

YEARS OF SERVICE  
40



LAWYERS  
MUTUAL

LIABILITY INSURANCE  
COMPANY OF  
NORTH CAROLINA

1977-2017 | A LASTING LEGACY - A BOLD FUTURE

Founded 40 years ago with a Mission

**LAWYERS HELPING LAWYERS**

Our motto is Here Today, Here Tomorrow

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## PRESIDENT'S MESSAGE

In the late 1970s, the lawyers' professional liability insurance market was in turmoil – carriers were doubling, tripling and quadrupling rates, or altogether exiting the market. In January 1977, the North Carolina Bar Association's Insurance Committee met with the Insurance Commissioner to discuss the feasibility of forming a mutual insurance company. By September, Lawyers Mutual was chartered. Once the need arose, the response was swift.

It's hard to believe all that happened in 1977 and this year we celebrate 40 years of continuous service to North Carolina attorneys. As we look back, we must recognize the importance of vision and trust.

Our founders, all members of the North Carolina Bar, had the vision to create a mutual insurance company. Why is this important? Because, as a mutual insurance company, our sole obligation is to our policyholders. We are not concerned with competing shareholder interests or short-term financial pressures driven by shareholder or market expectations. Rather, we have always been laser-focused on you and made decisions that we believe to be in your best long-term interests. Our goal has always been to ensure that Lawyers Mutual is here for you today. It is our founder's vision that helps ensure we will be here for generations to come.



DAN ZUREICH | PRESIDENT & CEO

Trust has played an equally important role. Trust is the foundation of lasting relationships. As such, it is the foundation of Lawyers Mutual and our success. Can you imagine being asked to contribute up to \$700 (almost \$3,000 today) to capitalize an insurance company, knowing there is a good chance that money may never be returned? Back in 1977, over 1,400 lawyers contributed capital. Those lawyers trusted our founders and our mission. If not for that trust, we would not be here today.

Thank you for trusting us to do the right thing for you for the last 40 years and giving us the opportunity to earn your trust each day. We look forward to celebrating many more anniversaries and to a bright and bold future.

**Policyholder dividends are one of the significant benefits of being insured with a mutual insurance company. No other carrier has done as much for North Carolina attorneys as Lawyers Mutual.**

## YEAR IN REVIEW:

# CLAIMS

Forty years ago, one of our insureds called to report Lawyers Mutual's very first claim. Legend has it that the claim involved a wrap-around mortgage, and the claim eventually made it all the way to the Court of Appeals. I suspect that first claim was set up on either a manual or an electric typewriter and might have involved carbon paper. Everything was stored in a paper file back then, and a manual diary system was set up to follow-up on the file. Today, we live in a different world. We now get calls and e-mails from our insureds who tell us that their computer systems were hacked and they were tricked into sending real estate closing funds to cyber criminals in Russia. These technology and cyber fraud claims are what keep us up at night today. We are facing highly sophisticated and well-organized criminal enterprises that specifically target law firms for money and data.

While many of the claims we see today are the same as the ones we saw forty years ago, others could not even have been imagined back then. But our approach to handling these claims has never changed. Our first priority has always been to see whether there is a way to fix a problem when a mistake is reported. More than thirty years ago, John Hester implemented our claims repair program, and today John and the other claims attorneys



