



loyalty. partnership. TRUST.

[2010 ANNUAL REPORT]



Annual letter to our policyholders

A. Dale Jenkins
CHIEF EXECUTIVE OFFICER

Thomas H. McCoy, MD
CHAIRMAN



THANK YOU FOR TAKING TIME TO READ OUR INAUGURAL, INTERACTIVE, WEB-BASED ANNUAL REPORT.

Thank you for taking time to read our inaugural, interactive, web-based Annual Report to the Members of Medical Mutual. We have worked tirelessly to develop effective and efficient means of communicating with the thousands of physicians who comprise the Medical Mutual family — which is not a particularly easy task given the busy schedules and heavy workloads of our members. We believe technology offers exciting new possibilities for enhanced communications and, accordingly, we want to maximize the opportunities it offers. We hope you enjoy reading the report, and we welcome

your thoughts and comments regarding its new format.

As you will see in the information that follows, Medical Mutual experienced exceptionally strong financial results for 2010. New records were achieved with respect to the amount of assets, capital and surplus, and net income recorded by the Company. Your Company maintained its "A" (Excellent) rating from A.M. Best for the seventh consecutive year, and it remains among the 20 largest writers of physicians' professional liability insurance

in the United States. The Company's balance sheet is strong and its financial resources are considerable. Today, Medical Mutual is well-positioned to protect your professional liability risk and to help you address many of the complex and challenging compliance, regulatory and business issues that you encounter every day.

The excellent financial results achieved were primarily related to three factors: First, claims expense remained favorable, as both paid and incurred losses were less in 2010 compared to

membership

OUR STRONG FINANCIAL RESULTS HAVE PROVIDED US THE OPPORTUNITY TO ELIMINATE ALL EXTERNAL DEBT.

2009 with these results continuing the trends of recent years. We did, however, see a slight (3%) increase in the number of lawsuits filed against Medical Mutual members. History shows that the professional liability insurance industry is very cyclical and signs are beginning to emerge that we have hit the bottom of the cycle with claims starting to increase. At the same time, operating expenses of the Company remained in check, increasing just slightly over 1% from 2009, as Medical Mutual continues to be one of the most efficiently run insurance companies in the industry. Second, investment income increased over 10% from 2009, due to both the growth in the asset base of the Company and the continued focus on diversifying our investment portfolio to asset classes that produce higher than average returns with acceptable levels of risk. Finally, due to favorable claims experience, we received a significant profit sharing payment from our reinsurers that boosted our earnings by over \$6 million.

During 2010, we continued to see a decrease in the amount of premiums we collect. Since

The value of your membership has never been greater.

2007, written premiums have declined by approximately 17%. Two factors are driving this trend. First, we have been able to reduce the cost of insurance for most of our members due to the favorable claims experience that has emerged. Our long-term goal has been, and will continue to be, to eliminate volatile fluctuations with respect to the cost of your professional liability insurance. The financial plan developed by the Company in 2003, coupled with the positive trend in claims, has resulted in the longest period of premium stability in our history. Written premiums have also declined as more and more of our members seek employment with hospitals and health care systems. These shifts have caused our member

counts to decrease by almost 5%. In the current environment, we understand the need for physicians to think strategically about their business model. There are multiple options to consider, and we are eager to help any of our members as they deliberate various alternatives that are available to them.

Our strong financial results have provided us the opportunity to eliminate all external debt. Additionally, we have completely repaid the capital contributions many of you made several years ago. As you know, *The Legacy Fund* was implemented in 2009 to recognize your loyalty and commitment to practicing high quality medicine, and enable you to share in the value of the Company created during your tenure as a member. Recently, the Company's Board of Directors approved a \$20 million allocation to *The Legacy Fund* for 2011. Simultaneously, the Board declared a \$2 million policyholder dividend. This recent announcement brings the aggregate amount allocated to *The Legacy Fund* to over \$41 million. The value of your Medical Mutual membership has never been greater.

We continued to improve our means of doing business in many areas. Using advanced technology, we now offer you the opportunity to conduct many of your policy transactions online via our Policyholder Services system. Data analysis capabilities have been enhanced, permitting a more robust and thorough review of activities and trends, and we have acted on these trends to maximize claim outcomes. We implemented new techniques in claims defense

that further strengthened our recognized skills in this area. We also continued the development of meaningful resources in the form of toolkits to reduce malpractice risk and enhance patient safety and satisfaction. Finally, we expanded the coverage provided in your insurance contract to offer you additional protection for many of the new and burdensome compliance and regulatory liabilities that are now part of your daily practice.

