

NORTH CAROLINA

Leaders & INNOVATORS

2017 ANNUAL REPORT

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*“We love what we do because
we strongly believe in you.”*

— DAN ZUREICH | PRESIDENT & CEO

PRESIDENT’S MESSAGE

It’s hard to believe that this marks the ninth time I’ve had the privilege to write for our Annual Report. Since my first letter in 2010, we have accomplished much. We have worked hard to ensure that we are well positioned for the future by building a strong balance sheet and have nearly doubled policyholder surplus. At the same time, we’ve rewarded our loyal policyholders with dividends totaling just over \$8 million. Those are quantifiable measures of success. However, I want to focus on several other non-quantifiable qualities that have driven us and our success since we were formed over forty years ago.

Strive not to be a success, but rather to be of value. – Albert Einstein

The goal of everyone at Lawyers Mutual is to be of value to our insureds. After all, you are the reason we exist. We focus on doing the right thing for you, rather than what might be best for us. This focus is reflected in one of our three core values – **integrity**. Being structured as a mutual insurance company (thanks to the vision of our founders) sets the table and allows us to focus on doing what’s right for you, as well as what’s best for the company over the long-term. In contrast to stock companies, we do not have competing shareholder interests or quarterly earnings pressures. Our objective is not to make a profit for stockholders, but rather to ensure that we are financially strong so that we are able to achieve our goals of returning as much capital to our policyholders as is financially prudent and continuing to serve the needs of North Carolina attorneys in the future.

The only way to do great work is to love what you do. – Steve Jobs

We love what we do. I mean it, we really do! We love what we do because we strongly believe in you, and in our mission to serve you. We are passionate about working for policyholders, who are focused on helping solve others’ problems. Like you, we too are problem solvers. Nothing is more satisfying than working with you to solve practice-related questions and issues, whether involving coverage, risk management advice, claims repair or claim resolution. Our passion to serve you is what drives us.

No one cares how much you know, until they know how much you care. – Theodore Roosevelt

Empathy, also one of our core values, is vital to the success of our business. We strive to understand your position (many of us have been in your shoes) so that we can best work with you toward providing the best service and solution. We understand that our connection with you is vital to the success of Lawyers Mutual, whether it involves working with a single insured on a matter or setting strategy for the company.

In closing, I want to thank you for choosing Lawyers Mutual. We know you have options. Our commitment is that we will work hard every day to continue to earn your business. Although, for us, it’s not really work because we love what we do.



“Our attorneys not only do an excellent job of handling problems for insureds, they also provide valuable claims repair and avoidance service.”