*WILL GRAEBE | VICE-PRESIDENT, CLAIMS*

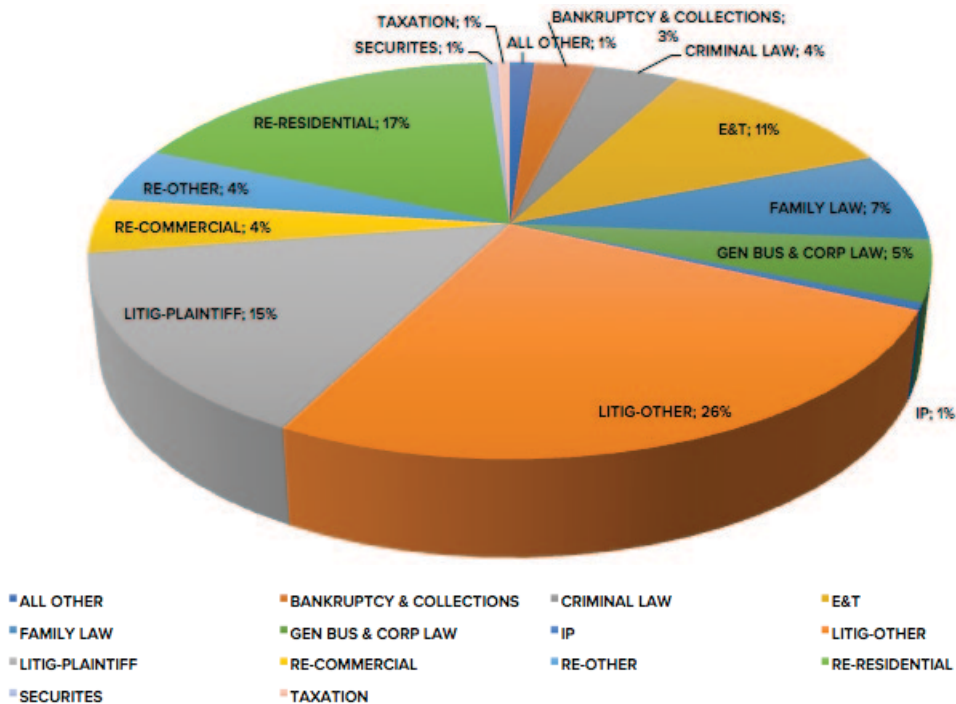
are able to use those years of experience to benefit our insureds and their clients in virtually every practice area. When we are able to repair an error, everybody wins. In those rare instances where we are unable to repair a problem or find a mutually satisfactory solution, we have the best staff of outside defense attorneys who are ready to defend our insureds.

No other company has provided forty years of uninterrupted service to North Carolina attorneys. No other company has a staff of experienced North Carolina attorneys on standby to assist insureds and respond to claims. No other company has a claims repair program. And no other company offers the level of proactive risk management assistance that Lawyers Mutual is able to provide in a rapidly changing practice environment.

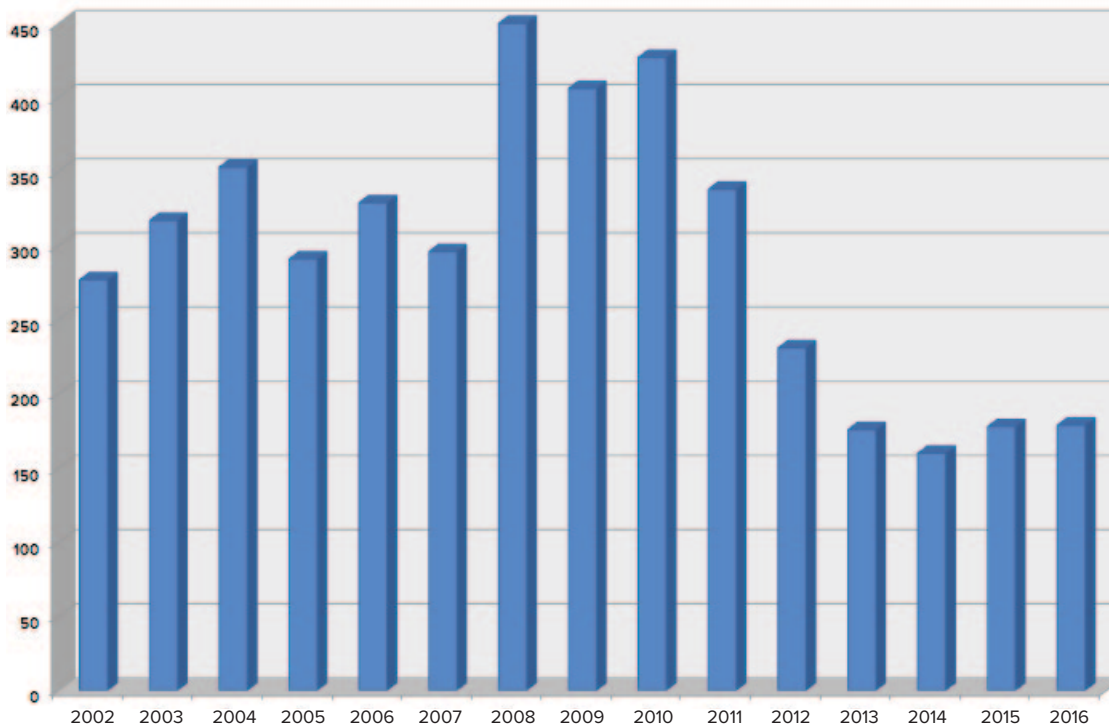
**We're prepared to respond to challenges facing law firms with a claims handling program that's unmatched in history.**

