If you are not using the latest version of Adobe Reader, some interactive features in this Annual Report may be disabled. For the best viewing experience, we recommend downloading the latest free version at: http://get.adobe.com/reader/
Thank you for taking time to review the Annual Report to the Members of Medical Mutual. We sincerely appreciate your interest in learning more about the operations and activities of your Company during 2011.

While not as strong as the record year of 2010, Medical Mutual achieved excellent financial results during 2011. The Company produced net income of over $28 million that resulted in the asset base, capital and surplus of the Company continuing to grow to new record levels. Medical Mutual retained its “A” (Excellent) rating from A.M. Best for the eighth consecutive year and it remains among the top twenty writers of professional liability insurance for physicians in the United States. Your Company’s balance sheet is strong and it reflects the substantial financial resources accrued to protect and support you.

For the fourth consecutive year, the amount of premiums collected declined (11% compared to 2010) even though we experienced an appreciable increase in the number of members we insure. This decline is primarily the result of favorable claims experience, which in turn allows us to charge less for your coverage.

Like you, we are excited and encouraged about the newly enacted tort reform measures in North Carolina. All of the states where we principally operate now have some measure of tort reform in place, and we remain cautiously optimistic that these reforms and the general trend in claims frequency will produce a stable and rational claims environment for the foreseeable future.
During 2011, we focused much attention and energy on our goal of keeping Medical Mutual as the premier physician-owned liability insurance company in the country. We expanded our policy coverages in important areas to protect you against new risk that you now face, and we enhanced and modified certain functions to make it easier and more efficient for you to use our services.

Last year, we hosted our first-ever F.Y.I. (First Year Insured) Legacy Weekend for our newest members to educate them on malpractice issues and to introduce them to Medical Mutual. Approximately 100 physicians representing 18 different specialties traveled from cities throughout North Carolina to attend the program in Greensboro. This ground-breaking program, developed by our Board of Directors, was designed to inform new physicians regarding various aspects of their professional liability experience. Additionally, our staff spoke to numerous physician and administrator groups on important topics that impact your practice everyday, and we provided timely responses to hundreds of issues and questions that you presented to us.

During its final meeting of 2011, the Medical Mutual Board of Directors elected to allocate another $25 million to The Legacy Fund program in 2012. This now brings the total allocation to this very important member benefit program to approximately $65 million. Included in the $25 million allocation is a cash dividend of approximately 5% of your 2011 year end Legacy Fund balance. The remainder of the allocation will be placed in your individual Legacy Fund accounts during 2012. We believe that as a member, you should share directly in the value you help to create during your tenure with the Company. And, you should be rewarded for your loyalty and support. Many of you have now accumulated substantial funds in your Legacy Fund accounts which hopefully will continue to grow such that you will have a significant cash payout at the time of your retirement.

The value of your membership with Medical Mutual has never been greater. The protection we provide you, the services we offer you and the funds you are accumulating in your Legacy Fund account continues to expand and grow. Every day, we work on new ideas to help you achieve the success you deserve. We sincerely appreciate the trust and confidence you place with us. Medical Mutual continues to represent a shining example of the power of physician leadership and imagination.
“IT IS A PRIVILEGE TO SERVE ON THE TRIAD COMMUNITY BOARD. MEDICAL MUTUAL IS A TRANSPARENT AND HONEST COMPANY THAT ADDS TREMENDOUS VALUE TO OUR PRACTICE IN ALL AREAS.”

“Asheboro Emergency Physicians started with Medical Mutual in 2004. The relationship can be summarized as one that cultivates a true partnership in the improvement and growth of our practice.

“We served as a beta test facility for their Emergency Medicine Risk Assessment Program. Three experts came to our department and reviewed charts. They provided many quality recommendations which we implemented. As a result of their assessment, we now have 24/7 contemporaneous radiology readings before the patient leaves the department. This eliminates over-reads and helps improve patient care.

“Medical Mutual is not just ‘a malpractice company.’ I encourage doctors and practice administrators of all specialties and group sizes to take advantage of the risk management toolkits and other resources Medical Mutual has developed. I have asked for their guidance and expertise in the areas of risk management and underwriting. Many doctors involved in litigation over the years mentioned the high quality of their defense in all areas.

“It is a privilege to serve on the Triad Community Board. Medical Mutual is a transparent and honest company that adds tremendous value to our practice in all areas.”