— WILL GRAEBE | VICE-PRESIDENT, CLAIMS

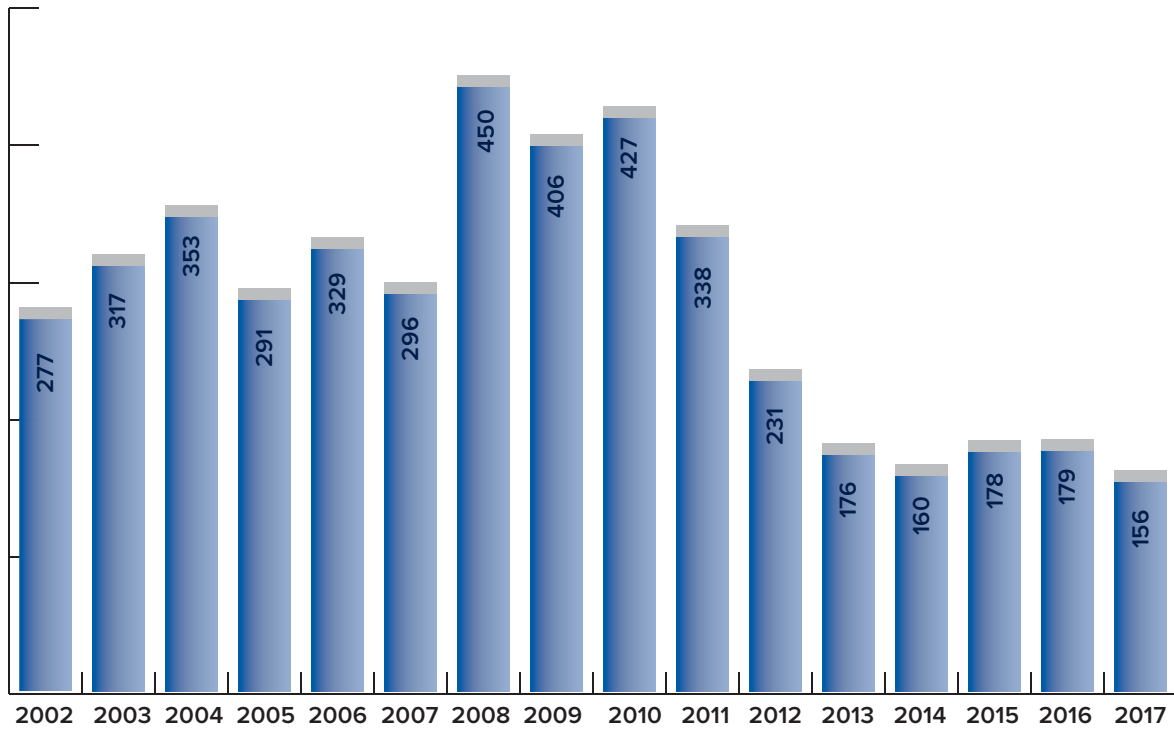
YEAR IN REVIEW: CLAIMS

As we look back at our claims experience for 2017, we are pleased to report another year of favorable results and outstanding service to our insureds. We celebrated numerous successes on individual claims and saw another year of very low claim count. Personal injury and residential real estate practice areas were the primary drivers of frequency. Claim frequency was flat in 2017. However, severity was up over recent years. The higher severity was driven primarily by a handful of claims in the commercial real estate and general business litigation practice areas. As in 2016, we incurred numerous losses from the ongoing real estate wire fraud scheme. We have implemented an exclusion with safe harbor provisions to protect our insureds against such claims. With continuing improvements in risk management by our insureds, we anticipate that fewer lawyers will fall victim to this scam. As with all threats to our insureds, we are trying hard to equip them with the necessary tools and information to avoid claims.

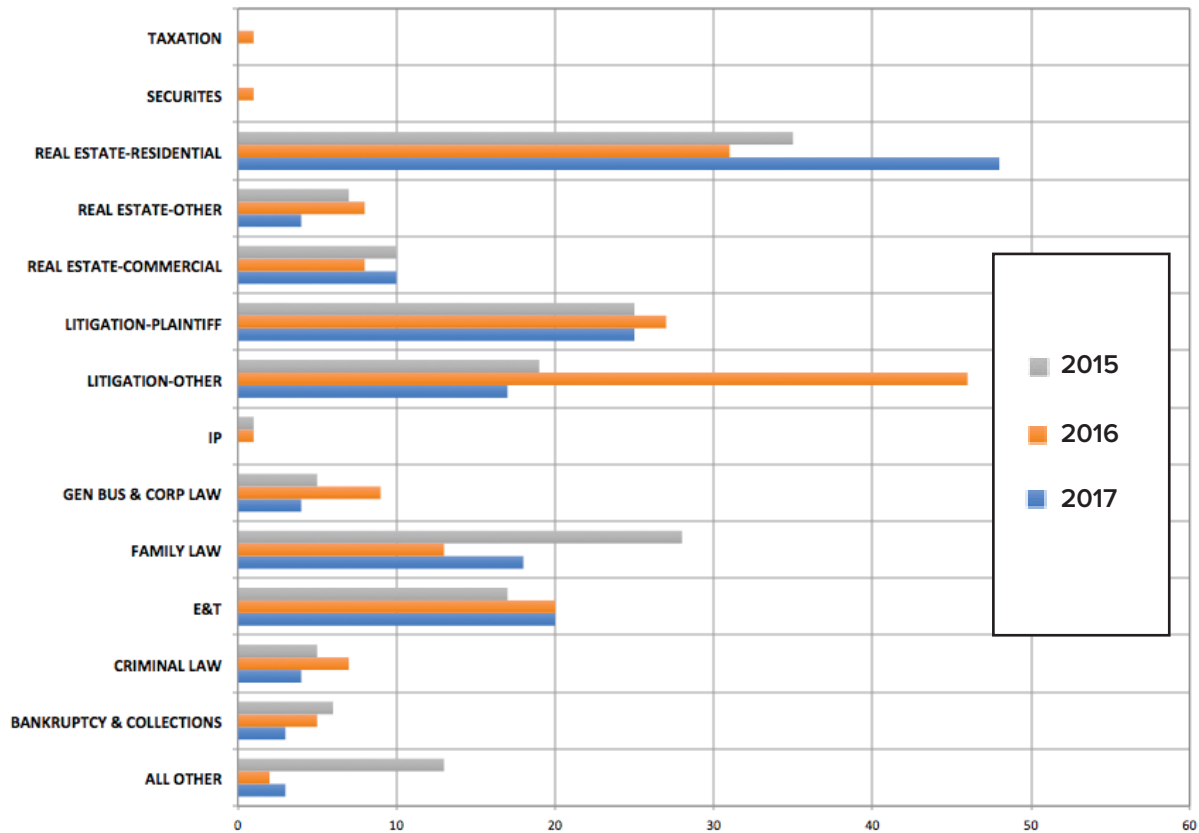
Our claims attorneys not only do an excellent job of handling claims for insureds; they also provide valuable claims repair/avoidance and risk management advice and service. In the past year, we helped many insureds and their clients by successfully repairing a number of claims. With 40 years of claims repair experience, we are able to help our insureds avoid claims like no other carrier can. Our insureds' early reporting of potential claims allows us to provide this service effectively. In addition to claims handling and repair, our claims attorneys also connected with more insureds than in any previous year through risk management seminars and individual firm training. We traveled throughout the state to deliver timely and targeted risk management assistance to our insured lawyers and their staff. Our claims repair program and risk management assistance benefits both the Company and our insureds by reducing the number of claims, positively impacting premiums and improving the service provided by our insured lawyers to their clients.