# CLAIMS CHARTS

## CLAIMS BY PRACTICE AREA – 2016



## REPORTED CLAIMS BY YEAR



## YEAR IN REVIEW:

# CLIENT SERVICES

Some Lawyers Mutual names everyone knows, such as our claims attorneys Warren Savage or Wayne Stephenson. Or John Hester, one of the earliest employees who is celebrating 32 years with the Company. While a smaller number of insureds knew another of our long-term employees, her role was equally important. Connie Crumpler retired in 2016 celebrating 35 years of employment.

Connie joined Lawyers Mutual in 1982 and was one of three full-time employees. At that time, our President John Q. Beard was part-time and still practicing law on a full-time basis. Beard hired Connie as Director of Accounting and over the years, she worked in various departments and handled many jobs. She worked directly with our insured lawyers by collecting deductible payments.

Connie says, “Service is something that cannot be bought. We care about our insureds and their situations. Our staff travels all over the state to meet our insureds face to face. We want to know them and want them to know us. We want them to know we are here to help.”

Connie’s words echo the mind set of everyone who works at Lawyers Mutual. The passion we feel for our insureds is contagious, whether it’s the work we do in underwriting their firms, educating them about current risks, working with them on claims, writing dividend checks or providing health insurance benefits, everyone is dedicated to providing excellent customer service.



*CAMILLE STELL | VICE-PRESIDENT, CLIENT SERVICES*

As the practice of law is changing, we are responding — collaborating with innovators in the profession to provide our insureds with valuable tools. We continue to ask, what will the practice of law look like in 5, 10, or 20 years?

We look for new ways to bring value. Visit our website at [www.lawyersmutualinc.com](http://www.lawyersmutualinc.com) for newly designed infographics and more than 50 practice guides containing form letters, checklists and best practices. Subscribe to our monthly e-newsletter, which also puts you on the email list for timely alerts and CLE program notifications. Also, call our toll-free Risk Management Hotline (800.662.8843) for one-on-one consultations about practice management, marketing, strategic planning, or succession planning.

We care about the Lasting Legacy of Lawyers Mutual and we are proud to be a part of the Bold Future of the Company.

We invite you to join in the discussion. Join us at one of our community programs or #LastingLegacyBoldFuture.

**Your trust built this company, and we want to give back to you by helping lawyers prepare for their future.**

## YEAR IN REVIEW: UNDERWRITING

Think “Lawyers Mutual,” and you think history. You think service. This year is our 40th year of dedicated service to the North Carolina Bar! We are stronger than ever after 40 years because we excel at one thing: insuring North Carolina law firms and providing exceptional service to our policyholders.

As is often said, there is nothing permanent except change. Change is certainly taking place in the legal profession today. Lawyers are looking at new models for the provision of legal services, new arrangements, and new relationships with non-traditional legal providers locally and nationally.

As an insurance company, we use historical data and trends to assess future losses, but Lawyers Mutual is also looking at these changes in the legal profession and facing new challenges in underwriting these new risks. We often engage in one on one, private conversations with our policyholders about potential ethics issues, coverage, and risk management associated with these new arrangements.



*RENEE RIGGSBEE | VICE-PRESIDENT, UNDERWRITING*

This year Lawyers Mutual is making a significant change in our IT processes by replacing our aged enterprise system which will eventually (fingers crossed) also allow policyholders to access their policy information through a secure portal.

