|  | -----                  |         |         |
|  | (IN THOUSANDS)         |         |         |
| <S>  | <C>                    | <C>     | <C>     |
| REVENUES   |                        |         |         |
| Management fee from subsidiaries                             | \$14,038               | \$9,901 | \$8,706 |
| Investment income  | 489                    | 64      | 726     |
| Other income   | 7                      | 2       | 4       |
|  | -----                  | -----   | -----   |
|  | 14,534                 | 9,967   | 9,436   |
| EXPENSES   |                        |         |         |
| Operating and administrative                                 | 14,267                 | 9,535   | 8,357   |
|  | -----                  | -----   | -----   |
| Income before income taxes and other items                   | 267                    | 432     | 1,079   |
| Income tax expense   | 104                    | 162     | 9       |
|  | -----                  | -----   | -----   |
| Income before equity in undistributed income of subsidiaries | 163                    | 270     | 1,070   |
| Equity in undistributed income of subsidiaries               | 5,785                  | 9,030   | 6,411   |
|  | -----                  | -----   | -----   |
| Net income   | \$5,948                | \$9,300 | \$7,481 |
|  | -----                  | -----   | -----   |

</TABLE>

SEE ACCOMPANYING NOTE.

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Midwest Medical Insurance Holding Company and Subsidiaries  
(Parent Company)

Schedule II--Condensed Financial Information of Registrant (continued)

Statements of Cash Flows

<TABLE>  
<CAPTION>

|   | YEAR ENDED DECEMBER 31 |          |          |
|---|------------------------|----------|----------|
|   | 1998                   | 1997     | 1996     |
|   | -----                  |          |          |
|   | (IN THOUSANDS)         |          |          |
| <S>   | <C>                    | <C>      | <C>      |
| Net cash (used in) provided by operating activities | \$ (366)               | \$ (527) | \$ (877) |
| INVESTING ACTIVITIES                                |                        |          |          |
| Purchase of fixed maturities                        | (21,758)               | (38,979) | (20,469) |
| Sales of fixed maturities                           | 22,826                 | 38,701   | 20,289   |
| Calls and maturities of fixed maturities            | 250                    | -        | -        |
| Sales of short-term investments, net                | 1,420                  | 1,453    | 1,338    |
| Capitalization of Solutions                         | (3,850)                | -        | -        |

| FINANCING ACTIVITIES               |       |       |       |
|------------------------------------|-------|-------|-------|
| Redemption of Class A Common Stock | (522) | (648) | (608) |
| Dividend from Midwest Medical      | 2,000 | -     | 327   |
| -----                              |       |       |       |
| Increase in cash                   | -     | -     | -     |
| Cash at beginning of year          | -     | -     | -     |
| -----                              |       |       |       |
| Cash at end of year                | \$ -  | \$ -  | \$ -  |
| -----                              |       |       |       |

</TABLE>

SEE ACCOMPANYING NOTE.

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Midwest Medical Insurance Holding Company and Subsidiaries  
(Parent Company)

Schedule II--Condensed Financial Information of Registrant (continued)

Note to Condensed Financial Statements

December 31, 1998

The accompanying condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Midwest Medical Insurance Holding Company and Subsidiaries.

See Note 2 to the consolidated financial statements of Midwest Medical Insurance Holding Company and Subsidiaries for a description of the redeemable stock.

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MIDWEST MEDICAL INSURANCE HOLDING COMPANY AND SUBSIDIARIES

SCHEDULE IV--REINSURANCE

<TABLE>

<CAPTION>

| COL. A                        | COL. B       | COL. C                   | COL. D                       | COL. E     | COL. F                              |
|-------------------------------|--------------|--------------------------|------------------------------|------------|-------------------------------------|
|                               | GROSS AMOUNT | CEDED TO OTHER COMPANIES | ASSUMED FROM OTHER COMPANIES | NET AMOUNT | PERCENTAGE OF AMOUNT ASSUMED TO NET |
|                               |              |                          | (IN THOUSANDS)               |            |                                     |
| <S>                           | <C>          | <C>                      | <C>                          | <C>        | <C>                                 |
| Year ended December 31, 1998: |              |                          |                              |            |                                     |
| Insurance premiums:           |              |                          |                              |            |                                     |
| Property/casualty insurance   | \$37,518     | \$2,601                  | \$97                         | \$35,014   | 0.3%                                |
| Year ended December 31, 1997: |              |                          |                              |            |                                     |
| Insurance premiums:           |              |                          |                              |            |                                     |
| Property/casualty insurance   | 36,511       | 3,595                    | -                            | 32,916     | N/A                                 |
| Year ended December 31, 1996: |              |                          |                              |            |                                     |
| Insurance premiums:           |              |                          |                              |            |                                     |
| Property/casualty insurance   | 34,006       | 2,829                    | -                            | 31,177     | N/A                                 |

</TABLE>

NOTE TO SCHEDULE IV:

Ceded premiums for the years ended December 31, 1998, 1997 and 1996 are net of reductions (additions) in ceded premiums related to swing rated reinsurance treaties of \$2,550,000, \$(3,688,000), and \$748,000 respectively. Ceded premiums in 1996 are also net of proceeds from commutations of reinsurance covering the period January 1, 1989 through December 31, 1990 of \$2,194,000. Ceded premiums in 1998 are also net of proceeds from commutations of reinsurance covering the

Midwest Medical Insurance Holding Company and Subsidiaries

Schedule VI--Supplemental Information Concerning Property/Casualty Insurance Operations

<TABLE>  
<CAPTION>

| DECEMBER 31       |             |               |             |          |
|-------------------|-------------|---------------|-------------|----------|
| COL. A            | COL. B      | COL. C        | COL. D      | COL. E   |
|                   |             | RESERVES FOR  |             |          |
| AFFILIATION       | DEFERRED    | UNPAID LOSSES | DISCOUNT,   |          |
| WITH              | POLICY      | AND LOSS      | IF ANY,     |          |
| REGISTRANT        | ACQUISITION | ADJUSTMENT    | DEDUCTED IN | UNEARNED |
|                   | COSTS       | EXPENSES      | COLUMN C    | PREMIUMS |
| Consolidated      |             |               |             |          |
| property/casualty |             |               |             |          |
| entities          |             |               |             |          |
| <S>               | <C>         | <C>           | <C>         | <C>      |
| 1998              | N/A         | \$110,964     | N/A         | \$8,173  |
| 1997              | N/A         | 107,806       | N/A         | 6,072    |
| 1996              | N/A         | 110,037       | N/A         | 6,860    |