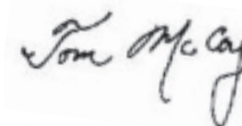
Medical Mutual is a shining example of what physicians can accomplish through collaboration and partnership. We are privileged to interact with bright, energetic and caring physicians every day. We are excited about your future opportunities and stand ready to help you embrace the leadership roles you must assume to successfully navigate the ever-changing healthcare landscape.

Medical Mutual is a shining example of what physicians can accomplish through collaboration and partnership.

A. Dale Jenkins
CHIEF EXECUTIVE OFFICER



Thomas H. McCoy, MD
CHAIRMAN



“THROUGH THEIR GUIDANCE, WE WERE
ABLE TO PRESENT A RATIONAL AND
REASONABLE DEFENSE AND WON OUR CASE.”

“I went to court in 2010 to defend myself against a medical malpractice claim. This was my first in-depth experience with medical malpractice. My legal team was knowledgeable, intelligent and compassionate. Through their guidance, we were able to present a rational and reasonable defense and won our case. Medical Mutual was always in my corner.

“Donna Pace (Medical Mutual’s Claims Representative) and her colleagues were always available and provided expert knowledge. No matter how objective you try to be, a medical malpractice case feels like a very personal attack. What I valued most was the human involvement and moral support I received from my team. They went above and beyond the call of duty for me. I will forever be in their debt. Thank you Donna, John Minier and Shirley Pruitt (Medical Mutual’s panel counsel), and the host of others who helped me through this difficult time.”

R. Mark Rodger, MD
Atlantic Orthopaedics, PA
WILMINGTON, NC



MAINTAINING FINANCIAL STRENGTH

Total assets of the Company grew 10.1% to \$521.7 million.

The Company's policyholders' surplus increased to \$233.2 million, growth of over 19.5% from 2009.

The Company again demonstrated its conservative and financially prudent reserving methodology by setting aside \$178 million to pay future claims.

The Company's net written premiums to surplus ratio decreased to 38.0%, in line with the industry benchmark for companies with an "A" rating from A.M. Best.

The Company's combined ratio — the ratio of claims and expenses incurred compared to earned premiums — was 57.6%.

Balance Sheet

ASSETS

	December 31, 2010	December 31, 2009
Invested Assets	\$ 481,180,725	\$ 431,480,642
Accrued Investment Income	4,568,433	3,866,144
Premiums Receivable	30,894,099	31,673,180
Federal Income Tax Recoverable	0	257,890
Net Deferred Tax Assets	4,210,000	5,360,000
Other Assets	840,548	1,199,137
Total Assets	\$ 521,693,805	\$ 473,836,993

LIABILITIES AND POLICYHOLDERS' SURPLUS

Liabilities		
Loss and Loss Adjustment Expense Reserves	\$ 178,000,000	\$ 180,000,000
Unearned Premium Reserves	37,104,016	39,008,392
Reinsurance Balances Payable	43,167,835	35,982,051
Federal Income Tax Payable	1,293,666	0
Other Liabilities	28,978,181	23,796,245
Total Liabilities	\$ 288,543,698	\$ 278,786,688
Policyholders' Surplus	\$ 233,150,107	\$ 195,050,305
Total Liabilities and Policyholders' Surplus	\$ 521,693,805	\$ 473,836,993

OPERATING HIGHLIGHTS

A.M. Best reaffirmed Medical Mutual's "A" Excellent financial rating for the seventh consecutive year.

The total number of physicians insured by the Company decreased by 419 to 8,379, down from 8,798 at December 31, 2009.

The Company's expense ratio of 11.2% continued to be among the lowest in the industry.

The Company's investment income was more than \$11.7 million.

Net income was \$32.9 million, allowing the Company to maintain the financial ratios necessary to support its strong industry and regulatory ratings, keep premium rates stable, and make a record allocation to *The Legacy Fund*.

Subsidiary operations of the Company contributed an aggregate of \$6.9 million to support the core insurance operations.