Our theme this year is “A Lasting Legacy, A Bold Future.” The future is uncertain, and we are facing many changes in the profession, but what will never change is our focus on our relationship with, and commitment to, our policyholders. When you have a question or a problem, think “Call Lawyers Mutual.” Sometimes, when everything changes, everything remains the same.

**The best part of what we do is when we get to  
interact with our policyholders directly.**

## 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, 2016. 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 2016 Annual Statement is available upon request.

### HARD DATA, SOFT DATA, INSURANCE DATA

Each year management sifts through hard data such as real estate metrics, unemployment rates and inflation figures as well as soft data such as consumer and business owners confidence. The purpose of the sifting is to eliminate, as much as possible, economic surprises that could affect the Company's and our insureds business environment. Management analyzes this hard and soft data along with insurance data such as loss ratios, investment yields and reinsurer pricing. The goal is to determine how best to provide Lawyers Mutual's insureds with insurance coverage to protect their practice.

Company management and directors have been sifting the data described above for forty years since its inception in 1977. In 1977, President Jimmy Carter began his term of office and the world's first personal computer (the Commodore PET) was demonstrated at a trade show. The FED's discount rate was 5.75% and quality corporate bonds were yielding 8%. The current FED discount rate is 1.5% and quality corporate bonds are now yielding below 3%. Through the various changes in business cycles that have occurred during the last four decades, Lawyers



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

Mutual has weathered the challenges and become stronger with time.

### LAWYER'S MUTUAL BUSINESS ENVIRONMENT

The number of claims reported and activated appears to have normalized over the past five years with small increases in claims counts coupled with moderate increases in insureds. North Carolina employment growth appears positive with Wells Fargo recently reporting that Professional and Business Services, Other Services and Financial Activities grew, year-over-year at a rate higher than 2.5%. In addition, Wells Fargo believes that:

*Stronger job growth and improving credit availability is boosting consumer confidence and buyer traffic. Milder winter weather appears to have pulled the spring home-buying season forward.*

With the many changes occurring in the world including a rising interest rate environment, potential U.S. tax changes and various demographic trends, management pays close attention to data that may affect future claims frequency or severity.

Fiscal conservatism remains a basic tenet of the Company's management philosophy and positive results over the years have served to build the Company's safety net (Surplus) as well as to provide the ability to issue substantial policyholder dividends.



## SUMMARY OF FINANCIAL RESULTS

Lawyers Mutual recorded a \$3.7 million underwriting gain and a \$4 million net income in 2016. Both these amounts were greater than the respective 2015 amounts of \$2.2 million and \$3.6 million. The Company's unassigned surplus, as of year-end, was approximately \$74.4 million, representing a \$5.6 million increase over the prior year-end. Approximately 20% of the surplus increase was due to market value increases in investments, net of taxes. Lawyers Mutual reported total revenues (comprised of premiums, investment gains and other income) of \$17.5 million during 2016. Revenues were approximately \$100,000 higher than the prior year and reflect reduced overall bond yields and a stable base premium rate. Lawyers Mutual experienced a 42.7 percent loss ratio and an 80.5 percent combined ratio (loss ratio + expense ratio excluding dividends) during the calendar year ended December 31, 2016. These strong ratios improved on the already strong ratios from the previous year. Lawyers Mutual's investment income, from all sources, declined approximately \$25,000 during 2016. The Company's investments are weighted heavily toward investment grade bonds with relatively short effective maturities. The largest allocations are to corporate and municipal bonds and during 2016, the portfolio experienced numerous bond maturities and calls that required reinvestment at lower yields. The overall total return on investments, after taxes and net of fees, was a positive 3.23 percent for the year and approximated a weighted average benchmark of 3.26 percent used to judge performance.

## POLICYHOLDER DIVIDENDS

With positive underwriting results combined with other increases in surplus, the Company declared a 5.7% policyholder dividend for 2016. The dividend for 2016 is payable upon the expiration of year-end in-force claims-made policies. This is the sixth consecutive year of policyholder dividends and is part of the \$8.5 million of policyholder dividends declared over the past thirteen years.

