

What Sets Texas Mutual Apart?

Texas Mutual is financially strong and stable, and we will continue to serve Texas. We are not immune to the volatility in the markets, but three factors set us apart from the companies whose financial difficulties have made headlines.


First, we have no debt. Second, our business revenues fund our operations, so we do not have to sell investments at a loss to meet financial obligations. Third, we have forged strong relationships with our customers, and they are staying loyal to us.


Texas Mutual had another record year, writing \$768.3 million in premiums. We attribute the increase largely to our 82 percent policyholder retention rate and growth in our customers' payrolls.

When Texas Mutual does well, we share our success with our customers. In 2008, we distributed a company record of more than \$166 million in dividends to policyholders who share our commitment to preventing workplace accidents.

We know that our solid financial condition does not mean we can rest easy. We anticipate more competition and slower policyholder payroll growth in 2009.

Texas Mutual will continue to control its operating costs and manage its policyholders' premium dollars responsibly. That approach will keep us strong and allow us to stay focused on serving Texas. Our management and staff are determined to fulfill their long-term commitment to employers, employees and agents.


Bob Barnes
Chairman

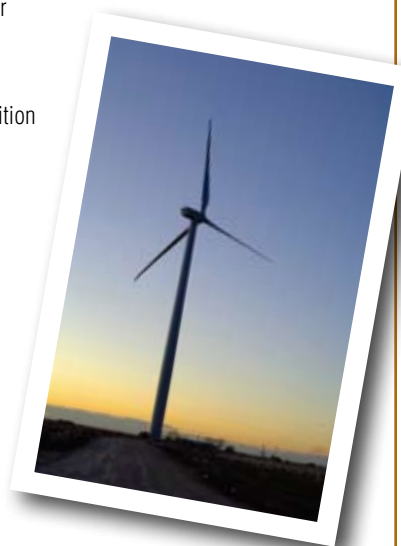

Russell R. Oliver
President



Chairman Bob Barnes (left)
and President Russell R. Oliver

2008 at a glance

- Issued more than \$78 million in network discounts
- Paid a company record of more than \$166 million in group and individual policyholder dividends
- Wrote a company-record \$768.3 million in premium
- Granted \$32,142 in college scholarships
- Offered three new group discount programs
- Raised \$146,241 for the United Way through employee contributions and pledges
- Saved or recovered \$4.1 million through our zero tolerance for fraud program
- Earned national recognition for making it easy for agents to do business with us



Board of Directors

Bob Barnes
Chair
Granbury

Judy Broussard
Vice Chair
Levelland

Delia Reyes
Secretary
Dallas

Richard A. Cooper
Lubbock

Jay Eisen
Beaumont

Linda Foster
Midland

James D. Ross
Midland

George Wesch Jr.
San Antonio

Charles Whiteside
Kilgore

Corporate Mission

To provide a stable, competitive source of workers' compensation insurance for Texas employers, act as insurer of last resort, and help to prevent on-the-job injuries and illnesses and minimize their consequences.

Executive Officers

Russell R. Oliver
President

Ron Wright
Chief Operating Officer

Mike Barron
Senior Vice President
Financial Services

Lisa Corless
Senior Vice President
Claim and Information Services

Elliott Flood
Senior Vice President
Internal Audit

Terry Frakes
Senior Vice President
Public Affairs

Cecily Gallagher
Senior Vice President
Underwriting and
Actuarial Services

Randy Johnson
Senior Vice President
Investments

Bill McLellan
Senior Vice President
Information Technology

Mary Nichols
Senior Vice President and
General Counsel

Lynette Caldwell
Vice President
Human Resources

Ernest Stokey
Vice President
Premium Audit and Recovery

Here for Texas. Here to Stay.