<CAPTION>

| YEAR ENDED DECEMBER 31 |            |                     |              |            |          |          |
|------------------------|------------|---------------------|--------------|------------|----------|----------|
| COL. F                 | COL. G     | COL. H              | COL. I       | COL. J     | COL. K   |          |
|                        |            | LOSSES AND LOSS     |              |            |          |          |
|                        |            | ADJUSTMENT          |              |            |          |          |
|                        |            | EXPENSES            |              |            |          |          |
|                        |            | INCURRED RELATED TO | AMORTIZATION | PAID       |          |          |
|                        |            | -----               | OF DEFERRED  | LOSSES     |          |          |
|                        | NET        | (1)                 | POLICY       | AND LOSS   |          |          |
| EARNED                 | INVESTMENT | CURRENT             | ACQUISITION  | ADJUSTMENT |          |          |
| PREMIUMS               | INCOME     | YEAR                | COSTS        | EXPENSES   |          | PREMIUMS |
|                        |            |                     |              |            |          | WRITTEN  |
| (IN THOUSANDS)         |            |                     |              |            |          |          |
| <C>                    | <C>        | <C>                 | <C>          | <C>        | <C>      | <C>      |
| \$35,014               | \$10,919   | \$41,927            | \$ (4,433)   | N/A        | \$32,421 | \$39,431 |
| 32,916                 | 11,509     | 40,186              | (8,352)      | N/A        | 32,782   | 35,722   |
| 31,177                 | 12,061     | 41,101              | (8,844)      | N/A        | 38,339   | 31,167   |

</TABLE>

ALLOCATION SCHEDULE - ALL STATES EXCEPT IOWA AND NEBRASKA

<TABLE>  
<CAPTION>

| DESCRIPTION                          | Rate | Shares per Year<br>(Rate<br>Relativity) |
|--------------------------------------|------|---|
| <S>                                  | <C>  | <C>                                     |
| Administrative Medicine-No Surg-NOC  | 7    | 0.70                                    |
| Forensic/Legal Medicine              | 7    | 0.70                                    |
| Ltd Gen Practice-No Surg-NOC         | 7    | 0.70                                    |
| Occupational Medicine                | 7    | 0.70                                    |
| Pathology-No Surg                    | 7    | 0.70                                    |
| Physiatry-Phys Med/Rehab             | 7    | 0.70                                    |
| Psychiatry-Incl Child-No ECT-No Surg | 7    | 0.70                                    |
| Psychoanalysis                       | 7    | 0.70                                    |
| Psychosomatic Medicine               | 7    | 0.70                                    |
| Aerospace Medicine                   | 10   | 1.00                                    |

|   |    |      |
|---|----|------|
| Allergy                                     | 10 | 1.00 |
| Colon & Rectal-No Surg-NOC                  | 10 | 1.00 |
| Dermatology-No Surg                         | 10 | 1.00 |
| Family Practice or General Practice-No Surg | 10 | 1.00 |
| General Preventive Medicine-No Surg         | 10 | 1.00 |
| Geriatrics-No Surg                          | 10 | 1.00 |
| Gynecology-No Surg                          | 10 | 1.00 |
| Hand-No Surg-NOC                            | 10 | 1.00 |
| Head & Neck-No Surg-NOC                     | 10 | 1.00 |
| Hypnosis                                    | 10 | 1.00 |
| Laryngology-No Surg                         | 10 | 1.00 |
| Neoplastic Disease-No Surg                  | 10 | 1.00 |
| Nuclear Medicine                            | 10 | 1.00 |
| Nutrition                                   | 10 | 1.00 |
| OB/GYN-No Surg-NOC                          | 10 | 1.00 |
| Obstetrics-No Surg-NOC                      | 10 | 1.00 |
| Ophthalmology-No Surg                       | 10 | 1.00 |
| Orthopedics-No Surg-NOC                     | 10 | 1.00 |
| Otology-No Surg                             | 10 | 1.00 |
| Otorhinolaryngology-No Surg                 | 10 | 1.00 |
| Pediatrics-No Surg                          | 10 | 1.00 |
| Pharmacology-Clinical                       | 10 | 1.00 |
| Physician-No Surg-NOC                       | 10 | 1.00 |
| Plastic-No Surg-NOC                         | 10 | 1.00 |

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|  |    |      |
|--|----|------|
| Public Health                                | 10 | 1.00 |
| Radiology-Diagnostic-No Surg                 | 10 | 1.00 |
| Rhinology-No Surg                            | 10 | 1.00 |
| Thoracic-No Surg-NOC                         | 10 | 1.00 |
| Urology-No Surg-NOC                          | 10 | 1.00 |
| Vascular-No Surg-NOC                         | 10 | 1.00 |
| Cardiovascular Diseases-No Surg              | 15 | 1.2  |
| Diabetes-No Surg                             | 15 | 1.2  |
| Endocrinology-No Surg                        | 15 | 1.2  |
| Gastroenterolgy-No Surg                      | 15 | 1.2  |
| Hematology-No Surg                           | 15 | 1.2  |
| Infectious Disease-No Surg                   | 15 | 1.2  |
| Internal Medicine-No Surg                    | 15 | 1.2  |
| Nephrology-No Surg                           | 15 | 1.2  |
| Oncology-No Surg-NOC                         | 15 | 1.2  |
| Ophthalmology-Min Surg                       | 15 | 1.2  |
| Pulmonary Disease-No Surg                    | 15 | 1.2  |
| Rheumatology-No Surg                         | 15 | 1.2  |
| Allergy-Minor Surg-Asst Own Pts              | 20 | 1.5  |
| Anesthesiology                               | 20 | 1.5  |
| Cardiovascular Diseases-Min Surg             | 20 | 1.5  |
| Colon & Rectal-Minor Surgery-Asst Own        | 20 | 1.5  |
| Dermatology-Min Surg                         | 20 | 1.5  |
| Diabetes-Min Surg                            | 20 | 1.5  |
| Endocrinology-Min Surg                       | 20 | 1.5  |
| Family Practice or General Practice-Min Surg | 20 | 1.5  |
| Gastroenterolgy-Min Surg                     | 20 | 1.5  |
| Geriatrics-Min Surg                          | 20 | 1.5  |
| Gynecology-Min Surg                          | 20 | 1.5  |
| Hand-Minor Surgery-Asst Own Pts              | 20 | 1.5  |
| Head & Neck-Minor Surgery-Asst Own           | 20 | 1.5  |
| Hematology-Min Surg                          | 20 | 1.5  |
| Infectious Disease-Min Surg                  | 20 | 1.5  |
| Intensive Care Medicine                      | 20 | 1.5  |
| Internal Medicine-Min Surg                   | 20 | 1.5  |
| Laryngology-Min Surg                         | 20 | 1.5  |
| Neoplastic Disease-Min Surg                  | 20 | 1.5  |
| Nephrology-Min Surg                          | 20 | 1.5  |
| Neurology-Incl Child-Min Surg                | 20 | 1.5  |
| Neurology-Incl Child-No Surg                 | 20 | 1.5  |