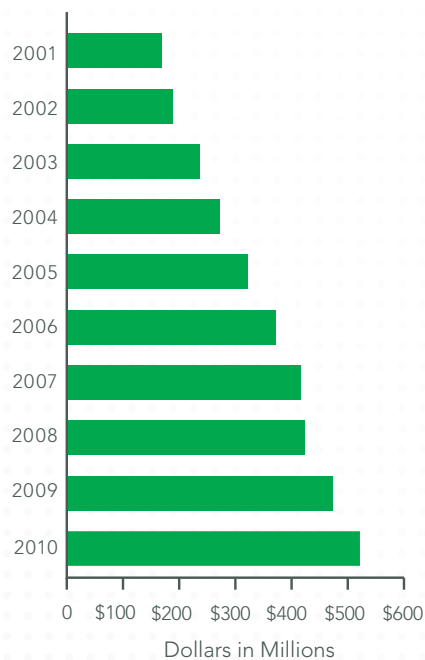
The Company repaid \$5.2 million of Guaranty Capital and allocated \$15 million to *The Legacy Fund* in 2010.

Income Statement Highlights

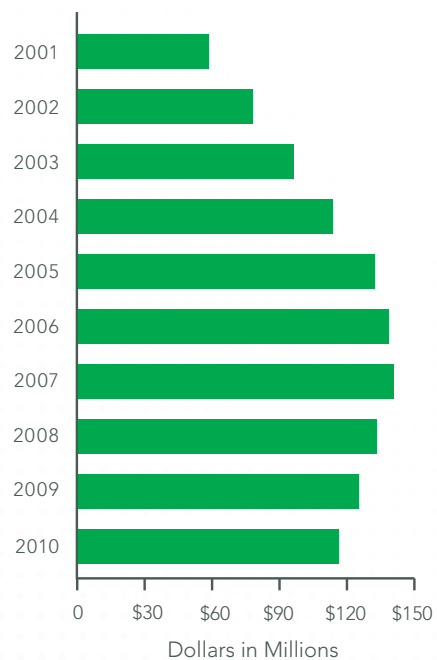
	December 31, 2010	December 31, 2009
Direct Written Premiums	\$ 116,497,502	\$ 125,183,583
Net Earned Premiums	91,227,039	90,446,952
Loss and Loss Adjustment Expenses Incurred	(42,320,023)	(52,210,908)
Other Underwriting Expenses	(10,758,015)	(9,879,189)
Net Investment Income	11,736,551	10,649,566
Net Income	\$ 32,909,454	\$ 25,113,709

	December 31, 2008	December 31, 2007
Direct Written Premiums	\$ 133,409,855	\$ 140,631,147
Net Earned Premiums	92,154,926	95,405,894
Loss and Loss Adjustment Expenses Incurred	(49,673,375)	(56,660,749)
Other Underwriting Expenses	(9,696,888)	(9,645,421)
Net Investment Income	11,128,662	10,937,685
Net Income	\$ 24,802,874	\$ 26,055,543

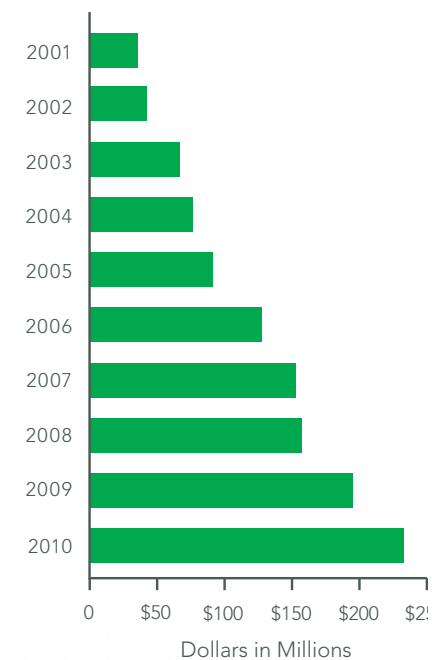
TOTAL ASSETS



DIRECT WRITTEN PREMIUMS



POLICYHOLDERS' SURPLUS



performance

NEW RECORDS WERE ACHIEVED WITH 2010 ASSETS, CAPITAL, POLICYHOLDERS' SURPLUS, AND NET INCOME.

We tried a total of 20 cases in 2010, with only one resulting in a plaintiff verdict. The active pending lawsuit count is 516 — the lowest in over 11 years.

