

Lawyers Mutual
2010 Annual Report

We do
More



LAWYERS MUTUAL: WE DO MORE

Lawyers Mutual was created in the midst of a troubled time in the legal malpractice industry. Rates were rising and the NC Bar Association approved provider gave notice they were leaving the market. North Carolina lawyers rose to the occasion putting up their own money to create Lawyers Mutual. We stand strong 33 years later.

Each year, we provide you with an update on how your company is doing. Over the past two years, we have communicated with you through electronic newsletters, alerts, our website and social media. This year, we are providing our Annual Report to you electronically and it can be viewed from our recently updated website, www.lawyersmutualnc.com. Lawyers Mutual is your company and our mission is to meet your needs. We hope this recap of 2010 confirms that we do more.

PRESIDENT'S MESSAGE

Thirty-three years of dedicated, continuous service to the North Carolina Bar. I am not aware of any other lawyers' professional liability insurance company that can make this claim, and am honored and humbled to be part of the one that can. Why can we make such a claim? The answer is simple: The stability that we bring to the lawyers' professional liability insurance market, and the value that we deliver to our insureds.

There is very little stability in this industry. One aspect of our mission from inception has been to provide a stable professional liability insurance market for North Carolina attorneys. And we have done just that, for 33 consecutive years. Companies have come and gone. We are in the midst of a "soft" market driven by publicly-traded company growth and earnings pressures. History will repeat itself, and these companies' appetites for this business will again change, as it has in the past. When that happens, Lawyers Mutual will be here, fulfilling our mission.

During the year, I was fortunate to meet many of you. One thing that stands out is the number of stories volunteered about how Lawyers Mutual stepped in to help at critical times. After listening to these stories, I am convinced that no other carrier would do what we've done (and will continue to do) for our insureds. The stories of how we helped exemplify the value that we consistently deliver.

On behalf of Lawyers Mutual, thank you for your loyalty and business. I also encourage you to let us know how we can help. We'll be here.

Dan Zureich
President and CEO

POLICYHOLDERS' INFORMATION

According to experts, the Great Recession impacted the U.S. economy from December 2007 through June 2009. Our Company was negatively affected by the recession first by the effects of market value declines in investments and then by large amounts of real estate claims related to the real estate bubble burst. The unusually large dollar amount of claims in 2009 resulted in a loss for the Company that year. However, the Company's surplus, or the assets and liabilities over and above our obligation to meet liabilities (pay claims), remained essentially unchanged.

2010 was a time of internal re-thinking and re-tooling. Management made significant changes to our approach to underwriting, as well to our claim reserving philosophy, both of which have made Lawyers Mutual stronger and contributed to improved financial results. At year end, the Company's policyholder surplus stood at approximately \$41.4 million; our strong capitalization has allowed us to easily weather the recent surge in claims. This surplus has been conservatively built and maintained through both "hard" and "soft" markets, since the creation of Lawyers Mutual over 33 years ago.

Lawyers Mutual reported total revenues, comprised of premiums, investment income and other income, of \$19.1 million. Claims incurred have declined \$4 million from the previous year. Although there is still uncertainty in the claims environment, we are optimistic that there are signs of stabilization in claim counts. Lawyers Mutual experienced a 102% loss ratio and a 118% combined ratio (loss ratio + expense ratio) during 2010 improving significantly from the 139% and 166% ratios posted in 2009. After experiencing a moderation in the level of claims and posting improvements in net investment gains, Lawyers Mutual ended the year with a net income of \$1.4 million.

YEARS ENDED DECEMBER 31ST	2010	2009
UNDERWRITING INCOME:		
Premiums earned	\$15,272,365	\$14,118,715
DEDUCTIONS:		
Losses incurred	8,927,050	10,355,472
Loss adjustment expenses incurred	6,692,767	9,336,232
Other underwriting expenses incurred	2,511,961	3,689,211
	<u>18,131,778</u>	<u>23,380,915</u>
Net underwriting loss	(2,859,413)	(9,262,200)
INVESTMENT INCOME:		
Net investment income earned	2,306,746	2,425,607
Realized capital gains/(losses) - net of tax (2010 \$707,000; 2009 (\$45,000))	1,372,526	(87,274)
New investment gain	3,679,272	2,338,333
OTHER INCOME / (EXPENSE):		
Loss from balances charged off	(49,249)	(71,371)
Finance and service charges not included in premiums	232,481	240,060
Other income	44	2,191
Net other income	<u>183,276</u>	<u>170,880</u>
Income before dividends to policyholders and federal income taxes	1,003,135	(6,752,987)
Dividends to policyholders	0	0
Income before federal income taxes incurred	1,003,135	(6,752,987)
Federal income taxes incurred	(376,000)	(3,043,000)
Net income	<u>\$1,379,135</u>	<u>\$(3,709,987)</u>

