



Table of Contents

President's Message	3
Year in Review	
Claims	4
Client Services	6
Underwriting	7
Financials	
Policyholder's Information	8
Statements of Income	10
Statements of Assets, Liabilities and Surplus	11
Board of Directors, Officers and Community Boards	13
Lawyers Insurance	15

President's Message

Dear Valued Lawyers Mutual Policyholder:

This year marks the fifth time that I've had the privilege of writing this letter, and I am pleased to report that 2013 was another very successful year for Lawyers Mutual. While our financials reflect a very solid financial year, there is much, much more to our story than numbers. Our success is due primarily to two critical components – your unwavering loyalty and the passion of your board and staff for serving you, our policyholders. Without those components, there would be no Lawyers Mutual.

Strong underwriting and investment performance in 2013 enabled us to add over \$8 million to policyholder surplus, bringing it to nearly \$59 million, representing just over a 16% increase from year-end 2012. Why is policyholder surplus growth important? Because it provides protection from future uncertainties and helps ensure that we'll be here whenever you may need us.

Our strong financial performance and policyholder surplus growth also enabled us to increase our policyholder dividend by just over 25%, to approximately \$1.28 million, up from approximately \$1 million in 2012. This dividend represents 7.5% of the final premium paid on your 2013 policy and will be paid in 2014 upon expiration of that policy. With this latest dividend, we will have returned \$3.28 million to policyholders over the past three years.

As a mutual insurance company, we are owned by you, our loyal policyholders. We are committed to serving your interests, whether it be through returning capital in the form of dividends, providing personal service that is second to none or defending a claim made against you. We are also committed to building lasting relationships with you based on openness, honesty and understanding your practice. I hope that your experiences with us reflect these commitments.

Thank you for your business and loyalty.



DAN ZUREICH | PRESIDENT & CEO

While our financials reflect a very solid financial year, there is much, much more to our story than numbers.



WILL GRAEBE | VICE-PRESIDENT, CLAIMS

No other company has in-house, North Carolina licensed attorneys within the state. We have seven in-house North Carolina attorneys in our Claims Department.

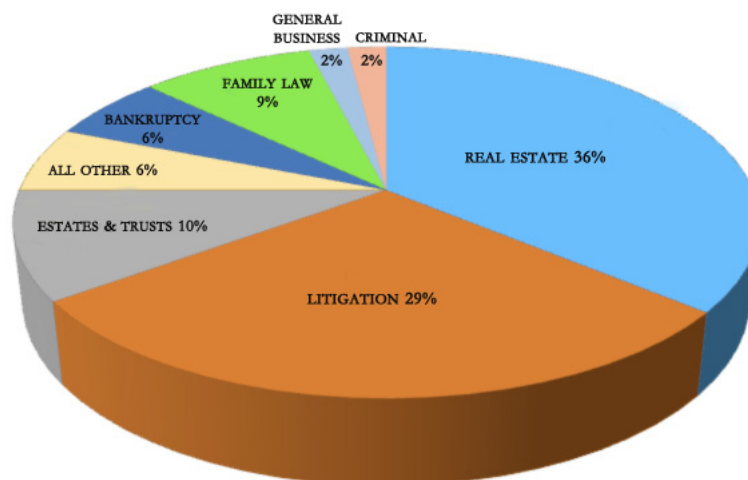
Year in Review - Claims

Carl Jung said, “You are what you do, not what you say you’ll do.” In an industry filled with promises of quick quotes and good hands, insurance companies and their customers could learn a lot from Mr. Jung. At Lawyers Mutual we pride ourselves on the doing and not the saying. Sure, we fly the Lawyers Mutual flag about what we have to offer over other companies. But, at the end of the day, it is our record of service and stability that makes us who we are. Other companies come and go, promising all kinds of bells and whistles in their policies, but none has ever come close to offering the level of service that we do. No other company has in-house, North Carolina licensed attorneys within the state. We have seven in-house North Carolina attorneys in our Claims Department. No other company has the breadth and depth of experience that we have either. For thirty-six continuous years, we have been resolving claims, repairing mistakes, offering risk management advice and shaping the law of legal malpractice in our appellate courts. We have the best and most experienced panel of defense attorneys who know how to defend malpractice claims and how to pull an insured out of a ditch when necessary. Our in-house claims attorneys spend as much time helping insureds avoid claims as they do in handling actual claims. Other companies don’t have a claims repair program like ours that helps lawyers avoid claims when a mistake has been made. Our experience and our local resources and staff allow us to offer these benefits in a way that no other company can. It’s all about service and living that mission every day in what we do.