D. Scott Hill, MD
Asheboro Emergency Physicians, PA
Asheboro, NC
**Balance Sheet**

**ASSETS**  

<table>
<thead>
<tr>
<th>December 31, 2011</th>
<th>December 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested Assets</td>
<td>$491,438,029</td>
</tr>
<tr>
<td>Accrued Investment Income</td>
<td>4,824,863</td>
</tr>
<tr>
<td>Premiums Receivable</td>
<td>25,846,958</td>
</tr>
<tr>
<td>Net Deferred Tax Assets</td>
<td>3,970,000</td>
</tr>
<tr>
<td>Other Assets</td>
<td>1,089,607</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$527,169,457</strong></td>
</tr>
</tbody>
</table>

**LIABILITIES AND POLICYHOLDERS’ SURPLUS**

<table>
<thead>
<tr>
<th>Liability</th>
<th>December 31, 2011</th>
<th>December 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss and Loss Adjustment Expense Reserves</td>
<td>$166,000,000</td>
<td>$178,000,000</td>
</tr>
<tr>
<td>Unearned Premium Reserves</td>
<td>33,798,219</td>
<td>37,104,016</td>
</tr>
<tr>
<td>Reinsurance Balances Payable</td>
<td>29,860,938</td>
<td>43,167,835</td>
</tr>
<tr>
<td>Federal Income Tax Payable</td>
<td>875,666</td>
<td>1,293,666</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>35,110,696</td>
<td>28,978,181</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$265,645,519</strong></td>
<td><strong>$288,543,698</strong></td>
</tr>
<tr>
<td>Policyholders’ Surplus</td>
<td><strong>$261,523,938</strong></td>
<td><strong>$233,150,107</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities and Policyholders’ Surplus</strong></td>
<td><strong>$527,169,457</strong></td>
<td><strong>$521,693,805</strong></td>
</tr>
</tbody>
</table>

*Total assets of the Company grew 1.1% to $527.2 million.*

The company’s policyholders’ surplus increased to $261.5 million, growth of over 12.2% from 2010.

The Company again demonstrated its conservative and financially prudent reserving methodology by setting aside $166 million to pay future claims.

The company's net written premiums to surplus ratio decreased to 30.6%, 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 60.5%.
**Income Statement Highlights**

A.M. Best reaffirmed Medical Mutual’s "A” Excellent financial rating for the eighth consecutive year. The total number of physicians insured by the Company increased by 78 to 8,457, up from 8,379 at December 31, 2010. The Company’s expense ratio of 12.9% continued to be among the lowest in the industry.

The Company’s investment income was more than $12.2 million.

Net income was $28.8 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 new record allocation of $20 million to The Legacy Fund in 2011.

Subsidiary operations of the Company contributed an aggregate of $4.6 million to support the core insurance operations.

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2011</th>
<th>December 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Written Premiums</td>
<td>$103,559,549</td>
<td>$116,497,502</td>
</tr>
<tr>
<td>Net Earned Premiums</td>
<td>82,587,287</td>
<td>91,227,039</td>
</tr>
<tr>
<td>Loss and Loss Adjustment</td>
<td>(38,861,894)</td>
<td>(42,320,023)</td>
</tr>
<tr>
<td>Expenses Incurred</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Underwriting Expenses</td>
<td>(11,131,328)</td>
<td>(10,758,015)</td>
</tr>
<tr>
<td>Net Investment Income</td>
<td>12,231,292</td>
<td>11,736,551</td>
</tr>
</tbody>
</table>

**Net Income**

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2011</th>
<th>December 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>$28,786,925</td>
<td>$32,909,454</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2009</th>
<th>December 31, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Written Premiums</td>
<td>$125,183,583</td>
<td>$133,409,855</td>
</tr>
<tr>
<td>Net Earned Premiums</td>
<td>90,446,952</td>
<td>92,154,926</td>
</tr>
<tr>
<td>Loss and Loss Adjustment</td>
<td>(52,210,908)</td>
<td>(49,673,375)</td>
</tr>
<tr>
<td>Expenses Incurred</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Underwriting Expenses</td>
<td>(9,879,189)</td>
<td>(9,696,888)</td>
</tr>
<tr>
<td>Net Investment Income</td>
<td>10,649,566</td>
<td>11,128,662</td>
</tr>
</tbody>
</table>

**Net Income**

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2009</th>
<th>December 31, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>$25,113,709</td>
<td>$24,802,874</td>
</tr>
</tbody>
</table>
The asset base, capital and surplus continued to grow to new record levels in 2011.
Defending Claims

A total of 771 incidents, claims and suits were reported against Medical Mutual insureds in 2011 — a decrease of 8% from the number reported in 2010.

We paid total claims and claim-related expenses of $56.3 million — an increase of 33% from the amount paid in 2010.

Indemnity payments were made on 83 cases, with 7 payments of $1 million or more.