ADMITTED ASSETS	2010	2009
CASH AND INVESTMENTS:		
Bonds, at amortized cost (market 2010: \$45,785,268; 2009: \$40,309,698)	\$44,307,613	\$39,467,997
Preferred stocks, at amortized cost (market 2010: \$1,359,239; 2009: \$0)	1,266,329	0
Preferred stocks, at market (cost 2010: \$308,092; 2009: \$0)	317,649	0
Common stocks, at market (cost 2010: \$15,832,782; cost 2009: \$14,819,147)	19,575,789	17,975,702
Cash and short-term investments	3,235,621	7,484,822
Other invested assets	3,381,690	3,922,989
Receivable for securities	0	349,367
Cash and investments	<u>72,084,691</u>	<u>69,200,877</u>
Interest and dividend income due and accrued	786,910	573,429
Premiums in course of collection	2,327,543	2,240,768
Reinsurance recoverables on claim payments	141,006	18,709
Other amounts receivable under reinsurance contracts	435,546	0
Current Net Federal income tax recoverable	2,417,665	3,129,231
Deferred Net Federal income tax asset	1,475,000	621,000
Electronic data processing equipment and software, net of accumulated depreciation (2010: \$217,292; 2009: \$261,932)	26,407	35,676
Receivable from subsidiary	478,223	237,861
Total assets	<u>\$80,172,991</u>	<u>\$76,057,551</u>
LIABILITIES AND POLICYHOLDERS' SURPLUS		
LIABILITIES:		
Unpaid losses	\$17,476,432	\$15,763,756
Unpaid loss adjustment expenses	10,824,172	10,610,553
Commissions, contingent commissions payable	0	28,785
Taxes, licenses, fees and other expenses payable	808,885	553,092
Unearned premiums	7,892,117	8,042,986
Advance premiums	589,698	732,820
Ceded reinsurance premiums payable, net of ceding commissions	714,515	572,121
Funds held by company under reinsurance treaties	3,073	3,072
Amounts withheld by company for account of others	207,208	0
Provision for reinsurance	10,947	29,209
Payable for securities	139,265	269,180
Unearned installment charges	74,478	51,830
Total liabilities	<u>38,740,790</u>	<u>36,657,404</u>
POLICYHOLDERS' SURPLUS:		
Total Policyholders' Surplus	41,432,201	39,400,147
Total liabilities and Policyholders' Surplus	<u>\$80,172,991</u>	<u>\$76,057,551</u>

A copy of the company's annual financial statement is available upon written request.

YEAR IN REVIEW

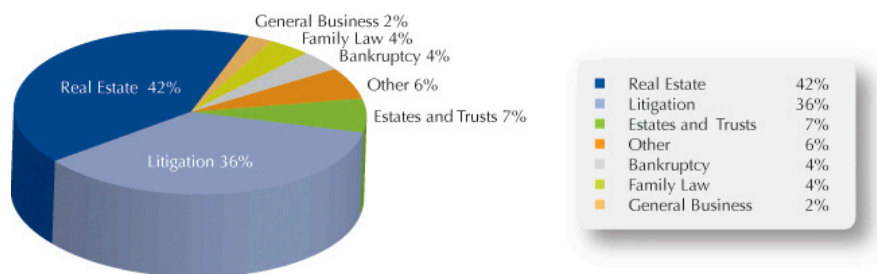
Claims Department Report

Lawyers Mutual proudly employs a staff of seven claims attorneys. Their title is actually a bit deceiving. Handling claims on behalf of our insureds is just one of the many services that claims attorneys provide to our insureds. Our claims attorneys spend as much time helping our insureds avoid claims as they do handling claims. With a combined 77 years of experience, our claims attorneys have seen just about everything. If it can be fixed, they usually know how. If they don't have the answer, we employ the best attorneys in the state to assist our insureds. Our claims repair program is unmatched in the industry.

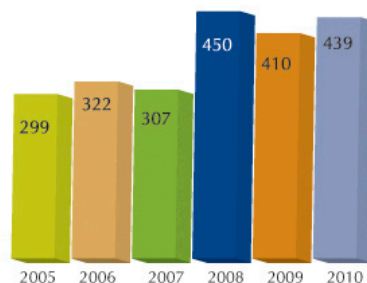
The same is true for the risk management services provided by our claims attorneys. In addition to our free risk management programs, our claims lawyers travel throughout the state during the year providing timely and useful CLE programs to local bar groups and various sections of the Bar Association. As an example, this past year, we presented a series of real estate seminars addressing best practices and common malpractice traps. We were able to draw on the real estate expertise of our claims attorneys to identify common sources of claims and then provide insureds with tools and tips to avoid these claims.