Texas Mutual Insurance Company
2008 Annual Report

TexasMutual[®]
Insurance Company

HERE FOR TEXAS. HERE TO STAY.™

(800) 859-5995
texasmutual.com

Financial Highlights

For the year ended December 31, 2008 (in thousands)

Gross premiums written	\$768,319
Gross premiums earned	\$765,477
Net premiums earned	\$755,954
Net investment income	\$37,460
Other income	\$112

Claim benefits paid and incurred	\$489,916
Underwriting expense	\$192,085
Dividends to policyholders	\$166,239
Provision for uncollectible premiums	\$475

Net loss	(\$55,189)
----------	------------

At December 31, 2008

(in thousands, except number of policyholders and employees covered)

Admitted assets	\$3,403,558
Liabilities	\$2,478,669
Policyholders' surplus	\$924,889

Number of policies in force	47,947
Number of employees covered on policies in force	924,545

Key indicators, year ended December 31, 2008

Incurred loss ratio *	64.0%
Statutory combined ratio	90.2%
Combined ratio including dividends	112.1%
Premiums written to surplus ratio	0.83:1

* Ratio calculated as a percentage of gross premiums earned

The financial amounts listed above were prepared in accordance with Statutory Accounting Principles.

Here for Texas. Here to Stay.

Dividends

A dividend is essentially a monetary reward for policyholders who help Texas Mutual control costs. Employers who prevent workplace accidents and help injured workers return to the job improve their prospects of qualifying.

This year, we distributed about \$150 million in individual dividends among more than 38,000 policyholders. Half of the \$150 million came in the form of a special dividend. Texas Mutual's board of directors declared the special dividend in recognition of the company's outstanding 2007 financial results.

Premium discounts

In 2008, we partnered with agents to offer three new group discount programs: Texas Construction Supply, Texas Recreation Purchasing Group and Texas Lodging Group.

Employers who join a group get a premium discount, an industry-specific safety plan, and potential group and individual dividends. Most policyholders can earn an additional 12 percent annual discount by enrolling in our workers' compensation health care network.

Health care network

Texas Mutual launched its workers' compensation health care network in 2006 to help injured workers return to productive employment and give employers another tool for managing their claims. The network is working exactly as we envisioned, according to the second annual network report card issued by the Texas Department of Insurance:

- Medical costs on in-network claims are 6 percent lower than non-network claims.
- In-network patients return to work an average of 24 percent sooner than non-network patients.
- In-network patients report similar access to care as non-network patients.

Network policyholders benefit from a team of health care professionals dedicated to helping their injured workers get well and back on the job. Network doctors coordinate with certified network case managers to identify return-to-work opportunities.

In 2008, we expanded our network service area. The network is available in 231 of Texas' 254 counties.

Safety grants

In 2008, Texas Mutual awarded \$300,000 in grants to Kilgore College, Midland College and College of the Mainland in Texas City. The grants fund free health and safety courses for area employers, employees and the general public.

Texas Mutual® online safety tools

Any employer can visit texasmutualsafetyfirst.com to learn three easy steps to a better safety program. Our policyholders can also use the free safety resource center at texasmutual.com to uncover and correct the root causes of workplace accidents, download safety programs, and get DVDs, videos and other safety training materials.

Personal service

In 2008, Texas Mutual's loss prevention staff made nearly 10,000 work site visits. They helped policyholders correct safety hazards and make safety part of their company culture.

They also shared their knowledge with Texas employers during our free workers' compensation workshops. Workshop guests learned how to prevent accidents, help injured workers return to productive employment and fight workers' compensation fraud.

United Way campaign

We have raised \$1.5 million for the United Way since 1993, including a company-record \$146,241 in 2008. The United Way invests the money in the financial stability, health and education of our neighbors in Austin, Dallas, Houston and Lubbock.

In 2008, the United Way recognized Texas Mutual for hosting an educational, organized and successful employee giving campaign.

Year-round giving

The United Way campaign is Texas Mutual's biggest charitable event of the year, but it is not our only one.

This fall, our Dallas regional office donated more than 1,100 canned goods and nonperishable items to Arlington Charities. Dallas regional office employees' giving nature is common in every Texas Mutual office. Our employees donate school supplies to area children, give blood to local blood banks and collect holiday gifts for the elderly.