A-2

|  |    |     |
|--|----|-----|
| Nuclear Medicine-Minor Surgery-No Rad    | 20 | 1.5 |
| Occupational Medicine-Minor Surgery-Asst | 20 | 1.5 |
| Orthopedics-Minor Surgery-Asst Own       | 20 | 1.5 |
| Otology-Min Surg                         | 20 | 1.5 |
| Otorhinolaryngology-Min Surg             | 20 | 1.5 |
| Pathology-Min Surg                       | 20 | 1.5 |
| Pediatrics-Min Surg                      | 20 | 1.5 |
| Physician-Min Surg-NOC                   | 20 | 1.5 |
| Plastic-Minor Surgery-Asst Own Pts       | 20 | 1.5 |

|  |    |      |
|--|----|------|
| Psychiatry-Incl ECT-No Maj                     | 20 | 1.5  |
| Pulmonary Disease-Minor Surgery                | 20 | 1.5  |
| Radiology-Diagnostic-Min Surg                  | 20 | 1.5  |
| Rhinology-Min Surg                             | 20 | 1.5  |
| Rheumatology-Minor Surgery-Asst Own            | 20 | 1.5  |
| S-Ophthalmology                                | 20 | 1.5  |
| Sports Medicine-Min Surg                       | 20 | 1.5  |
| Broncho-Esophagology                           | 30 | 2.10 |
| Cardivasc Dis-Incl Cath-No Maj                 | 30 | 2.10 |
| Dermatology-Incl Rad Therapy                   | 30 | 2.10 |
| Emergency Medicine-No Maj Surg                 | 30 | 2.10 |
| Lasers-Used in Therapy                         | 30 | 2.10 |
| Neonatology                                    | 30 | 2.10 |
| Neurology-Incl ECT-No Maj Surg                 | 30 | 2.10 |
| Neurology-Maj Risk Proc-No Maj Surg            | 30 | 2.10 |
| Nuclear Med-Incl Rad Ther-No Maj               | 30 | 2.10 |
| Pediatrics-Maj Risk Proc-No Surg               | 30 | 2.10 |
| Physician-No Maj-Acupunture                    | 30 | 2.10 |
| Physician-No Maj-Angiography                   | 30 | 2.10 |
| Physician-No Maj-Arteriography                 | 30 | 2.10 |
| Physician-No Maj-Catheterization               | 30 | 2.10 |
| Physician-No Maj-Colonoscopy                   | 30 | 2.10 |
| Physician-No Maj-Discograms                    | 30 | 2.10 |
| Physician-No Maj-ERCP                          | 30 | 2.10 |
| Physician-No Maj-Laparoscopy                   | 30 | 2.10 |
| Physician-No Maj-Lasers-Used in therapy        | 30 | 2.10 |
| Physician-No Maj-Lymphangiography              | 30 | 2.10 |
| Physician-No Maj-Myleography                   | 30 | 2.10 |
| Physician-No Maj-Needle Biopsy                 | 30 | 2.10 |
| Physician-No Maj-Phlebography                  | 30 | 2.10 |
| Physician-No Maj-Pneumatic/Mech Esoph Dilation | 30 | 2.10 |

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|  |    |      |
|--|----|------|
| Physician-No Maj-Pneumoencephalography | 30 | 2.10 |
| Physician-No Maj-Radiation Therapy     | 30 | 2.10 |
| Physician-No Maj-Radiopaque Dye        | 30 | 2.10 |
| Physicians-Maj Risk Proc-No Surg       | 30 | 2.10 |
| S-Colon & Rectal                       | 30 | 2.10 |
| S-Endocrinology                        | 30 | 2.10 |
| S-Family Practice-Ob-No C-Sections     | 30 | 2.10 |
| S-Gastroenterology                     | 30 | 2.10 |
| S-Geriatrics                           | 30 | 2.10 |
| S-Neoplastic                           | 30 | 2.10 |
| S-Nephrology                           | 30 | 2.10 |
| S-Urological                           | 30 | 2.10 |
| Emergency Medicine-Incl Maj Surg       | 40 | 2.60 |
| S-Abdominal                            | 40 | 2.60 |
| S-Family Practice-OB-C-Sections        | 40 | 2.60 |
| S-Otorhinolaryngology                  | 40 | 2.60 |
| S-Plastic-Otorhinolaryngology          | 40 | 2.60 |
| S-Rhinology                            | 40 | 2.60 |
| S-General                              | 43 | 3.20 |
| Foot and Ankle Surgery                 | 50 | 4.0  |
| Oral Maxillofacial Surgery             | 50 | 4.0  |
| S-Dermatologic                         | 50 | 4.0  |
| S-Gynecology                           | 50 | 4.0  |
| S-Laryngology                          | 50 | 4.0  |
| S-Neonatology                          | 50 | 4.0  |
| S-Otology                              | 50 | 4.0  |
| S-Plastic-NOC                          | 50 | 4.0  |
| Fetal & Maternal Medicines             | 60 | 5.50 |
| S-Cardiac                              | 60 | 5.50 |
| S-Cardiovascular Disease               | 60 | 5.50 |
| S-Hand                                 | 60 | 5.50 |
| S-Head & Neck                          | 60 | 5.50 |
| S-OB/GYN                               | 60 | 5.50 |
| S-Obstetrics                           | 60 | 5.50 |
| S-Orthopedic-Excl Spine                | 60 | 5.50 |
| S-Orthopedic-Incl Spine                | 60 | 5.50 |
| S-Thoracic                             | 60 | 5.50 |
| S-Vascular                             | 60 | 5.50 |
| S-Traumatic                            | 70 | 6.50 |
| S-Neurology-Incl Child                 | 80 | 9.00 |