We tried a total of 15 cases in 2011, with only one resulting in a plaintiff verdict. The active pending lawsuit count is 534 — the lowest in over 12 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 Experience Remained Favorable in 2011.
“Medical Mutual has willingly given time and resources to help us learn and improve on individual practice and physician risk through their risk assessment process.”

“Medical Mutual has been tremendously helpful, both to our practice in Wakefield and Triangle Physicians Network, a network of ambulatory care physician practices. They have shared, without hesitation, their excellent knowledge base and library of practical and useful information in the areas of informed consent, peer review, patient satisfaction surveillance, and their experience with other networks and physician practices.

“Their willingness to work with us as we developed quality improvement projects at the Triangle Physicians Network has been very helpful and timely. They have freely shared their contacts and expertise from their work with Vanderbilt University, especially in the areas of physician behavior, patient satisfaction measures and such.

“In a few instances when one of our clinicians has had to respond to a NC Medical Board letter regarding patient complaints, Medical Mutual has been very prompt and supportive in seeing the entire process to resolution.

“Medical Mutual spared no effort to ensure we have a streamlined and user-friendly interface in our growing relationship with them. We look forward to our work together and are happy to have such a strong and excellent partner.”
Managing Risk and Educating Our Members

Practices saved over $3.9 million in premium during the course of the Risk Management Discount Program. Nearly 4,600 North Carolina members enrolled or re-enrolled since its inception in 2010 with 93% implementing the Patient Satisfaction Toolkit.

Risk Management presented 8 workshops on Patient Satisfaction and Informed Consent, with over 100 practice managers and clinical directors in attendance. Of those who participated in these sessions, 92% agreed or strongly agreed they would be able to implement either toolkit as a result of attending the workshop.

Over 1,115 medical practice staff attended Risk Management educational programs with an additional 318 Category 1 CME credit hours awarded to physicians.

The Fall Webinar educational series drew 215 participants. Six live sessions were offered on EMRs and e-Communication Use in Litigation, Peer Review – A Contemporary Approach and Social Media – Understanding the Risks.

Risk Management developed the Physician Extender Toolkit, which features six individual versions for physician assistants and nurse practitioners who practice in North Carolina, Virginia and Georgia.
Risk Management performed on-site Risk Assessments for 611 providers and their practices using the STARS application. An additional 49 providers were pre-assessed using the Brainshark application and a newly developed risk management tool.

A total of 130 consent forms are now available to members on the Medical Mutual website. This includes 30 new procedure, medication or other treatment-specific informed consent documents, plus 25 informed consent documents posted in Spanish.

The North Carolina Risk Management Handbook was posted to the Medical Mutual website and contains 24 sections and 181 pages of frequently asked risk management questions and answers, along with multiple letter templates.

The Risk Management and Claims departments collaborated to launch the inaugural “2010 The Year in Review: Sharing Our Knowledge” publication. Lisa Banker, MD, Medical Mutual’s physician advisor, was featured in a two-minute video presentation and a narrative report located on the Medical Mutual website.

A.M. Best recognized Medical Mutual for its state-of-the-art Risk Assessment Process for Improving Patient Safety Outcomes in their inaugural Innovators Showcase featured in the January 2012 magazine.
“ONE OF THE MANY THINGS THAT HAS IMPRESSED ME IS THE ATTENTION TO DETAIL, IN A BUSINESS SENSE, THAT MEDICAL MUTUAL GIVES TO OUR PRACTICE.”

“I have been fortunate to serve on Medical Mutual’s Coastal Community Board. One of the many things that has impressed me is the attention to detail, in a business sense, that Medical Mutual gives to our practice. Their executive staff is very cost-effective and thrifty with our money – and it is our money – while always being forthcoming with all the appropriate support when one of our physicians has a need.

“Before I came back home to North Carolina to practice, I spent several years practicing medicine in Florida. My time there coincided with the financial collapse of our malpractice carrier. I was fortunate in that I never had a need for support from our malpractice carrier, but it certainly makes me appreciate the solid foundation we have built with Medical Mutual, in the event that I should ever need assistance.”
**Community Involvement**

Medical Mutual and its employees donated over $38,000 to the *Triangle United Way* in 2011.

**Health & Wellness**

Medical Mutual was recognized by the *Triangle Business Journal (TBJ)* as a recipient of the inaugural 2011 *Healthiest Employer Award*.

Chad Ghorley, Practice Administrator for Carolina Orthopaedic & Sports Medicine Center, PA, was named the 2011 Administrator of the Year at the North Carolina Medical Group Managers (NCMGM) Annual Spring Conference held in Wilmington 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.

