

Lawyers Mutual

2008 annual report



foundations for service

ON THE COVER



North Carolina Central University School of Law



Duke Law School



Wake Forest University School of Law



University of North Carolina School of Law

ON THE BACK COVER



Elon University School of Law



Charlotte School of Law



Norman Adrian Wiggins School of Law

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As President of Lawyers Mutual, I want to affirm my commitment to our mission of providing professional liability coverage for North Carolina lawyers. For the past 31 years we have been, and we shall always be, committed to serving every lawyer and law firm in the State in all areas of practice. We will keep the promise of our motto: "Here today, here tomorrow."

We are all aware of the financial difficulties facing our nation. In the past, Lawyers Mutual, with your help, experienced record gains, but we were always aware that market cycles change, and they have. Thankfully, as a result of good stewardship and conservative investing and planning for future years, Lawyers Mutual is well prepared for these more difficult times. We are capitalized exceptionally well to weather the storm. Our commitment and our philosophy have not changed, and again, with your help, we expect to remain as strong as ever.

Hard economic times do increase malpractice claims, as we experienced in 2008. This was particularly true with real estate claims, which had a temporary negative effect on our claims history. Real estate has always been a big part of North Carolina lawyers' practice, and Lawyers Mutual remains committed to the real estate bar. You have been loyal during some excellent underwriting years, and I pledge to every lawyer, regardless of area of practice, that we will not leave you during these difficult times.

Lawyers Mutual is also committed to providing additional services that no other company can provide, such as the excellent CLE programs put on by our Risk Management Department, individual office visits, programs tailored for individual groups, law firms and local bar organizations, and, of course, the much favored and highly successful claims repair assistance by our outstanding Claims Department.

Three lawyers with long tenures at Lawyers Mutual have assumed new management responsibilities. Will Graebe and Renee Riggsbee, former Claims attorneys, have been named Vice Presidents of the Claims Department and of the Underwriting Department, respectively. William Stroud, currently President of Lawyers Insurance Agency, which provides health coverage and other insurance products (and pays annual dividends to Lawyers Mutual) has also assumed duties as Senior Vice President for Lawyers Mutual. Will, Renee and William fully understand the culture and commitment of this company, and I am proud to be associated with such an outstanding team.

No other carrier can or will serve the lawyers of this State as we do. We have a lot to live up to and a responsibility to build on what has been done so successfully in the past.

We are proud to be your company. We are "lawyers helping lawyers."

Judge Gerald Arnold, President



L-R: Glen Hardyman, Chairman, Henry Mitchell, Chairman Emeritus, Judge Gerald Arnold, President.

STATUTORY STATEMENTS of Admitted Assets, Liabilities and Policyholders' Surplus*As of December 31st*

ADMITTED ASSETS	2008	2007
Cash and investments:		
Bonds, at amortized cost (market 2008: \$69,643,303; 2007:\$40,883,007)	\$40,750,385	\$40,910,413
Common stocks, at market (cost 2008: \$23,488,147; 2007:\$21,548,916)	22,809,585	27,690,300
Cash and short-term investments	3,429,262	3,614,553
Other invested assets	206,842	204,034
Receivable for securities	201,140	9,120
Cash and investments	67,397,214	72,428,420
Interest and dividend income due and accrued	612,032	628,429
Premiums in course of collection	1,734,276	1,714,070
Reinsurance recoverables on claim payments	11,239	34,829
Other amounts receivable under reinsurance contracts	656,000	444,175
Current Net Federal income tax recoverable	636,823	248,176
Deferred Net Federal income tax asset	1,520,000	-
Electronic data processing equipment and software, net of accumulated depreciation (2008: \$234,013; 2007: \$212,212)	18,831	25,437
Receivable from subsidiary	50,899	476,200
TOTAL ASSETS	\$72,637,314	\$75,999,736