We are North Carolina lawyers helping North Carolina lawyers. No other carrier can provide the level of claims service that we do. While nobody looks forward to calling their malpractice carrier, we want our insureds to know that we stand ready to help.

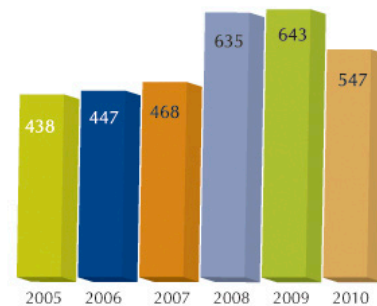
Claims by Area of Practice



Reported Claims



Pending Claims at Year End



Client Services

We constantly strive to offer you more. More CLE, more risk management resources, and more opportunities to interact with our claims attorneys. One way we did more in 2010 was by speaking at more than 50 CLE programs, law schools and law firms. Dan Zureich, Will Graebe, Renee Riggsbee, Camille Stell, Troy Crawford, Laura Loyek, Warren Savage, Mark Scruggs and Wayne Stephenson crossed the state to provide practical informative and timely advice.

We continue to improve our website risk management resources. Here you can download forms such as engagement and non-engagement letters, review articles on file management and file retention and access toolkits designed to make practical information available on the home page for easy access. Our risk management hotline (800.662.8843) is available to connect you to a staff member in order to help you locate risk management resources or register for a CLE program. Through the hotline, our seven claims attorneys speak with hundreds of lawyers about potential malpractice problems and analyze options.

Lawyers Mutual was formed by North Carolina lawyers in response to a malpractice crisis. We were the first mutual professional liability company for lawyers in the country. Our history is important to us, but that does not keep us from looking forward. We design our CLE programs and risk management resources around current problems facing North Carolina lawyers. We are a relationship driven company. We continue to strengthen our relationships with North Carolina law schools and bar associations through speaking engagements, sponsorships and service opportunities. Lawyers Mutual is committed to North Carolina lawyers. We do more.

Underwriting Report

2010 was a year of unprecedented challenge and change in the Underwriting Department. For the first time since we began insuring lawyers, commercial carriers, taking advantage of the “soft” insurance market, began aggressively soliciting North Carolina lawyers.

We devoted considerable time to communicating with our insureds about the importance of continued coverage with Lawyers Mutual. Your premium payments year after year create equity that you can depend on when the inevitable claim arises. Lawyers who have experienced claims know the value of Lawyers Mutual’s claims handling and commitment to them. Unlike attorneys in many other States, North Carolina lawyers have a mutual company to protect and support them. At Lawyers Mutual we do one thing - provide malpractice insurance to lawyers. Our premiums are based on our experience. The number of claims and the costs associated with those claims has increased over the past several years.

In 2010, we made significant advances in the Underwriting Department in assessing risk and tying risk to premium, and these advances benefit all our policyholders. We also began providing premium discounts for lawyers with good claims history and lawyers in lower risk areas of practice. We have made significant advances in the Underwriting Department in assessing risk and tying risk to premium, and these advances benefit all our policyholders. Our mission is to be here for you, through good times and bad, soft market or hard market. We are financially sound, strongly capitalized, and equally strong in our support of the lawyers we insure. We are here to stay. We know North Carolina, its lawyers and its laws, and no one in the insurance industry can compete with the coverage, service and value offered by Lawyers Mutual. The Underwriting Department is key to our mission of commitment to you.

LAWYERS INSURANCE 2010 REPORT

In 2010, Lawyers Insurance completed its 20th year of marketing and administering the insurance programs of the North Carolina Bar Association. We continue to enjoy a close relationship with the Bar Association and its staff, and we seek to identify insurance products and plans that add value to NC Bar Association membership.

Much of the company's focus in 2010 was on the impact of federal health legislation that imposes and expands federal regulatory requirements on health plans. As the administrator of the North Carolina Bar Association Health Benefit Trust, Lawyers Insurance is responsible for complying with these new regulations and mandates, and must also anticipate the effect on the overall market, and specifically on the NCBA health plan's membership. The combination of a weak individual mandate, the removal of pre-existing condition limitations, and eventually prohibiting pricing based on health conditions, will undoubtedly disrupt the market and lead to additional cost increases. Whether this will make the NC Bar Association plan more or less attractive, compared to the rest of the marketplace, is as yet unclear.

Lawyers Insurance continues to diversify its business by strengthening other product lines. An unprecedented pilot disability program was rolled out in 2010 that provided top flight individual disability coverage with no medical questions. Premiums for structured settlements, court bonds, medicare supplement policies and property and casualty coverage (both business and personal) were all strong in 2010.

We will continue to strive to combine the best insurance products and service for the lawyers of North Carolina.

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