**For the policy year of 2016, Lawyers Mutual  
declared a dividend of 5.7% which will total  
nearly \$1 million.**

## FINANCIALS:

# STATUTORY STATEMENTS OF INCOME

Years Ended December 31st	2016	2015
<i>Underwriting income:</i>		
<i>Premiums earned</i>	\$ 14,253,903	\$ 14,197,884
<i>Deductions:</i>		
<i>Losses incurred</i>	1,429,761	2,661,736
<i>Loss adjustment expenses incurred</i>	4,655,000	5,380,697
<i>Other underwriting expenses incurred</i>	4,506,278	3,991,427
	10,591,039	12,033,860
<i>Net underwriting gain / (loss)</i>	3,662,864	2,164,024
<i>Investment income:</i>		
<i>Net investment income earned</i>	2,571,446	2,596,252
<i>Realized capital gains / (losses) - net of tax ( 2016: \$187,210; 2015: \$106,861 )</i>	363,407	301,845
<i>Net investment gain</i>	2,934,853	2,898,097
<i>Other income / (expense):</i>		
<i>Loss from balances charged off</i>	(1,805)	(30,665)
<i>Finance and service charges not included in premiums</i>	315,356	273,087
<i>Other income</i>	10,701	27,014
<i>Net other income</i>	324,252	269,436
<i>Income before dividends to policyholders and federal income taxes</i>	6,921,969	5,331,557
<i>Dividends to policyholders</i>	1,000,599	979,524
<i>Income before federal income taxes incurred</i>	5,921,370	4,352,033
<i>Federal income taxes incurred</i>	1,929,718	782,820
<i>Net income</i>	\$ 3,991,652	\$ 3,569,213

## FINANCIALS:

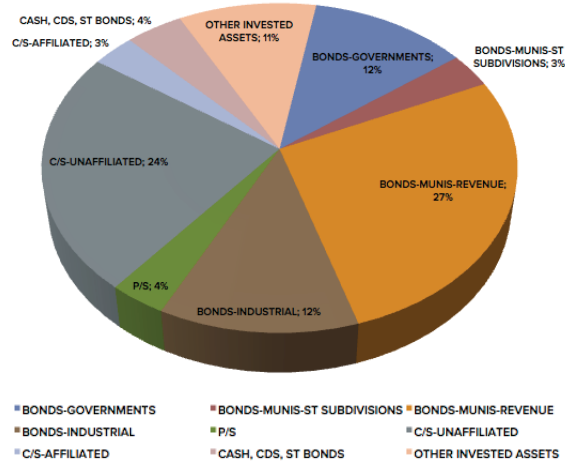
# ADMITTED ASSETS, LIABILITIES AND POLICYHOLDERS' SURPLUS

Admitted Assets	As of December 31,	
	2016	2015
<b>Cash and investments:</b>		
Bonds, at amortized cost (market 2016: \$53,649,418; 2015: \$53,641,217)	\$ 52,690,452	\$ 51,920,888
Preferred stocks, at amortized cost (market 2016: \$1,705,617; 2015: \$1,955,331)	1,672,061	1,849,150
Preferred stocks, at market (amortized cost 2016: \$1,743,978; 2015: \$1,284,160)	1,718,171	1,322,968
Common stocks (cost 2016: \$20,937,732; 2015: \$18,420,988)	26,538,850	23,231,545
Cash and short-term investments	4,289,531	4,130,676
Other invested assets	10,061,438	9,881,773
Receivable for securities	-	24,852
<b>Cash and investments</b>	<b>96,970,503</b>	<b>92,361,852</b>
Interest and dividend income due and accrued	645,465	656,128
Premiums in course of collection	2,937,530	3,038,207
Reinsurance recoverables on claim payments	-	136
Other amounts receivable under reinsurance contracts	545,340	624,891
Current Net Federal income tax recoverable	1,552,192	1,183,136
Deferred Net Federal income tax asset	15,834	246,378
Receivable from subsidiary	370,571	360,591
Other	121,224	61,949
<b>Total assets</b>	<b>\$ 103,158,659</b>	<b>\$ 98,533,268</b>