We are proud of and passionate about the service that our Claims Department provides to our insured lawyers. However, it is a team effort. We could not do what we do without the cooperation of our insureds or the assistance of our superior outside defense counsel. We also rely heavily on our interactions with and assistance from our Underwriting and Client Services Departments. With a continued team effort and a passion to be the best and do the right thing for our insureds, we are optimistic about 2018 and beyond.

REPORTED CLAIMS BY YEAR



REPORTED CLAIMS BY PRACTICE AREA





“From law schools to law firms, our relationships are the legacy and innovation of Lawyers Mutual.”

— CAMILLE STELL | VICE-PRESIDENT, CLIENT SERVICES

YEAR IN REVIEW: CLIENT SERVICES

Former founder and president, John Beard, said it best: “We aren’t selling insurance, we are building relationships.”

Whether it’s working with our Community Boards or getting to know lawyers individually through our work with local bars, North Carolina lawyers are the inspiration for everything we do.

We experienced lots of highlights in 2017.

We celebrated the 40th anniversary of the formation of Lawyers Mutual through the special anniversary logo, anniversary ads and interviews in our publications. We updated our risk management materials with new infographics for easy sharing on social platforms.

We continued to partner with the many legal professional associations in North Carolina by serving on committees, sponsoring events, and providing CLE speakers. Our partnership with the State Bar’s Lawyers Assistance Program resulted in a joint mental health CLE that offers help to lawyers who have identified a colleague in need. We also spoke at 120+ CLE programs in partnership with state-wide and local bar associations, as well as out-of-state presentations.

The transitioning of the Baby Boomer generation inspired us to create succession planning resources, including CLE presentations that we can deliver to your firm. We continued to build bridges with law students through our Virtual Student Resource Center (@LM_SRC). We also mentored law students and spoke at law schools.

From law schools to law firms, from coast to mountains, our relationships are both the legacy and the innovation of Lawyers Mutual.

*“We work as a team with
North Carolina attorneys to
understand their practice and
respond to their needs.”*

— RENÉE RIGGSBEE | VICE-PRESIDENT, UNDERWRITING



YEAR IN REVIEW: UNDERWRITING

The Underwriting Department is the front line in Lawyers Mutual’s commitment to providing unparalleled service to our policyholders. Underwriting provides ongoing service all day, every day - from reviewing applications and assessing premiums, to answering questions about coverage and risk management - as the practice of law changes and lawyers face new challenges.

A decade ago, commercial carriers moved into the lawyers market in North Carolina and began competing for our base of policyholders by offering unsustainably low premium rates. Lawyers Mutual responded by rewriting the book on risk assessment and pricing. Lawyers Mutual responded by becoming stronger.

Lawyers Mutual is even stronger today because our Underwriting, Claims, and Client Services Departments work diligently, as a team, to promote the value of your mutual company through fair, reasonable, and sustainable pricing, and superior claims handling, service, and educational programs.