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<TABLE>  
<CAPTION>

ALLOCATION SCHEDULE - IOWA

| Practice<br>DESCRIPTION<br>-----            | Rate Class | Shares per Year<br>(Rate<br>Relativity)<br>----- |
|---|------------|--|
| <S>   | <C>        | <C>  |
| Administrative Medicine-No Surg-NOC         | 7          | 0.83   |
| Ltd Gen Practice-No Surg-NOC                | 7          | 0.83   |
| Psychiatry-Incl Child-No Surg               | 7          | 0.83   |
| Psychoanalysis                              | 7          | 0.83   |
| Psychosomatic Medicine                      | 7          | 0.83   |
| Aerospace Medicine                          | 10         | 1.00   |
| Allergy                                     | 10         | 1.00   |
| Cardiovascular Diseases-No Surg             | 10         | 1.00   |
| Colon & Rectal-No Surg-NOC                  | 10         | 1.00   |
| Dermatology-No Surg                         | 10         | 1.00   |
| Diabetes-No Surg                            | 10         | 1.00   |
| Endocrinology-No Surg                       | 10         | 1.00   |
| Family Practice or General Practice-No Surg | 10         | 1.00   |
| Forensic/Legal Medicine                     | 10         | 1.00   |
| Gastroenterolgy-No Surg                     | 10         | 1.00   |
| General Preventive Medicine-No Surg         | 10         | 1.00   |
| Geriatrics-No Surg                          | 10         | 1.00   |
| Gynecology-No Surg                          | 10         | 1.00   |
| Hand-No Surg-NOC                            | 10         | 1.00   |
| Head & Neck-No Surg-NOC                     | 10         | 1.00   |
| Hematology-No Surg                          | 10         | 1.00   |
| Hypnosis                                    | 10         | 1.00   |
| Infectious Disease-No Surg                  | 10         | 1.00   |
| Internal Medicine-No Surg                   | 10         | 1.00   |
| Laryngology-No Surg                         | 10         | 1.00   |
| Neoplastic Disease-No Surg                  | 10         | 1.00   |
| Nephrology-No Surg                          | 10         | 1.00   |
| Neurology-Incl Child-No Surg                | 10         | 1.00   |
| Nuclear Medicine                            | 10         | 1.00   |
| Nutrition                                   | 10         | 1.00   |
| OB/GYN-No Surg-NOC                          | 10         | 1.00   |
| Obstetrics-No Surg-NOC                      | 10         | 1.00   |
| Occupational Medicine                       | 10         | 1.00   |
| Ophthalmology-No Surg                       | 10         | 1.00   |
| Orthopedics-No Surg-NOC                     | 10         | 1.00   |

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|  |    |      |
|--|----|------|
| Otology-No Surg                              | 10 | 1.00 |
| Otorhinolaryngology-No Surg                  | 10 | 1.00 |
| Pathology-No Surg                            | 10 | 1.00 |
| Pediatrics-No Surg                           | 10 | 1.00 |
| Pharmacology-Clinical                        | 10 | 1.00 |
| Physiatry-Phys Med/Rehab                     | 10 | 1.00 |
| Physician-No Surg-NOC                        | 10 | 1.00 |
| Plastic-No Surg-NOC                          | 10 | 1.00 |
| Public Health                                | 10 | 1.00 |
| Radiology-Diagnostic-No Surg                 | 10 | 1.00 |
| Rheumatology-No Surg                         | 10 | 1.00 |
| Rhinology-No Surg                            | 10 | 1.00 |
| Thoracic-No Surg-NOC                         | 10 | 1.00 |
| Urology-No Surg-NOC                          | 10 | 1.00 |
| Vascular-No Surg-NOC                         | 10 | 1.00 |
| Oncology-No Surg-NOC                         | 15 | 1.20 |
| Pulmonary Disease-No Surg                    | 15 | 1.20 |
| Allergy-Minor Surg-Asst Own Pts              | 20 | 1.52 |
| Anesthesiology                               | 20 | 1.52 |
| Cardiovascular Diseases-Min Surg             | 20 | 1.52 |
| Colon & Rectal-Minor Surgery-Asst Own        | 20 | 1.52 |
| Dermatology-Min Surg                         | 20 | 1.52 |
| Diabetes-Min Surg                            | 20 | 1.52 |
| Endocrinology-Min Surg                       | 20 | 1.52 |
| Family Practice or General Practice-Min Surg | 20 | 1.52 |
| Gastroenterolgy-Min Surg                     | 20 | 1.52 |
| Geriatrics-Min Surg                          | 20 | 1.52 |
| Gynecology-Min Surg                          | 20 | 1.52 |
| Hand-Minor Surgery-Asst Own Pts              | 20 | 1.52 |
| Head & Neck-Minor Surgery-Asst Own           | 20 | 1.52 |
| Hematology-Min Surg                          | 20 | 1.52 |
| Infectious Disease-Min Surg                  | 20 | 1.52 |
| Intensive Care Medicine                      | 20 | 1.52 |
| Internal Medicine-Min Surg                   | 20 | 1.52 |
| Laryngology-Min Surg                         | 20 | 1.52 |
| Neoplastic Disease-Min Surg                  | 20 | 1.52 |
| Nephrology-Min Surg                          | 20 | 1.52 |
| Neurology-Incl Child-Min Surg                | 20 | 1.52 |

|  |    |      |
|--|----|------|
| Nuclear Medicine-Minor Surgery-No Rad    | 20 | 1.52 |
| Occupational Medicine-Minor Surgery-Asst | 20 | 1.52 |