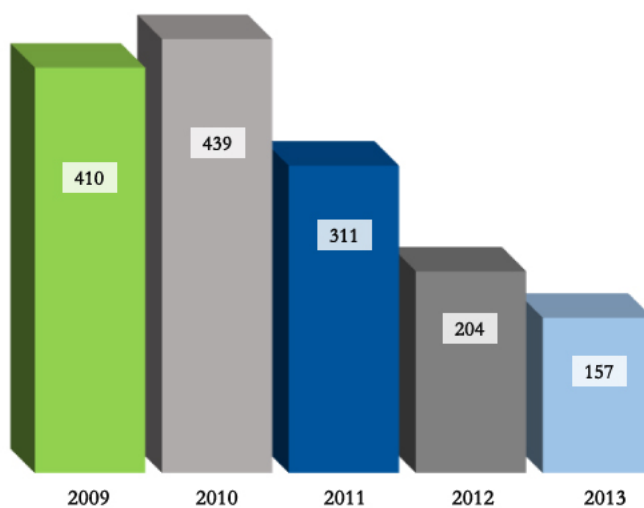
We are always looking for new and better ways to serve our insureds. One example of this is the new HELP team that we launched this past year to assist insureds in dealing with crisis situations that might arise in their firm as a result of unexpected events like the death or disability of a lawyer in the firm. Other examples are the timely and practical free CLE programs, e-mail alerts, and newsletter articles. We pride ourselves on staying one step ahead for our insureds. When the new Consumer Financial Protection Bureau (CFPB) became a reality and we saw that the CFPB would have a significant impact on our residential real estate lawyers, we made sure that we were part of the North Carolina CFPB task force. It is unlikely that other carriers are even aware that there is such a task force. We knew it because we are on the ground here in North Carolina and we are constantly on the lookout for ways to help our insureds adapt and reduce risk. We take great pride in what we do for our insureds, and we have a passion for the mission of Lawyers Mutual and the partnership that we have with our insured lawyers.

Claims Charts

2013 Claims by Area of Practice



Reported Claims 2009-2013





CAMILLE STELL | VICE-PRESIDENT,
CLIENT SERVICES

Serving

OUR COMMUNITY

Community of Insureds

Community at Large

Community of Employees

Year in Review - Client Services

Serving Our Community of Insureds

- \$1.28 million dividend returned to policy-holders
- Launched Eastern Carolina Community Board
- Launched HELP Team to assist attorneys in crisis situations
- Service on the North Carolina Consumer Financial Protection Bureau Task Force
- Timely and practical free CLE programs, e-mail alerts and newsletter articles
- Toolkits, forms, checklists and risk management videos available on our website
- Resolving claims, repairing mistakes and shaping the law of legal malpractice in our appellate courts

Serving our Community at Large

- EarthShare
- Friends of the Guardian ad Litem Backpack Program
- Haven House Services
- Inter-Faith Food Shuttle
- Raleigh Rescue Mission
- St. Baldrick's Foundation
- North Carolina Food Bank
- The Salvation Army of Wake County Angel Tree
- United Way

Serving Our Community of Employees

- Employee Committee to focus on firm culture, wellness and community
- Emphasis on customer service
- Continual professional development and training