Today, Lawyers Mutual remains the primary insurer of lawyers in North Carolina. The Company’s leadership, honesty, and integrity has set the standard for excellence in lawyers’ insurance and has earned the loyalty of its policyholders. In return, we will again pay a dividend to our policyholders.

“All at Lawyers Mutual are working hard to ensure the company’s financial future remains strong.”

— ROBERT NEAL | SENIOR VICE-PRESIDENT, FINANCE, TREASURER & CFO



FINANCIALS — POLICYHOLDERS INFORMATION

FINANCIAL SUMMARY

The following information summarizes the financial position and operations of Lawyers Mutual Liability Insurance Company of North Carolina for the two years ending December 31, 2017. This information is based on statutory accounting principles codified by the National Association of Insurance Commissioners and subject to any deviations prescribed or permitted by the North Carolina Department of Insurance. A copy of the Company’s 2017 Annual Statement is available upon request.

2017 was a solid performance year for Lawyers Mutual. The Company recorded sufficient underwriting and investment income to declare a 5.7% policyholder dividend AND to build surplus to better withstand market shocks and increased volatility in the future. Total admitted assets topped \$109 million at year end. In addition, Policyholder Surplus rose to \$81.3 million, keeping pace with increasing numbers of policyholders, inflation and other potential risks within investments markets. Growth of Policyholder Surplus was accomplished by a combination of positive underwriting results, increased investment income and increases in investment equity market values. Leverage ratios, measuring premium writings, claim reserves, and total liabilities as compared to Policyholder Surplus have continued to improve with a combined Net Leverage ratio of 54%.

SIGNIFICANT EVENTS DURING 2017

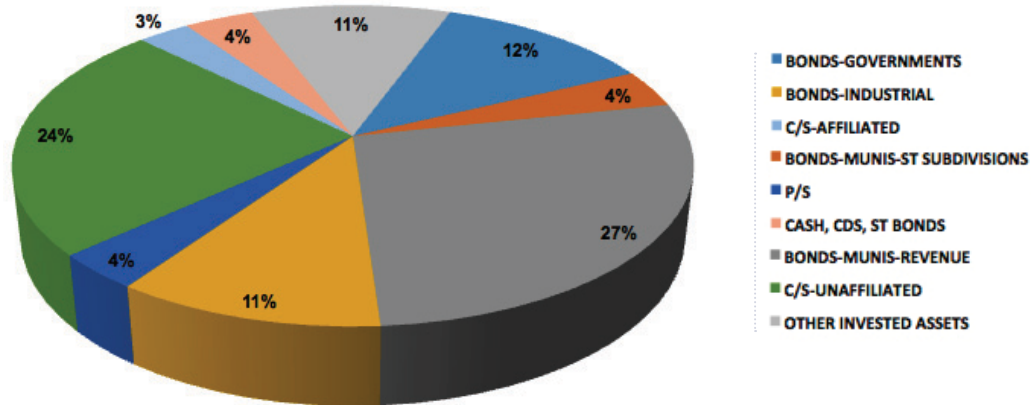
While the Company was printing strong numbers and ratios, management and staff completed a significant conversion to a state-of-the-art insurance enterprise system. The system implementation was completed on time and has successfully completed its first one-year underwriting cycle.

During the year, independent rating agency A.M. Best recognized the Company’s secure financial position and positive operating trends by upgrading Lawyers Mutual to a rating of “A” Excellent with a Stable outlook.

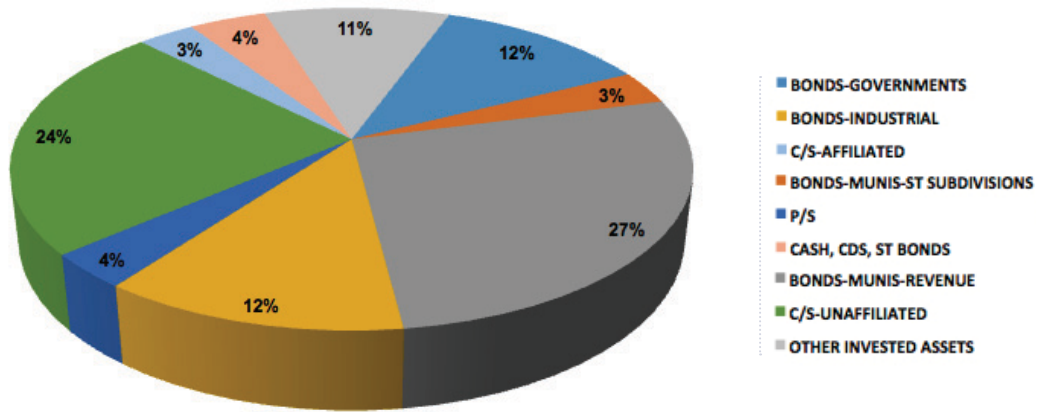
The new Federal tax act (the Tax Cuts and Jobs Act) was approved by Congress in late December, 2017. Although the Act was approved in 2017, the Company’s current 2017 taxes were measured at the previous marginal rate of 34%. Lawyers Mutual’s marginal taxable income will be taxed at a significantly lower 21% rate in 2018.