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|   |    |      |
|---|----|------|
| Ophthalmology-Min Surg                  | 20 | 1.52 |
| Orthopedics-Minor Surgery-Asst Own      | 20 | 1.52 |
| Otology-Min Surg                        | 20 | 1.52 |
| Otorhinolaryngology-Min Surg            | 20 | 1.52 |
| Pathology-Min Surg                      | 20 | 1.52 |
| Pediatrics-Min Surg                     | 20 | 1.52 |
| Physician-Min Surg-NOC                  | 20 | 1.52 |
| Plastic-Minor Surgery-Asst Own Pts      | 20 | 1.52 |
| Psychiatry-Incl ECT-No Maj              | 20 | 1.52 |
| Pulmonary Disease-Minor Surgery         | 20 | 1.52 |
| Radiology-Diagnostic-Min Surg           | 20 | 1.52 |
| Rhinology-Min Surg                      | 20 | 1.52 |
| Rheumatology-Minor Surgery-Asst Own     | 20 | 1.52 |
| S-Ophthalmology                         | 20 | 1.52 |
| Sports Medicine-Min Surg                | 20 | 1.52 |
| S-Family Practice-Ob-No C-Sections      | 25 | 2.00 |
| S-Urological                            | 25 | 2.00 |
| Broncho-Esophagology                    | 30 | 2.31 |
| Cardivasc Dis-Incl Cath-No Maj          | 30 | 2.31 |
| Dermatology-Incl Rad Therapy            | 30 | 2.31 |
| Emergency Medicine-No Maj Surg          | 30 | 2.31 |
| Lasers-Used in Therapy                  | 30 | 2.31 |
| Neonatology                             | 30 | 2.31 |
| Neurology-Incl ECT-No Maj Surg          | 30 | 2.31 |
| Neurology-Maj Risk Proc-No Maj Surg     | 30 | 2.31 |
| Nuclear Med-Incl Rad Ther-No Maj        | 30 | 2.31 |
| Pediatrics-Maj Risk Proc-No Surg        | 30 | 2.31 |
| Physician-No Maj-Acupunture             | 30 | 2.31 |
| Physician-No Maj-Angiography            | 30 | 2.31 |
| Physician-No Maj-Arteriography          | 30 | 2.31 |
| Physician-No Maj-Catheterization        | 30 | 2.31 |
| Physician-No Maj-Colonoscopy            | 30 | 2.31 |
| Physician-No Maj-Discograms             | 30 | 2.31 |
| Physician-No Maj-ERCP                   | 30 | 2.31 |
| Physician-No Maj-Laparoscopy            | 30 | 2.31 |
| Physician-No Maj-Lasers-Used in therapy | 30 | 2.31 |
| Physician-No Maj-Lymphangiography       | 30 | 2.31 |
| Physician-No Maj-Myleography            | 30 | 2.31 |
| Physician-No Maj-Needle Biopsy          | 30 | 2.31 |
| Physician-No Maj-Phlebography           | 30 | 2.31 |

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|  |    |      |
|--|----|------|
| Physician-No Maj-Pneumatic/Mech Esoph Dilation | 30 | 2.31 |
| Physician-No Maj-Pneumoencephalography         | 30 | 2.31 |
| Physician-No Maj-Radiation Therapy             | 30 | 2.31 |
| Physician-No Maj-Radiopaque Dye                | 30 | 2.31 |
| Physicians-Maj Risk Proc-No Surg               | 30 | 2.31 |
| S-Endocrinology                                | 30 | 2.31 |
| S-Gastroenterology                             | 30 | 2.31 |
| S-Geriatrics                                   | 30 | 2.31 |
| S-Neoplastic                                   | 30 | 2.31 |
| S-Nephrology                                   | 30 | 2.31 |
| Emergency Medicine-Incl Maj Surg               | 40 | 2.96 |
| S-Family Practice-OB-C-Sections                | 40 | 2.96 |
| S-Otorhinolaryngology                          | 40 | 2.96 |
| S-Rhinology                                    | 40 | 2.96 |
| S-Dermatologic                                 | 43 | 3.00 |
| S-General                                      | 46 | 3.62 |
| Foot and Ankle Surgery                         | 50 | 4.41 |
| Oral Maxillofacial Surgery                     | 50 | 4.41 |
| S-Abdominal                                    | 50 | 4.41 |
| S-Colon & Rectal                               | 50 | 4.41 |
| S-Laryngology                                  | 50 | 4.41 |
| S-Neonatology                                  | 50 | 4.41 |
| S-Otology                                      | 50 | 4.41 |
| S-Plastic-Otorhinolaryngology                  | 50 | 4.41 |
| S-Cardiac                                      | 60 | 4.93 |
| S-Gynecology                                   | 60 | 4.93 |
| S-Hand   | 60 | 4.93 |
| S-Head & Neck                                  | 60 | 4.93 |
| S-Obstetrics                                   | 60 | 4.93 |
| S-Orthopedic-Excl Spine                        | 60 | 4.93 |
| S-Plastic-NOC                                  | 60 | 4.93 |

|                            |     |      |
|----------------------------|-----|------|
| S-Orthopedic-Incl Spine    | 70  | 5.98 |
| S-Thoracic                 | 70  | 5.98 |
| S-Vascular                 | 70  | 5.98 |
| Fetal & Maternal Medicines | 80  | 7.37 |
| S-Cardiovascular Disease   | 80  | 7.37 |
| S-OB/GYN                   | 80  | 7.37 |
| S-Traumatic                | 80  | 7.37 |
| S-Neurology-Incl Child     | 100 | 9.21 |