In 2011, Medical Mutual’s Wellness Committee, formed to encourage and promote healthy and active lifestyles among our associates, provided a variety of supportive activities and incentives. Activities included participation in a Consumer Supported Agriculture program featuring the weekly delivery of fresh, seasonal produce to our employees, an on-site flu shot clinic, a health fair, a physical activity reward program, a Couch to 5K training program, a *Biggest Loser* weight challenge, and healthy food options at company functions.

Medical Mutual and its employees donated over $38,000 to the Triangle United Way in 2011.

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, Dress for Success Triangle, The Passage Home and the Haven House. Medical Mutual associates teamed up to provide over 484 hours of service to the community in 2011.

As a result of the success of our wellness program, Medical Mutual was recognized by the *Triangle Business Journal (TBJ)* as a recipient of the inaugural 2011 *Healthiest Employer Award*. The award is given to organizations that make wellness a reality for their employees. The *TBJ* noted that companies selected as winners of the award “not only show their commitment to making health a top priority,” but “they believe in wellness as part of the company’s fabric.”
“I have been impressed with the efficiency and excellence with which Medical Mutual operates, and I know that, when needed, we will receive the best defense possible.”

“As a group practice administrator, having one of your physicians named in a medical malpractice case can be very unnerving. From the very beginning of our case, everyone that we dealt with from Medical Mutual helped put myself and our radiologist at ease.

“Bob Walker and the rest of the team selected to represent us were outstanding. They quickly demonstrated a mastery of medical malpractice law and a thorough knowledge of the intricacies of radiology. However, beyond his technical skills, Bob delivered his expertise with a personal touch that helped my physician feel more comfortable throughout the case.

“In addition to Bob, Medical Mutual Claims Representative Donna Pace was a valuable member of our team. Donna always included us in the process, informing us of what was happening and asking our opinion on decisions. Donna showed true concern for our physician through the process, which reassured him that we had a strong advocate on our side.

“I have been impressed with the efficiency and excellence with which Medical Mutual operates, and I know that, when needed, we will receive the best defense possible.”

John P. Eastman, MHA
Pinehurst Radiology Group
PINEHURST, NC
Medical Mutual’s Community and Advisory Boards met twice in 2011 in nine communities across North Carolina and Virginia. Input and counsel from our physician and administrator members continued to provide valuable insight 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 comprising 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.

Medical Mutual’s Board of Directors set aside an additional $20M for The Legacy Fund in 2011. By year-end, 6,886 physician members in NC, VA, and GA were enrolled in The Legacy Fund. Since its inception in 2009, over $41 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.
“THE F.Y.I. LEGACY WEEKEND PROGRAM IS ONE OF MANY EDUCATIONAL OPPORTUNITIES THAT SERVE TO TRULY IMPROVE PHYSICIANS’ PRACTICES.”

“When I think of medical malpractice companies, I traditionally envision money going out of my pocket to pay for insurance to cover future bad outcomes for which I may never receive any benefit. However, with Medical Mutual I have found this not to be the case. Medical Mutual has made an investment in me as a person, physician and administrator.

“I attended Medical Mutual’s F.Y.I. Legacy Weekend program last fall, which provided new physicians with the background and resources to understand medical malpractice. The event fostered a social and professional relationship between physician attendees and the company. Now when I need to make the first call to discuss a claims case, the call will not simply be to a name and number – but to a person with a familiar face and story. This program is one of many Medical Mutual educational opportunities that serve to truly improve physicians’ practices.

“The risk assessment has been another excellent resource for our practice. Our group relies daily on Medical Mutual’s risk management services, whether to access the Risk Management Handbook or to converse with a Risk Consultant.

“The partnership between Boice-Willis Clinic and Medical Mutual has improved the quality of care to our patients and the confidence of our physicians.”

Martha J. Chesnutt, MD
Boice-Willis Clinic
ROCKY MOUNT, NC
Medical Mutual’s Community and Advisory Boards met twice in 2011 in nine communities across North Carolina and Virginia.
Dr. Thomas Marshburn, an internal medicine physician and a founding Director of Medical Mutual, served on the Board of Directors from the Company’s inception on October 3, 1975 until May 13, 1994.

Dr. Marshburn was an active leader in the medical community for many years. He served as the New Hanover Regional Medical Center (NHRMC) Senior Attending Physician and received the Distinguished Physician Award in 1993. He also served as President of the Medical Staff at NHRMC and as a Clinical Professor of Internal Medicine at the UNC School of Medicine. He was Chairman of the Retired Physicians for the New Hanover Pender County Medical Society.

Dr. Marshburn is survived by his wife, Harriette Walsh Marshburn, his son Patrick Marshburn, his daughters Lee Dineen and Melanie Douglass, three grandchildren and one great-grandchild.