Honors and Recognitions

- Lawyers Mutual Awarded the Balanced Life Workplace Award by the North Carolina Association of Women Attorneys
- Lawyers Mutual Board Member Ronald L. Gibson Elected President-Elect of the North Carolina State Bar
- Lawyers Mutual Board Member June L. Basden Named Best Lawyers® 2014 Greensboro Banking and Finance Law "Lawyer of the Year"
- Lawyers Mutual Vice President of Claims Will Graebe Selected as Recipient of the North Carolina Bar Association Citizen Lawyer Award
- Lawyers Mutual Vice President of Finance Bob Neal Recognized as Co-Winner in the Small Private Company Category at the Triangle Business Journal Chief Financial Officer of the Year Awards
- Lawyers Mutual Senior Claims Counsel John Hester Wins Lifetime Achievement Award at the Triangle Business Journal Corporate Counsel of the Year Awards

Camille Stell

Year in Review - Underwriting

Underwriting and Claims are the pillars of Lawyers Mutual, and these two departments work side by side to serve North Carolina lawyers. Each year the Underwriting Department closely reviews applications submitted by law firms and assesses risk and premium for each firm's next policy year. And, throughout the year, the Underwriting Department continues to service these policies: answering questions about premium or coverage, finding a policy document, changing limits of liability, adding or removing a lawyer from the policy, and so on. The underwriters work with new attorneys to provide the coverage they need and work with existing policyholders as their needs change. We currently underwrite coverage for more than 7,700 attorneys, but we are never too busy to take a telephone call or respond to an email.

With commercial carriers moving in and out of the lawyers market in North Carolina during the last few years, we are pleased to see that our base of loyal policyholders continues to increase, and we are receiving new applications every day - from new lawyers and from former lawyers who want to return to Lawyers Mutual because of the exemplary service we provide. We are also excited to announce again that all policyholders of record as December 31, 2013, will receive a 7.5% dividend in 2014. Returning to this level of profitability was in large part due to the Underwriting Department's continuing efforts to improve risk assessment and in implementing a rating plan based on area of practice exposure and claims experience. Premiums are now largely based on our historical experience in each practice area as well as careful, individualized firm assessment.

Lawyers Mutual will always be here to provide fair, reasonable, and reliable insurance for lawyers in North Carolina. That is all we do, and we do it right. We know that your professional liability insurance is the most important investment you will make in your law practice. Our mission is to remain financially strong so that Lawyers Mutual will be here for you when you need us, today and in the future. And when we have a good year, as we did in 2013, we are able to return capital to you, our valued policyholders.



RENEE RIGGSBEE | VICE-PRESIDENT,
UNDERWRITING

*With commercial carriers
moving in and out of
the lawyers market in
North Carolina during
the last few years, we are
pleased to see that our
base of loyal policyholders
continues to increase . . .
because of the exemplary
service we provide*



ROBERT NEAL | VICE-PRESIDENT, FINANCE,
TREASURE & CFO

The steps taken by Lawyers Mutual over the past five years, as well as changes in the business environment, have allowed the Company to record four years of improving operational results with an underwriting gain of \$6.6 million for the year ending December 31, 2013.

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, 2013. 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 2013 Annual Statement is available upon request.

The economic recovery from the Great Recession continued in 2012 and 2013, be it at slower rates than in past U.S. recoveries. The subdued recovery affects both the Company and its insureds through slowly increasing business opportunities, below average investment income yields and mixed inflationary effects. The reduction of real estate business activity during years 2009 through 2012 has contributed to a decline in the number of claims reported to the Company and actively adjusted by our in-house claims attorneys. The declining number of claims reported to the Company during 2012 and 2013 has enabled Lawyers Mutual to record underwriting gains that, in turn, have enabled the payment of policyholder dividends in both years. The 7.5% policyholder dividend declared at the end of 2013 and payable to claims-made policyholders of record following their policy expiration represented a 23.6% dividend rate increase. The Company continues to approach the current business environment with conservatism while striving to provide its insureds with coverage at good value and policyholder dividends when justified by underwriting results and surplus position.