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<TABLE>  
<CAPTION>  
ALLOCATION SCHEDULE - NEBRASKA

| Practice DESCRIPTION<br>-----               | Rate | Shares per Year<br>(Rate<br>Relativity) |
|---|------|---|
| <S>   | <C>  | <C>                                     |
| Administrative Medicine-No Surg-NOC         | 7    | 0.70                                    |
| Ltd Gen Practice-No Surg-NOC                | 7    | 0.70                                    |
| Psychiatry-Incl Child-No ECT-No Surg        | 10   | 1.00                                    |
| Psychoanalysis                              | 10   | 1.00                                    |
| Psychosomatic Medicine                      | 10   | 1.00                                    |
| Aerospace Medicine                          | 10   | 1.00                                    |
| Allergy                                     | 10   | 1.00                                    |
| Cardiovascular Diseases-No Surg             | 10   | 1.00                                    |
| Colon & Rectal-No Surg-NOC                  | 10   | 1.00                                    |
| Dermatology-No Surg                         | 10   | 1.00                                    |
| Diabetes-No Surg                            | 10   | 1.00                                    |
| Endocrinology-No Surg                       | 10   | 1.00                                    |
| Family Practice or General Practice-No Surg | 10   | 1.00                                    |
| Forensic/Legal Medicine                     | 10   | 1.00                                    |
| Gastroenterology-No Surg                    | 10   | 1.00                                    |
| General Preventive Medicine-No Surg         | 10   | 1.00                                    |
| Geriatrics-No Surg                          | 10   | 1.00                                    |
| Gynecology-No Surg                          | 10   | 1.00                                    |
| Hand-No Surg-NOC                            | 10   | 1.00                                    |
| Head & Neck-No Surg-NOC                     | 10   | 1.00                                    |
| Hematology-No Surg                          | 10   | 1.00                                    |
| Hypnosis                                    | 10   | 1.00                                    |
| Infectious Disease-No Surg                  | 10   | 1.00                                    |
| Internal Medicine-No Surg                   | 10   | 1.00                                    |
| Laryngology-No Surg                         | 10   | 1.00                                    |
| Neoplastic Disease-No Surg                  | 10   | 1.00                                    |
| Nephrology-No Surg                          | 10   | 1.00                                    |
| Neurology-Incl Child-No Surg                | 10   | 1.00                                    |
| Nuclear Medicine                            | 10   | 1.00                                    |
| Nutrition                                   | 10   | 1.00                                    |
| OB/GYN-No Surg-NOC                          | 10   | 1.00                                    |
| Obstetrics-No Surg-NOC                      | 10   | 1.00                                    |
| Occupational Medicine                       | 10   | 1.00                                    |
| Ophthalmology-No Surg                       | 10   | 1.00                                    |
| Orthopedics-No Surg-NOC                     | 10   | 1.00                                    |

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|                                       |    |      |
|---------------------------------------|----|------|
| Otology-No Surg                       | 10 | 1.00 |
| Otorhinolaryngology-No Surg           | 10 | 1.00 |
| Pathology-No Surg                     | 10 | 1.00 |
| Pediatrics-No Surg                    | 10 | 1.00 |
| Pharmacology-Clinical                 | 10 | 1.00 |
| Physiatry-Phys Med/Rehab              | 10 | 1.00 |
| Physician-No Surg-NOC                 | 10 | 1.00 |
| Plastic-No Surg-NOC                   | 10 | 1.00 |
| Public Health                         | 10 | 1.00 |
| Radiology-Diagnostic-No Surg          | 10 | 1.00 |
| Rheumatology-No Surg                  | 10 | 1.00 |
| Rhinology-No Surg                     | 10 | 1.00 |
| Thoracic-No Surg-NOC                  | 10 | 1.00 |
| Urology-No Surg-NOC                   | 10 | 1.00 |
| Vascular-No Surg-NOC                  | 10 | 1.00 |
| Pulmonary Disease-No Surg             | 10 | 1.00 |
| Oncology-No Surg-NOC                  | 15 | 1.20 |
| Allergy-Minor Surg-Asst Own Pts       | 20 | 1.67 |
| Cardiovascular Diseases-Min Surg      | 20 | 1.67 |
| Colon & Rectal-Minor Surgery-Asst Own | 20 | 1.67 |
| Dermatology-Min Surg                  | 20 | 1.67 |
| Diabetes-Min Surg                     | 20 | 1.67 |
| Endocrinology-Min Surg                | 20 | 1.67 |



|  |    |      |
|--|----|------|
| Family Practice or General Practice-Min Surg | 20 | 1.67 |
| Gastroenterology-Min Surg                    | 20 | 1.67 |
| Geriatrics-Min Surg                          | 20 | 1.67 |
| Gynecology-Min Surg                          | 20 | 1.67 |
| Hand-Minor Surgery-Asst Own Pts              | 20 | 1.67 |
| Head & Neck-Minor Surgery-Asst Own           | 20 | 1.67 |
| Hematology-Min Surg                          | 20 | 1.67 |
| Infectious Disease-Min Surg                  | 20 | 1.67 |
| Intensive Care Medicine                      | 20 | 1.67 |
| Internal Medicine-Min Surg                   | 20 | 1.67 |
| Laryngology-Min Surg                         | 20 | 1.67 |
| Neoplastic Disease-Min Surg                  | 20 | 1.67 |
| Nephrology-Min Surg                          | 20 | 1.67 |
| Neurology-Incl Child-Min Surg                | 20 | 1.67 |
| Nuclear Medicine-Minor Surgery-No Rad        | 20 | 1.67 |
| Occupational Medicine-Minor Surgery-Asst     | 20 | 1.67 |
| Ophthalmology-Min Surg                       | 20 | 1.67 |

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|  |    |      |
|--|----|------|
| Orthopedics-Minor Surgery-Asst Own             | 20 | 1.67 |
| Otology-Min Surg                               | 20 | 1.67 |
| Otorhinolaryngology-Min Surg                   | 20 | 1.67 |
| Pathology-Min Surg                             | 20 | 1.67 |
| Pediatrics-Min Surg                            | 20 | 1.67 |
| Physician-Min Surg-NOC                         | 20 | 1.67 |
| Plastic-Minor Surgery-Asst Own Pts             | 20 | 1.67 |
| Psychiatry-Incl ECT-No Maj                     | 20 | 1.67 |
| Pulmonary Disease-Minor Surgery                | 20 | 1.67 |
| Radiology-Diagnostic-Min Surg                  | 20 | 1.67 |
| Rhinology-Min Surg                             | 20 | 1.67 |
| Rheumatology-Minor Surgery-Asst Own            | 20 | 1.67 |
| Sports Medicine-Min Surg                       | 20 | 1.67 |
| Anesthesiology                                 | 30 | 2.18 |
| S-Ophthalmology                                | 30 | 2.18 |
| S-Family Practice-Ob-No C-Sections             | 30 | 2.18 |
| S-Urological                                   | 30 | 2.18 |
| Broncho-Esophagology                           | 30 | 2.18 |
| Cardivasc Dis-Incl Cath-No Maj                 | 30 | 2.18 |
| Dermatology-Incl Rad Therapy                   | 30 | 2.18 |
| Lasers-Used in Therapy                         | 30 | 2.18 |
| Neonatology                                    | 30 | 2.18 |
| Neurology-Incl ECT-No Maj Surg                 | 30 | 2.18 |
| Neurology-Maj Risk Proc-No Maj Surg            | 30 | 2.18 |
| Nuclear Med-Incl Rad Ther-No Maj               | 30 | 2.18 |
| Pediatrics-Maj Risk Proc-No Surg               | 30 | 2.18 |
| Physician-No Maj-Acupunture                    | 30 | 2.18 |
| Physician-No Maj-Angiography                   | 30 | 2.18 |
| Physician-No Maj-Arteriography                 | 30 | 2.18 |
| Physician-No Maj-Catheterization               | 30 | 2.18 |
| Physician-No Maj-Colonoscopy                   | 30 | 2.18 |
| Physician-No Maj-Discograms                    | 30 | 2.18 |
| Physician-No Maj-ERCP                          | 30 | 2.18 |
| Physician-No Maj-Laparoscopy                   | 30 | 2.18 |
| Physician-No Maj-Lasers-Used in therapy        | 30 | 2.18 |
| Physician-No Maj-Lymphangiography              | 30 | 2.18 |
| Physician-No Maj-Myleography                   | 30 | 2.18 |
| Physician-No Maj-Needle Biopsy                 | 30 | 2.18 |
| Physician-No Maj-Phlebography                  | 30 | 2.18 |
| Physician-No Maj-Pneumatic/Mech Esoph Dilation | 30 | 2.18 |