All at Lawyers Mutual continue working hard to ensure the Company’s financial future remains strong.

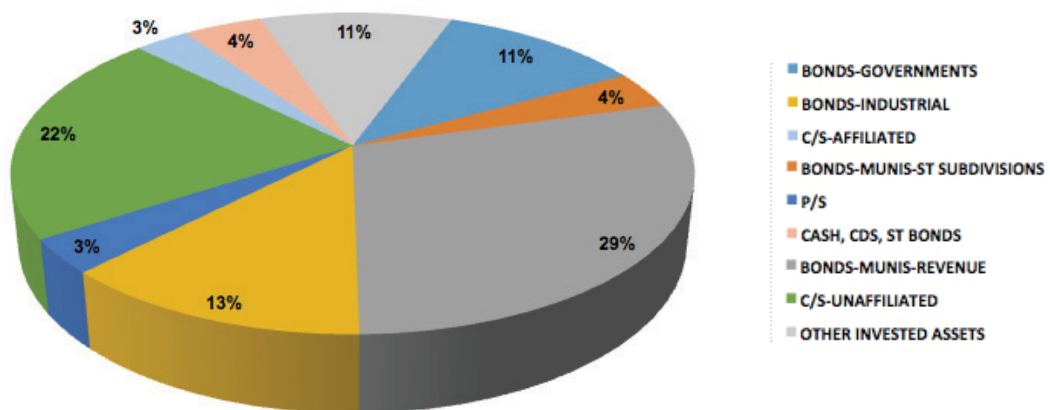
CASH & INVESTED ASSETS – Fair Value 12.31.2017



CASH & INVESTED ASSETS – Fair Value 12.31.2016



CASH & INVESTED ASSETS – Fair Value 12.31.2015



FINANCIALS:

STATUTORY STATEMENTS OF INCOME

Statutory Statements of Income

Years Ended December 31	2017	2016
<i>Underwriting Income</i>		
<i>Premiums Earned</i>	15,553,066	14,253,903
<i>Underwriting deductions:</i>		
<i>Losses incurred</i>	4,048,132	1,429,761
<i>Loss adjustment expenses incurred</i>	3,714,960	4,655,000
<i>Other underwriting expenses incurred</i>	4,923,969	4,506,278
<i>Total underwriting deductions</i>	12,687,060	10,591,039
<i>Net underwriting gain / (loss)</i>	2,866,006	3,662,864
<i>Investment income:</i>		
<i>Net investment income earned</i>	2,914,840	2,571,446
<i>Realized capital gains / (losses) - net of tax (2017: \$438,363; 2016: \$187,210)</i>	850,940	363,407
<i>Net investment gain</i>	3,765,780	2,934,854
<i>Other income / (expense):</i>		
<i>Loss from balances charged off</i>	9,888	(1,805)
<i>Finance and service charges not included in premiums</i>	273,720	315,356
<i>Other Income</i>	3,533	10,701
<i>Total Other Income</i>	287,141	324,252
<i>Income before dividends to policyholders and federal income taxes</i>	6,918,928	6,921,969
<i>Dividends to policyholders</i>	1,018,061	1,000,599
<i>Income before federal income taxes incurred</i>	5,900,867	5,921,370
<i>Federal income taxes incurred</i>	973,441	1,929,718
<i>Net income</i>	\$ 4,927,426	\$ 3,991,652

FINANCIALS:

ADMITTED ASSETS, LIABILITIES AND POLICYHOLDERS' SURPLUS

Statutory Statements of Admitted Assets, Liabilities and Policyholders' Surplus

Admitted Assets	As of December 31	
	2017	2016
Cash and investments:		
<i>Bonds</i>	\$ 54,852,844	\$ 52,690,452
<i>Common stocks</i>	28,143,591	26,538,850
<i>Preferred stocks</i>	3,596,347	3,390,232
<i>Cash and short-term investments</i>	4,090,055	4,289,531
<i>Other invested assets</i>	11,696,220	10,061,437
Subtotals, cash and invested assets	102,379,056	96,970,503
<i>Interest and dividend income due and accrued</i>	682,264	645,465
<i>Premiums in course of collection</i>	2,775,600	2,937,530
<i>Reinsurance recoverables on claim payments</i>	1,581,882	-
<i>Other amounts receivable under reinsurance contracts</i>	420,535	545,340
<i>Current Net Federal income tax recoverable</i>	1,223,511	1,552,192
<i>Deferred Net Federal income tax asset</i>	-	15,834
<i>Receivable from subsidiary</i>	335,126	370,573
<i>Other</i>	68,285	121,224
Total assets	\$ 109,466,258	\$ 103,158,659
Liabilities and Policyholders' Surplus		
	2017	2016
Liabilities:		
<i>Unpaid losses</i>	7,012,226	6,623,081
<i>Unpaid loss adjustment expenses</i>	8,003,429	9,214,241
<i>Taxes, licenses, fees and other expenses payable</i>	1,100,078	1,132,229
<i>Net Deferred Tax Liability</i>	610,351	-
<i>Unearned premiums</i>	7,222,527	6,989,039
<i>Advance premiums</i>	702,328	929,279
<i>Policyholder dividends declared and unpaid</i>	1,082,545	1,058,826
<i>Ceded reinsurance premiums payable, net of ceding commissions</i>	2,308,213	2,577,546
<i>Amounts withheld by company for account of others</i>	7,696	7,696
<i>Provision for Reinsurance</i>	-	1,029
<i>Payable for securities</i>	54,621	88,421
<i>Other liabilities</i>	16,782	103,397
Total liabilities	28,120,796	28,724,783
Policyholders' Surplus:		
<i>Total Policyholders' Surplus</i>	81,345,462	74,433,876
Total liabilities and Policyholders' Surplus	\$ 109,466,258	\$ 103,158,659

BOARD OF DIRECTORS, OFFICERS AND COMMUNITY BOARDS

BOARD OF DIRECTORS

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*Heather Newton, Attorney at Law
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*Long Parker Warren Anderson & Payne PA
Asheville*



*“Our plans offer peace of mind
for lawyers, their families and
their employees.”*

— WILLIAM STROUD | SENIOR VICE PRESIDENT

LAWYERS INSURANCE

Lawyers Insurance enjoyed another year of solid performance in 2017, which is good news for the future of the agency – and for the lawyers of North Carolina.

The NC Bar Association Health Benefit Trust continues to be our anchor product. The Trust is now in its 18th year of operation. It covers more than 1,000 law firms of all sizes and in all parts of the state. From solo practices to large firms; from coastal towns to metro areas.

The fact that the Health Benefit Trust has not just survived but thrived – in a market as volatile as health coverage – speaks volumes about its value and the quality of service backing it up. Our plans offer peace of mind for lawyers, their families and their staffs.

We take that mission seriously. After all, nothing is more important than personal health. And because the Trust is self-funded and managed prudently, it is financially healthy as well.

OTHER HIGHLIGHTS OF 2017

Cyber Liability and Crime Insurance. Last year saw an alarming increase in data breach and phishing schemes. In fact, an ABA survey found that almost 25 percent of firms nationally suffered a cyber-attack in 2017. This can be devastating – or even fatal – for smaller firms. That’s why we continue to monitor for emerging threats and provide a range of coverages to protect against bad actors.

Structured Settlements. Structured settlements offer many advantages for lawyers and their clients. They are very useful in minimizing the long term tax burden, both in personal injury cases and taxable settlements such as employment matters.

Court Bonds. We offer a robust menu of court bonds. And we make getting a Probate Bond, License or Permit Bond, Appellate Bond or Lost Instrument Bond easy with multiple ways to apply, online service and 24 to 48 hour delivery.

As proud as we are of our products, we’re even prouder of our people. The Lawyers Insurance team is talented and tenured. Close to half of our staff has been here 10 or more years. That level of loyalty and experience adds value to everything we do.