SUMMARY OF RESULTS

The Company's unassigned surplus as of year-end was approximately \$58.8 million. This strong level of surplus has allowed the Company to endure declining bond investment yields and inflationary pressures. Lawyers Mutual reported total revenues (comprised of premiums, investment gains and other income) of \$17.3 million during 2013, slightly lower than the prior year's revenues. Claims incurred in 2013 declined \$3 million from the previous year. Lawyers Mutual experienced a 29 percent loss ratio and a 63 percent combined ratio (loss ratio + expense ratio excluding dividends)

during 2013. The combined ratios improved significantly from the 81 percent and 96 percent ratios posted in 2012 and 2011 respectively.

The steps taken by Lawyers Mutual over the past five years, as well as changes in the business environment, have allowed the Company to record four years of improving operational results with an underwriting gain of \$6.6 million for the year ending December 31, 2013.

Lawyers Mutual's investment income, from all sources, decreased approximately \$749,000 largely due to an extraordinary dividend of \$625,000 from a non-controlled affiliate in 2012 that did not re-occur in 2013. Excluding affiliated investment income, Lawyers Mutual's investment income suffered during 2012 and 2013 from declining interest income yields on maturing or refinanced bonds. The Company's investments are weighted heavily toward investment grade bonds with relatively short effective maturities. The bond allocations are designed to accommodate claims payout patterns and protect the portfolio against large potential future increases in interest rates that would cause bond market values to decline. Over the past two years, the Company has made incremental allocations to quality preferred stocks, dividend-focused common stocks and municipal bonds in an effort to enhance yield.

Based on positive underwriting results and larger than normal affiliated investment income in 2012, the Company declared a 2012 dividend of 6% and a 2013 dividend of 7.5%, payable upon the expiration of year-end in-force claims-made policies. This is the third consecutive year of policyholder dividends and is part of the \$4.83 million of policyholder dividends declared over the past ten years.

After policyholder dividends and taxes, the Company recorded a 2013 net income of \$6.27 million.

Based on positive underwriting results and larger than normal affiliated investment income in 2012, the Company declared a 2012 dividend of 6% and a 2013 dividend of 7.5%, payable upon the expiration of year-end in-force claims-made policies.



Financials

Statutory Statements of Income

Years Ended December 31st	2013	2012
<i>Underwriting income:</i>		
<i>Premiums earned</i>	\$ 14,313,160	\$ 13,835,736
<i>Deductions:</i>		
<i>Losses incurred</i>	333,566	1,796,536
<i>Loss adjustment expenses incurred</i>	3,765,208	5,324,299
<i>Other underwriting expenses incurred</i>	3,562,778	3,165,487
	<u>7,661,552</u>	<u>10,286,322</u>
<i>Net underwriting gain / (loss)</i>	<u>6,651,608</u>	<u>3,549,414</u>
<i>Investment income:</i>		
<i>Net investment income earned</i>	1,920,278	2,669,079
<i>Realized capital gains / (losses) - net of tax (2013: \$424,000; 2012: \$321,179)</i>	822,414	693,240
<i>Net investment gain</i>	<u>2,742,692</u>	<u>3,362,319</u>
<i>Other income / (expense):</i>		
<i>Loss from balances charged off</i>	(6,216)	(32,610)
<i>Finance and service charges not included in premiums</i>	221,261	219,866
<i>Other income</i>	15,968	7,148
<i>Net other income</i>	<u>231,013</u>	<u>194,404</u>
<i>Income before dividends to policyholders and federal income taxes</i>	9,625,313	7,106,137
<i>Dividends to policyholders</i>	<u>1,278,009</u>	<u>950,485</u>
<i>Income before federal income taxes incurred</i>	8,347,304	6,155,652
<i>Federal income taxes incurred</i>	<u>2,081,805</u>	<u>1,201,843</u>
<i>Net income</i>	<u>\$ 6,265,499</u>	<u>\$ 4,953,809</u>