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|  |    |      |
|--|----|------|
| Physician-No Maj-Pneumoencephalography | 30 | 2.18 |
| Physician-No Maj-Radiation Therapy     | 30 | 2.18 |
| Physician-No Maj-Radiopaque Dye        | 30 | 2.18 |
| Physicians-Maj Risk Proc-No Surg       | 30 | 2.18 |
| S-Endocrinology                        | 30 | 2.18 |
| S-Gastroenterology                     | 30 | 2.18 |
| S-Geriatrics                           | 30 | 2.18 |
| S-Neoplastic                           | 30 | 2.18 |
| S-Nephrology                           | 30 | 2.18 |
| S-Colon & Rectal                       | 30 | 2.18 |
| Emergency Medicine-No Maj Surg         | 40 | 2.71 |
| S-Family Practice-OB-C-Sections        | 40 | 2.71 |
| S-Otorhinolaryngology                  | 40 | 2.71 |
| S-Rhinology                            | 40 | 2.71 |
| S-Laryngology                          | 40 | 2.71 |
| S-Otology                              | 40 | 2.71 |

|                                  |    |      |
|----------------------------------|----|------|
| Oral Maxillofacial Surgery       | 50 | 4.00 |
| Emergency Medicine-Incl Maj Surg | 60 | 4.26 |
| S-Dermatologic                   | 60 | 4.26 |
| S-General                        | 60 | 4.26 |
| S-Abdominal                      | 60 | 4.26 |
| S-Neonatology                    | 60 | 4.26 |
| S-Plastic-Otorhinolaryngology    | 60 | 4.26 |
| S-Gynecology                     | 60 | 4.26 |
| S-Hand                           | 60 | 4.26 |
| S-Head & Neck                    | 60 | 4.26 |
| S-Plastic-NOC                    | 60 | 4.26 |
| Foot and Ankle Surgery           | 70 | 5.50 |
| S-Cardiac                        | 70 | 5.50 |
| S-Orthopedic-Excl Spine          | 70 | 5.50 |
| S-Orthopedic-Incl Spine          | 70 | 5.50 |
| S-Thoracic                       | 70 | 5.50 |
| S-Vascular                       | 70 | 5.50 |
| S-Cardiovascular Disease         | 70 | 5.50 |
| S-Traumatic                      | 70 | 5.50 |
| S-Obstetrics                     | 80 | 6.52 |
| Fetal & Maternal Medicines       | 80 | 6.52 |
| S-OB/GYN                         | 80 | 6.52 |
| S-Neurology-Incl Child           | 90 | 7.86 |

</TABLE>

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PART II  
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following are the estimated expenses to be paid by the Midwest Holding in connection with the distribution of the securities being registered. All such expenses are estimated, except for the SEC registration fee:

|   |                 |
|---|-----------------|
| <TABLE>                                   |                 |
| <S>                                       |                 |
| SEC registration fee . . . . .            | \$6,372.00      |
| Accounting fees and expenses . . . . .    | 10,000.00       |
| Legal fees and expenses . . . . .         | 10,000.00       |
| Printing and engraving expenses . . . . . | 10,000.00       |
| Blue Sky fees and expenses . . . . .      | 5,000.00        |
| Miscellaneous expenses . . . . .          | 628.00          |
| <br>Total . . . . .                       | <br>\$42,000.00 |
|   | -----           |
|   | -----           |

</TABLE>

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Article X of the Bylaws of the registrant provides that each director, committee member, officer, and employee shall be indemnified for expenses and liabilities in the manner, under the circumstances, and to the extent permitted by Minnesota Statutes, Section 302A.521, as amended from time to time. Indemnification is also extended to certain consultants, agents, directors, officers and employees of subsidiaries of the registrant.

Minnesota Statutes, Section 302A.521, generally requires a corporation to indemnify its directors, officers, and employees against judgments, penalties, fines, and expenses, including attorney's fees, incurred in connection with their official capacities, provided that such person (i) has not been indemnified by another with respect to the same matter, (ii) acted in good faith, (iii) received no improper personal benefit, (iv) had no reasonable cause to believe that his conduct was unlawful, and (v) reasonably believed that his conduct was in the best interests of the corporation.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

The registrant has made no sales of unregistered securities in the last three years.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

- (a) Exhibits.