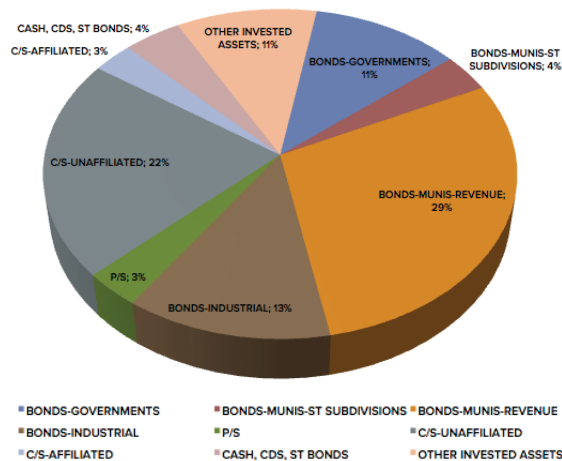
Liabilities and Policyholders' Surplus	2016	2015
<b>Liabilities:</b>		
Unpaid losses	\$ 6,623,081	\$ 8,212,593
Unpaid loss adjustment expenses	9,214,241	9,599,762
Taxes, licenses, fees and other expenses payable	1,132,229	874,698
Net Deferred Tax Liability	-	-
Unearned premiums	6,989,039	6,670,469
Advance premiums	929,279	886,584
Dividends declared and unpaid	1,058,826	1,088,349
Ceded reinsurance premiums payable, net of ceding commissions	638,284	671,206
Funds held by company under reinsurance treaties	1,939,260	1,440,774
Amounts withheld by company for account of others	7,696	7,696
Payable for securities	88,421	67,245
Other	104,426	129,872
<b>Total liabilities</b>	<b>28,724,782</b>	<b>29,649,248</b>
<b>Policyholders' Surplus:</b>		
Total Policyholders' Surplus	74,433,877	68,884,020
<b>Total liabilities and Policyholders' Surplus</b>	<b>\$ 103,158,659</b>	<b>\$ 98,533,268</b>

# FINANCIAL CHARTS

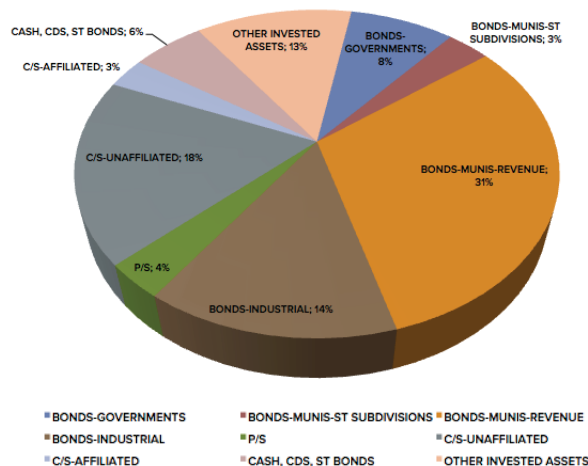
## CASH & INVESTED ASSETS – Fair Value 12.31.2016



## CASH & INVESTED ASSETS – Fair Value 12.31.2015



## CASH & INVESTED ASSETS – Fair Value 12.31.2014



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## LAWYERS INSURANCE

At Lawyers Insurance, we pride ourselves on service to the customer and bringing to the table unique and innovative solutions to the needs of North Carolina law firms.

In 2016, the NC Bar Association Health Benefit Trust entered its 15th year of operation. Under the guidance of Lawyers Insurance, the Health Benefit Trust has been an invaluable benefit to over 1,000 law firms. Covering large and small firms alike, the Health Benefit Trust allows every North Carolina law firm to provide the highest quality health plans to their employees.

Lawyers Insurance continues to hone its expertise in the coverage of cyber liability and crime exposures. These areas intersect with constantly evolving schemes to steal funds and personal client data. Law firm managers must know what policies cover what risk in order to safeguard the firm.



*WILLIAM STROUD | SENIOR VICE PRESIDENT*

From employee benefits, to disability and life, to business and property coverage, we only have one set of customers, and that is the lawyers of North Carolina. We are committed to understanding your needs and providing you the highest level of service.

**From employee benefits, to disability and life, to business and property coverage, we only have one set of customers, and that is the lawyers of North Carolina.**