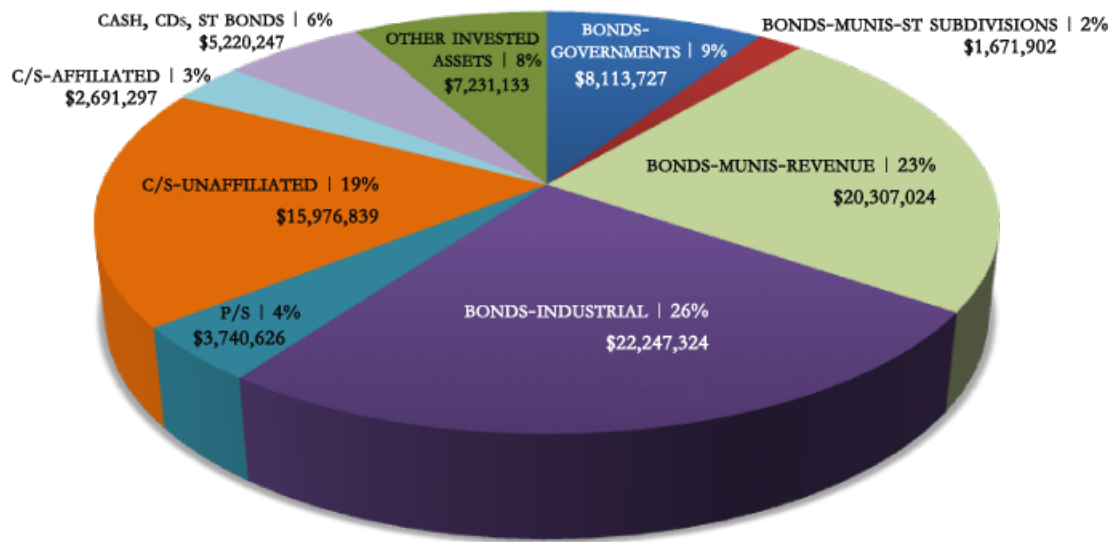
Financials

Statutory Statements of Admitted Assets, Liabilities and Policyholders' Surplus

Admitted Assets	December 31,	
	2013	2012
Cash and investments:		
Bonds, at amortized cost (market 2013: \$50,932,358; 2012: \$50,993,662)	\$ 49,666,128	\$ 47,894,430
Bonds, at market (amortized cost 2013: \$1,453,085; 2012: \$0)	\$ 1,407,612	\$ -
Preferred stocks, at amortized cost (market 2013: \$2,487,822; 2012: \$2,445,400)	2,223,429	1,331,551
Preferred stocks, at market (amortized cost 2013: \$1,350,758; 2012: \$1,299,609)	1,252,802	2,185,777
Common stocks (cost 2013: \$11,392,053; 2012: \$9,396,933)	18,661,074	13,595,996
Cash and short-term investments	5,220,247	12,328,909
Other invested assets	7,001,198	3,795,016
Receivable for securities	240,785	-
Cash and investments	85,673,275	81,131,679
Interest and dividend income due and accrued	598,264	570,286
Premiums in course of collection	2,076,835	2,082,775
Reinsurance recoverables on claim payments	17,271	15,648
Other amounts receivable under reinsurance contracts	525,234	797,692
Current Net Federal income tax recoverable	1,141,801	382,850
Deferred Net Federal income tax asset	-	625,357
Receivable from subsidiary	160,051	213,161
Other	138,662	208,323
Total assets	\$ 90,331,393	\$ 86,027,771
Liabilities and Policyholders' Surplus	December 31,	
	2013	2012
Liabilities:		
Unpaid losses	\$ 9,786,925	\$ 13,255,482
Unpaid loss adjustment expenses	10,238,950	12,307,978
Taxes, licenses, fees and other expenses payable	1,030,600	1,000,362
Net Deferred Tax Liability	641,373	-
Unearned premiums	6,481,502	6,512,804
Advance premiums	748,858	648,839
Dividends declared and unpaid	1,335,635	1,054,679
Ceded reinsurance premiums payable, net of ceding commissions	534,145	524,844
Funds held by company under reinsurance treaties	318,722	49,902
Amounts withheld by company for account of others	7,696	74,369
Provision for reinsurance	468	2,505
Payable to parent, subsidiaries and affiliates	139,700	-
Payable for securities	178,033	29,400
Unearned installment charges	105,073	83,953
Total liabilities	31,547,680	35,545,117
Policyholders' Surplus:		
Total Policyholders' Surplus	58,783,713	50,482,654
Total liabilities and Policyholders' Surplus	\$ 90,331,393	\$ 86,027,771