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- (3) 3A. Restated Articles of Incorporation of the registrant

- (3) 3B. Bylaws of the registrant, as amended (Form S-4, Exhibit 3D).
- (6) 5. Opinion and Consent of Best & Flanagan LLP
- (1) 9. Voting Trust Agreement between the Minnesota Medical Association and the Iowa Medical Society.
- (1) 10A. Governance Agreement between the registrant and the Minnesota Medical Association, holder of the registrant's Class B Common Share, dated November 30, 1998.
- (1) 10B. Lease for office space between the registrant and Lexington Property Fund, L.P., dated November 1, 1997.
- 10C. Management Agreement between the registrant and Midwest Medical Insurance Company dated November 30, 1998, as amended January 1, 1990, January 1, 1991 and January 1, 1996. (Incorporated herein by reference to the Annual Report on Form 10-K, SEC file number 0-21230, filed by registrant for the year ended December 31, 1996.)
- (1) 10D. Agency Agreement with Vaaler Insurance, Inc. pursuant to which Vaaler acted as agent of Midwest Medical in North Dakota, dated April 21, 1989.
- (5) 10E. Agreement of Reinsurance between Midwest Medical Insurance Company and General Reinsurance Corporation, dated January 1, 1998.
- (2) 10F. Letter Employment Agreement between the registrant and David P. Bounk, President and Chief Executive Officer of the registrant and Midwest Medical Insurance Company, dated January 1, 1993.
- (5) 10G. 1998 Officers Short-Term Incentive Plan of the registrant.
- (4) 10H. Amended and Restated Supplemental Executive Retirement Plan of the registrant.
- 10I. Agency Agreement with IMS Services, Inc. pursuant to which IMS acts as agent of Midwest Medical in Iowa, dated July 1, 1993. (Incorporated herein by reference to the Report on Form 10-K filed by the registrant for the fiscal year ended December 31, 1993, file number 0-21230.)

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- (4) 10J. Form of Termination Agreement with Executive Officers.
- (5) 21. Subsidiaries of the registrant.
- \* 23A. Consent of Ernst & Young LLP
- (6) 24. Powers of Attorney.
- (5) 27. Financial Data Schedule.
- (1) Incorporated herein by reference to the registration statement on Form S-4, file number 33-55062, filed by registrant on November 25, 1993, as amended.
- (2) Incorporated herein by reference to the registration statement on Form S-1, SEC file number 33-70182, filed by registrant on October 12, 1993, as amended.
- (3) Incorporated herein by reference to the registration statement on Form S-4, SEC file number 333-00134, filed by registrant on January 10, 1996, as amended.
- (4) Incorporated herein by reference to the registration statement on Form S-1, SEC file number 333-29047, filed by registrant on June 11, 1997, as amended.
- (5) Incorporated herein by reference to the Annual report on Form 10-K filed by registrant for the year ended December 31, 1998.
- (6) Filed with original registration statement SEC file number 333-76999, on April 26, 1999.
- (\*) Filed herewith.

(b) Financial Statement Schedules.

The following financial statement schedules of the Midwest Holding required by Regulation S-X and Form S-1 are filed as part of this Registration Statement:

II. Condensed Financial Information of Registrant (Parent Company)--Balance Sheets--December 31, 1998 and 1997, Statements of Income--For the Years Ended December 31, 1998 and 1997 and 1996; and, Statements of Cash Flows--For the Years Ended December 31, 1998, 1997 and 1996. Included in "FINANCIAL STATEMENTS" Section of Prospectus filed herewith.

IV. Reinsurance Summary for the Years Ended December 31, 1998, 1997 and 1996. Included in "FINANCIAL STATEMENTS" section of Prospectus filed herewith.

VI. Supplemental Information Concerning Property/Casualty Insurance

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Operations--December 31, 1998 and 1997, and for Each of the Three Years in the Period Ended December 31, 1998. Included in "FINANCIAL STATEMENTS" section of Prospectus filed herewith.

ITEM 17. UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

- (i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;
- (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement;
- (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) If the registrant is a foreign private issuer, to file a post-effective amendment to the registrant statement to include any financial statements required by 3-19 of Regulation S-X at the start of any delayed offering or throughout a continuous offering.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses

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incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of

SIGNATURES

Pursuant to the requirements of the Securities Act, the registrant has duly caused this Amendment Number 1 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Minneapolis, State of Minnesota, on July 26, 1999.

MIDWEST MEDICAL INSURANCE HOLDING COMPANY

By: /s/ David P. Bounk

-----  
David P. Bounk, President and  
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment Number 1 to the Registration Statement has been signed by the following persons in the capacities indicated on July 26, 1999.

| SIGNATURE<br>-----                            | CAPACITY<br>-----   |
|---|---|
| /s/ David P. Bounk<br>-----<br>David P. Bounk | Principal Executive Officer and Director                        |
| /s/ Niles A. Cole<br>-----<br>Niles A. Cole   | Principal Financial Officer and<br>Principal Accounting Officer |
| *<br>-----                                    | Director, Chairman of the Board                                 |
| Andrew J.K. Smith, M.D.<br>*<br>-----         | Director  |
| Michael Abrams<br>*<br>-----                  | Director  |
| John R. Balfanz, M.D.<br>*<br>-----           | Director  |
| Gail P. Bender, M.D.<br>*<br>-----            | Director  |
| James R. Bishop, M.D.<br>*<br>-----           | Director  |
| Roger L. Frerichs, M.D.<br>*<br>-----         | Director  |
| G. Richard Geier, M.D.<br>*<br>-----          | Director  |
| Anthony C. Jaspers, M.D.<br>*<br>-----        | Director  |
| Russel J. Kuzel, M.D.<br>*<br>-----           | Director  |
| Wayne F. Leebaw, M.D.<br>*<br>-----           | Director  |

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|  |          |
|--|----------|
| Stephen A. McCue, M.D.<br>-----              | Director |
| William J. McMillan, Jr., M.D.<br>*<br>----- | Director |
| Harold W. Miller, M.D.<br>*<br>-----         | Director |
| Anton S. Nesse, M.D.<br>*<br>-----           | Director |

Mark D. Odlund, M.D.  
\*  
-----  
Director

G. William Orr, M.D.  
\*  
-----  
Director

Norman Rinderknecht, M.D.  
\*  
-----  
Director

Paul S. Sanders, M.D.  
\*  
-----  
Director

Richard D. Schmidt, M.D.  
\*  
-----  
Director

Judith F. Shank, M.D.  
\*  
-----  
Director

G. David Spoelhof, M.D.  
\*  
-----  
Director

Tom D. Throckmorton, M.D.  
\*  
-----  
Director

Bruce R. Trimble, M.D.

\*By: /s/ David P. Bounk

-----  
David P. Bounk pursuant to  
power of attorney

The above persons signing as directors constitute all of the directors of the registrant.

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EXHIBIT INDEX

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| 23.     | Consent of Ernst & Young LLP |           |  |

</TABLE>

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our reports dated February 1, 1999, in Amendment Number 1 to the Registration Statement (Form S-1) and related Prospectus of Midwest Medical Insurance Holding Company and Subsidiaries dated July 26, 1999.

/s/ Ernst & Young LLP

Minneapolis, Minnesota  
July 26, 1999