Defending Claims

A total of 839 incidents, claims and suits were reported against Medical Mutual insureds in 2010 — an increase of 9 from the number reported in 2009.

We paid total claims and claim-related expenses of \$42.4 million — a decrease of \$2.9 million from the amount paid in 2009.

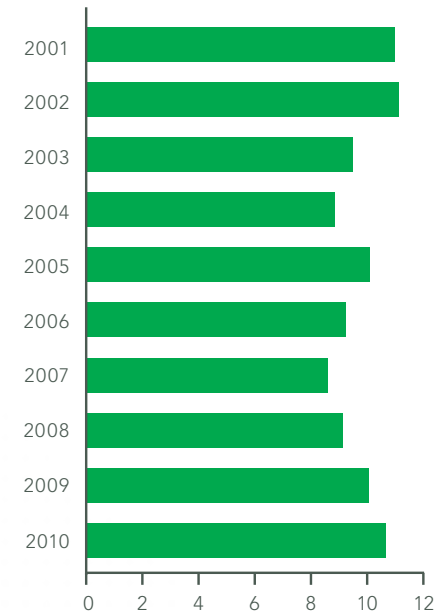
Indemnity payments were made on 56 cases, with 4 payments of \$1 million or more.

We tried a total of 20 cases in 2010, with only one resulting in a plaintiff verdict. The active pending lawsuit count is 516 — the lowest in over 11 years.

We continued our dedication to continuous education of our valued defense attorneys, sponsoring numerous clinical training programs to increase their medical knowledge.

We continue to use eJury as a tool for evaluation of jury outcomes in all matters which we try to a verdict.

CLAIMS REPORTED PER 100 INSURED



dedication

CLAIMS EXPENSE REMAINED FAVORABLE IN 2010



Mary Ellen Workman
Central Carolina Surgery, PA
GREENSBORO, NC

“...THE MEDICAL MUTUAL UMBRELLA COVERS THE FULL GAMUT OF VALUE-ADDED SERVICES FOR MY PRACTICE.”

AN *protection*

“Medical Mutual remains steadfast in their mission to protect the medical profession. As a practice administrator, this translates to confidence, security and peace of mind knowing that when I need expert advice for my physicians and staff, help is an e-mail or phone call away!

“In addition to providing excellence in professional liability protection, the Medical Mutual umbrella covers the full gamut of value-added services for my practice. For example, I depend on *HR|Experts* for professional human resources advice and assistance when I am faced with an HR issue or question!

“I also know that I can count on MED-DEFENSE Plus to extend our professional liability protection by providing reimbursement to help defray the cost of defending alleged violations arising from any number of the myriad of Federal rules now regulating the medical profession.

“Just as Medical Mutual protects our physicians and extenders, the Diamond Sponsorship for the North Carolina Medical Group Managers (NCMGM) provides financial support to enhance medical practice management through education and advocacy. Medical Mutual is a valuable partner for the medical practice profession!”

Risk Management developed **two new toolkits**, *Revenue Integrity* and *Peer Review*, and **one new resource guide**, *Non-Nursing Personnel*. Over 500 kits were distributed to physician practices with an additional 650 kits electronically accessed by members on the Medical Mutual website.

The **Risk Management Discount Program** began for North Carolina members. Thirty-five percent of eligible North Carolina practices enrolled and implemented either the *Patient Satisfaction* or *Informed Consent* toolkit. Practices saved nearly \$2 million in premium in 2010.

Risk Management presented **38 workshops** on *Patient Satisfaction* and *Informed Consent* topics. Over 400 physicians and practice managers attended. Of those who attended, 91% agreed or strongly agreed they would be able to implement either toolkit as a result of attending the workshop.

Approximately **800 medical practice staff** attended Risk Management educational programs with an additional 300 Category 1 CME credit hours awarded to physicians.



Managing Risk and Educating Our Members



The Risk Management Discount Program saved practices nearly \$2 million in premium in 2010.