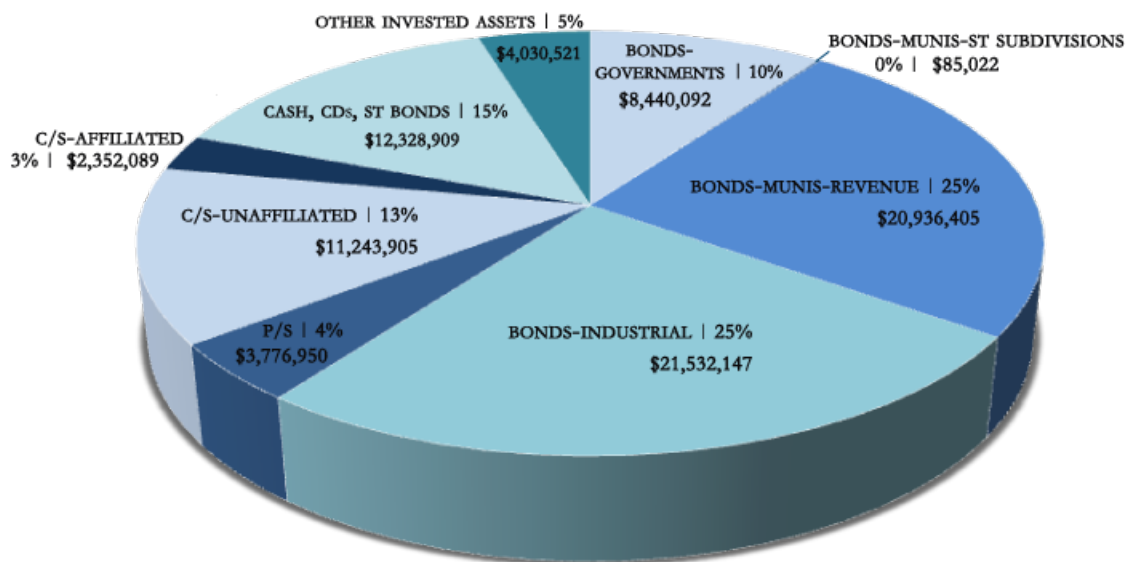
Financials

2013 Cash & Invested Assets - Fair Value



*as of 12/31/2013

2012 Cash & Invested Assets - Fair Value



*as of 12/31/2012

Board of Directors, Officers and Community Boards

BOARD OF DIRECTORS

Kenneth W. McAllister, Chairman
The McAllister Firm, PLLC
High Point

John W. Babcock
Wall Esleeck Babcock, LLP
Winston-Salem

June L. Basden
Carruthers & Roth, PA
Greensboro

Michael A. Colombo
Colombo, Kitchin, Dunn, Ball & Porter, LLP
Greenville

Ronald L. Gibson
Ruff, Bond, Cobb, Wade & Bethune, LLP
Charlotte

James B. Maxwell
Maxwell, Freeman & Bowman, PA
Durham

John M. May
Robbins May & Rich LLP
Pinehurst

Eric C. Michaux
Michaux & Michaux, PA
Durham

William G. (Bill) Pappas
Parker, Poe, Adams & Bernstein LLP
Raleigh

Sharon L. Parker
Sharon L. Parker, PA
Marion

G. Gray Wilson
Wilson, Helms & Cartledge, LLP
Winston-Salem

O. Richard Wright, Jr.
Wright, Worley, Pope, Ekster & Moss, PLLC
Tabor City

OFFICERS

Daniel M. Zureich
President and CEO

William S. Graebe
Vice President of Claims

Robert A. Neal
Vice President of Finance, Treasurer and CFO

Renée C. Riggsbee
Vice President of Underwriting

Camille Stell
Vice President of Client Services

William R. Stroud, Jr.
Senior Vice President

COMMUNITY BOARD MEMBERS

EASTERN CAROLINA COMMUNITY BOARD

Jerry A. Allen, Jr.
Walker, Allen, Grice, Ammons & Foy, L.L.P.
Goldsboro

Ronald C. (Ron) Crosby, Jr.
The Crosby Law Firm
Fayetteville

Katherine H. Davis
Huggins, Davis & Associates, LLP
Lumberton

Herman E. Gaskins, Jr.
Gaskins & Gaskins, PA
Washington

Melody J. Jolly
Cranfill Sumner & Hartzog, LLP
Wilmington

Debra L. Massie
Wheatly Wheatly Weeks Lupton & Massie, PA
Beaufort

Sarah D. Miranda
Hutchens, Senter, Kellam & Pettit, P.A.
Fayetteville

Jon G. Nuckolls
The Graham Nuckolls Conner Law Firm, PLLC
Greenville

Brian Paxton
Farris & Farris, P.A.
Wilson

Bonnie J. Refinski-Knight
Harris Creech Ward & Blackerby, PA
New Bern

Ellen P. Wortman
Hedrick Gardner Kincheloe & Garofalo, LLP
Wilmington

CHARLOTTE COMMUNITY BOARD

June K. Allison
Wishart Norris Henninger & Pittman, PA
Charlotte

Robert J. Bernhardt
Bernhardt and Strawser, PA
Charlotte

William M. Claytor
Baucom Claytor Benton Morgan & Wood, PA
Charlotte

Edward G. (Woody) Connette, III
Essex Richards, PA
Charlotte

Edward B. (Ward) Davis
Bell Davis & Pitt, PA
Charlotte

Tricia M. Derr
Lincoln Derr, PLLC
Charlotte

Robert C. Dortch, Jr.
Sellers Hinshaw Ayers Dortch & Lyons PA
Charlotte

Irvin W. (Hank) Hankins
Parker Poe Adams & Bernstein, LLP
Charlotte

Amy Purwin Hunt
Horack Talley Pharr & Lowndes, PA
Charlotte

Caroline A. Mansfield Lique, PLLC
Mansfield Law Offices
Cornelius

Pender McElroy
James, McElroy & Diehl, PA
Charlotte

George Miller
Dozier Miller Pollard & Murphy, LLP
Charlotte

Lawyers Insurance

Lawyers Insurance complements the strength of Lawyers Mutual by providing a full suite of insurance products, with a strong understanding of the needs of lawyers and law firms.

Among the offerings of Lawyers Insurance are:

- NC Bar Association Health Benefit Trust – this comprehensive health plan retains the broad provider networks and rich pharmacy plans that are being sacrificed under many insurance plans.
- Group Disability and Dental employee benefit programs with valuable features obtained through our endorsement by the NC Bar Association.
- A full array of Property and Casualty coverage, including specialized professional liability solutions for customers that fall outside of Lawyers Mutual's parameters. Lawyers Insurance also provides a range of Cyber Liability coverage in addition to general office, liability and workers compensation coverage.
- An excellent Court and Probate Bond program with prompt, efficient service.
- Structured Settlement and Fixed Indexed Annuity options for special needs, retirement and long term care planning.
- Medicare Supplement coverage for those leaving their group health plan with a strong focus on service and education of our customers.

Lawyers Insurance is the 'go to' source for the insurance needs of Lawyers Mutual customers and members of the NC Bar Association.



WILLIAM STROUD | SENIOR VICE PRESIDENT

*Lawyers Insurance is
the 'go to' source for
the insurance needs
of Lawyers Mutual
customers . . .*

A handwritten signature in black ink, which appears to read "William Stroud". The signature is fluid and cursive.