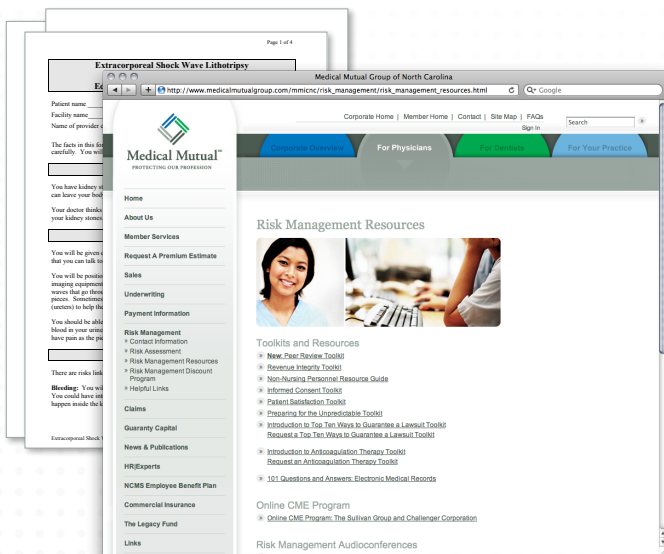
benefits

Risk Management introduced web-based educational sessions, including a *Fall Series* on **Meaningful Use, EMR Selection** and **More Compliance Audits on the Way**. A total of eight live sessions occurred with the *Fall Series* archived for future viewing on the Medical Mutual website.

Risk Management performed **on-site Risk Assessments** for over 650 providers and their practices using the STARS application. With the development of a new radiology-specific assessment, two successful pilots involving over 100 radiologists occurred. As a first, the radiology tool introduced hospital-based self-assessment modules identifying hospital risk exposure.

Development of 23 new *procedure, medication or other treatment-specific* informed consent documents brought the total to nearly **80 forms available to members** on the Medical Mutual website. Each form endured a strict review process with multiple physicians' input, literacy level and CMS guideline evaluations, and defense attorney appraisal.

Risk Management performed on-site Risk Assessments for over 650 providers and their practices in 2010.



Managing Risk and Educating Our Members

“I HAVE BEEN SUPERBLY SUPPORTED BY
MEDICAL MUTUAL INSURANCE COMPANY AND BY
OUTSTANDING LEGAL COUNSEL.”

“In thirty-four years as a practicing orthopaedic surgeon, I have twice had to endure the stresses of defending myself in medical liability lawsuits. Both times I have been superbly supported by Medical Mutual Insurance Company and by outstanding legal counsel.

“In both of these cases, Medical Mutual provided input, but allowed me to decide whether to settle or go to trial. In both instances, I strongly believed no malpractice had occurred and I chose to go to trial.

“Medical Mutual provided me with two phenomenal attorneys, Bill Daniell and Elizabeth McCullough. Bill is a seasoned physicians’ defense attorney

who learns and understands all of the medical aspects of the case, looks at medical issues from all perspectives, and prepares for all possible lines of questioning. X-ray interpretation was a key aspect of one trial. Not every portion of an x-ray image is centered directly over the x-ray beam, which leads to distortion of certain parts of the image: this concept is known as parallax. Attorney Daniell, in his home workshop, constructed a model of wood and nails. By projecting light through his model in the courtroom, he was able to perfectly demonstrate parallax for the jury. Bill’s consistently calm demeanor serves his clients well.

continued next page

DEFEND

supported



Richard F. Bruch, MD
Triangle Orthopaedic Associates, PA
DURHAM, NC

*Richard F. Bruch, MD continued
from previous page:*

Attorney Elizabeth McCullough is his perfect counterpoint. Young, enthusiastic, and the daughter of a physician, Elizabeth brings a special passion and fervor to court. She excels in the monumental task of teaching doctors to present themselves correctly on the witness stand and to stand up to rigorous cross-examination.

As I continue to practice orthopaedic surgery, I consider myself so lucky to have Medical Mutual backing me up.

"From my perspective, once the decision was made to go to trial, Medical Mutual provided my attorneys with all the resources necessary to present the best defense. At trial, our attorneys succeeded in having the plaintiff's witnesses tell the story that we wanted to present as defendants. Both trials resulted in jury verdicts in my favor. I am the most pleased person in the world to have been defended by these two consummate professionals.

"Medical Mutual spent over \$300,000 defending these two lawsuits. As I continue to practice orthopaedic surgery, I consider myself so lucky to have Medical Mutual backing me up."



Community Involvement

Medical Mutual associates teamed up to provide over 515 hours of service to the community in 2010.

Charles A. Hoch, Practice Administrator for Charlotte Eye, Ear, Nose & Throat Associates (CEENTA), was named the 2010 Administrator of the Year at the North Carolina Medical Group Managers (NCMGM) Annual Spring Conference held in Myrtle Beach last May. This award honors a medical practice administrator for exceptional leadership, management proficiency and enhancing the effectiveness of health care delivery in North Carolina. The award, sponsored by Medical Mutual, also provides a stipend of \$2,000 for continuing education.

Medical Mutual and its employees donated over \$36,000 to the Triangle United Way in 2010.

Medical Mutual employees participated in community service projects for Meals On Wheels, Raleigh Rescue Mission, Special Olympics of Wake County, Urban Ministries of Wake County, the Food Bank of North Carolina, NC Children's Promise Radiothon, and the Walk for Hope. Medical Mutual associates teamed up to provide over 515 hours of service to the community in 2010.

Health & Wellness

Business Leader Magazine recognized Medical Mutual as a recipient of the 2010 Healthiest Company Award.

Medical Mutual renewed its commitment to the health and wellness of its employees in 2010 with the implementation of a Wellness Committee. Through supportive activities and incentives like *Weight Watchers at Work* and *Biggest Loser* challenges, employees lost a combined total of 539 pounds. Other activities included an on-site Farmer's Market, an on-site flu shot clinic, a weekly walking club, a health fair, a physical activity reward program, a walking club at lunch, and healthy food options at company functions.

As a result of the success of our wellness program, Medical Mutual was recognized by *Business Leader Magazine* as a recipient of the 2010 Healthiest Company Award. The award is given to organizations that are committed to promoting health and wellness in the workplace. The winners were selected based on their initiatives in providing health and wellness programs that impact the lives of their employees and their families.

“THIS IS A COMPANY THAT LISTENS AND APPRECIATES THE VALUE OF PARTNERSHIP WITH ITS PHYSICIAN MEMBERS AND PRACTICE ADMINISTRATORS.”

VALUE

partnership

“Medical Mutual is the most innovative medical malpractice company in the industry. They understand the unique challenges faced by practices in the ever-changing medical profession. Not only does Medical Mutual protect physicians from potential claims – they proactively provide up-to-date resources for physicians and their staff, and timely Risk Management services that ensure safer and better patient communication and care.

“This is a company that listens and appreciates the value of partnership with its physician members and practice administrators. Their statewide

community boards offer a venue for input and counsel, keeping its membership abreast of current trends, new resources and benefits, and the company’s operations.

“Medical Mutual gives back to its physician members, rewarding positive professional track records with its *Legacy Fund*, tail coverage options and discounts for participating in continuing medical education programs. They are our ‘go-to’ company!”



Edward Plyler, MD
Burke Primary Care
MORGANTON, NC

Community Boards

Medical Mutual's Community and Advisory Boards met twice in 2010 in nine communities across North Carolina and Virginia. Input and counsel from our physician and administrator members continued to provide valuable benefits to the Company.

The physician community board was established in the fall of 1998 to facilitate an ongoing dialogue between medical community leaders and Medical Mutual. In 2001, community boards were expanded to include practice administrators and office managers. Today, there are 15 community and administrator advisory boards throughout North Carolina and Virginia composed of 76 physician members and 126 practice administrators.

Medical Mutual recognized that in order to better serve its members, a forum was needed to discuss emerging legislative issues, industry trends, and the company's performance in key areas. Responding to the rapidly evolving medical landscape presents unique challenges for physicians and practice administrators. The invaluable information exchanged in community board sessions enables Medical Mutual to create new benefits, services, and enhanced coverage to support members and to promote partnership.

THE *Legacy* FUND

Since its inception in 2009, over \$21 million was allocated to the program for qualifying physicians.

Medical Mutual's Board of Directors set aside an additional \$15M for *The Legacy Fund* in 2010. By year-end, 6,700 physician members in NC and VA were enrolled in *The Legacy Fund*. Since its inception in 2009, over \$21 million was allocated to the program for qualifying physicians.

The Legacy Fund is a financial rewards program designed to recognize North Carolina, Virginia and Georgia physician members' ongoing commitment to practicing quality medicine, keeping claims under control, and loyalty to Medical Mutual. The innovative program creates individual member savings accounts as a benefit for qualifying physicians.

supported



William Beach, MD

Tuckahoe Orthopaedic Associates, PA
RICHMOND, VA

“ONCE THE APPROACH AND PLAN HAVE BEEN CAREFULLY CRAFTED, MEDICAL MUTUAL HAS AN INCREDIBLE GROUP OF EXCEPTIONAL ATTORNEYS TO LEAD THE WAY.”

sensitive

“The last thing most physicians and surgeons want is to have a ‘meaningful relationship’ with their medical malpractice carrier. However, when a problem has arisen, we have been completely impressed by the professionals at Medical Mutual. From the time we make the initial contact, they are thorough with their investigation, expert in their analysis, and completely honest in their assessment and advice. Once the approach and plan have been carefully crafted, Medical Mutual has an incredible group of exceptional attorneys to lead the way. This experience obviously has no ‘winners’ but prevailing in this type of situation is understandably quite important to the physician. Medical Mutual’s attorneys and claims representative were sensitive to our concerns, and

carefully prepared us for the pace, limitations and frustrations of the legal system.

“In addition to representation, Medical Mutual has an excellent management and business team to help minimize costs and premiums. We have, at times, requested quotes on our malpractice coverage – but rarely will the competitors offer a quote as they realize they cannot compete with Medical Mutual’s rates and superior value.

“In conclusion, for both cost and representation, we have been totally satisfied with our selection of Medical Mutual. Their complete commitment to us in difficult situations is everything we could ask from our malpractice carrier.”

BOARD OF DIRECTORS

Thomas H. McCoy, MD

Chairman & President

Robert E. Schaaf, MD

*Vice Chairman &**First Vice President*

H. David Bruton, MD

Secretary

Mott P. Blair, MD

Charles C. Crowell, III, MD

A. Dale Jenkins

Michael P. Moulton, MD

Rachel H. Ross, MD

Chris M. Teigland, MD

Steven W. Yates, MD

REGIONAL BOARDS

Medical Mutual's Community and Advisory Boards met twice in 2010 in nine communities across North Carolina and Virginia.

COASTAL :

Jessica Burkett, MD

Brian Gilmore, MD

Jonathan Hines, MD

James Hundley, MD

Richard S. Moore, MD

B. Preecha, MD

James Snyder, MD

Pat Warren, MD

David Weatherford, MD

METROLINA :

Robert Attorri, MD

Robert Barr, MD

Hunter Dyer, MD

Steven Folstad, MD

Paul Galentine, MD

Mark Malton, MD

F.P. Johns Langford, MD

Frederic Levy, MD

Clifford Roemer, MD

Paul Vadnais, MD

Kristin Wagner, MD

W. Lee Young III, MD

MOUNTAIN :

Harry Burton, MD

Leigh Dodson, MD

Ted Humble, MD

Edward Lilly, MD

Harry Lipham, MD

James Montgomery, MD

Edward Plyler, MD

Jon Silver, MD

William Snoddy, MD

Kevin Treakle, MD

TRIAD :

Jonathan Berry, MD

Chuck Clark, MD

Gregg Cregan, MD

Ronald L. Davis, MD

D. Scott Hill, MD

Slade Howell, MD

Haywood Ingram, MD

John W. Mann, MD

Robert Nudelman, MD

Doug Shaw, MD

Brian Sumner, MD

Robert Wainer, MD

TRIANGLE :

Robert Bilbro, MD

Paul Burroughs III, MD

Donald Detweiler, MD

David B. Eddleman, MD

Robert Frere, MD

Joan Jordan, MD

Jeff Kobs, MD

Robert Littleton, MD

Robert McConville, MD

Damian McHugh, MD

Jerome Parnell, MD

Nicholas Patrone, MD

H. Cliff Patterson, MD

Robert Peyton, MD

John W. Rusher, MD

Bruce Usher Jr., MD

William Way, MD

VIRGINIA :

Antony Cetrone, MD

Howard Faunce, MD

Abraham Kader, MD

John Kowalski, MD

John McConnell, MD

Ray McCue, MD

Bradford S. Pontz, MD

Jeffrey Pontz, DDS, MD

Barry Rothman, MD

Vasken Tenekjian, MD

Charles Umstott, MD

David Vincent, MD

Joseph Zocco, MD

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