LIABILITIES AND POLICYHOLDERS' SURPLUS	2008	2007
Liabilities:		
Unpaid losses	\$13,829,205	\$11,679,976
Unpaid loss adjustment expenses	8,372,524	6,897,278
Taxes, licenses, fees and other expenses payable	636,222	459,313
Net deferred tax liability	-	702,000
Unearned premiums	7,464,520	7,481,100
Advance premiums	660,875	821,691
Policyholder dividends declared and unpaid	-	42,190
Ceded reinsurance premiums payable, net of ceding commissions	521,346	658,389
Funds held by company under reinsurance treaties	1,732	-
Provision for reinsurance	207,316	342,962
Payable for securities	1,450,303	337,484
Unearned installment charges	54,861	78,156
Total liabilities	33,198,904	29,500,539
POLICYHOLDERS' SURPLUS:		
Total Policyholders' Surplus	39,438,410	46,499,197
Total liabilities and Policyholders' Surplus	\$72,637,314	\$75,999,736

STATUTORY STATEMENTS of Income

Years Ended December 31 st	2008	2007
UNDERWRITING INCOME:		
Premiums earned	\$13,516,282	\$12,381,833
DEDUCTIONS:		
Losses incurred	7,913,045	5,605,401
Loss adjustment expenses incurred	6,981,094	6,058,012
Other underwriting expenses incurred	3,016,566	2,367,287
	<u>17,910,705</u>	<u>14,030,700</u>
Net underwriting gain/(loss)	(4,394,423)	(1,648,867)
INVESTMENT INCOME:		
Net investment income earned	2,685,411	2,545,918
Realized capital gains /(losses) - net of tax(2008 \$132,000; 2007 \$300,000)	(1,015,674)	586,459
Net investment gain	1,669,737	3,132,377
OTHER INCOME / (EXPENSE):		
Loss from balances charged off	(35,192)	(7,291)
Finance & service charges not included in premiums	253,572	236,274
Other income	442	1,129
Net other income	218,822	230,112
Income/(loss) before dividends to policyholders & federal income taxes	(2,505,864)	1,713,622
Dividends to policyholders	-	(14,136)
Income/(loss) before federal income taxes incurred	(2,505,864)	1,727,758
Federal income taxes incurred	(593,000)	75,000
Net income/(loss)	\$(1,912,864)	\$1,652,758

A copy of the Company's annual financial statements is available upon written request.

HERE TODAY HERE TOMORROW

Lawyers Mutual was founded in 1977 by raising \$1 million dollars from North Carolina lawyers, so that they would no longer be subject to the whims of the commercial insurance market. At that time, in the midst of another 'bust' in the economic and insurance cycle, all of the commercial insurers that offered lawyers professional liability insurance left our State. Under a deadline for action, lawyers were asked to invest in a new venture dedicated to ensuring that North Carolina lawyers would always have a place to turn for protection. Most of the initial investors put up \$1,000 each, some using their credit cards.

The Company's financial strength grew very slowly at first, but a long period of excellent underwriting

results and strong investment returns allowed the Company's surplus to grow. Now Lawyers Mutual has a strong capital base and is well prepared to serve our policyholders through the current storm.

Back in 2000 in the midst of a boom, our Annual Report boasted of exceptional financial results, but soberly noted that cycles will inevitably change and we intend to be ready. So they did in 2008, as high claims and below par investment returns led to disappointing financial results. Our overall net loss was the first in more than 25 years and investment losses reduced our surplus. Nevertheless, our capital ratios remain exceptional and our conservative philosophy of stewardship will continue, whether or not such a philosophy is currently in style.

LAWYERS HELPING LAWYERS

Lawyers seek to serve their clients and the public. They build a foundation of knowledge in law school and supplement it throughout their career with continuing education. Those that strive hardest to serve are invariably rewarded with successful practices and careers, for as Emerson said, "It is one of the most beautiful compensations in life, that no man can sincerely try to help another without helping himself."

Our most basic mission at Lawyers Mutual is to provide you financial protection from professional liability, but we cannot do that well unless we also provide education and resources to help you better serve your clients and the public. Our goal is for there to be as much value in our service as is in the financial protection that we provide.

OUR POLICY

Most Lawyers Mutual policyholders have been with the Company for many years since the inception of their practice. This is important with a 'Claims Made' policy, since a change in coverage may require the policyholder to seek a 'tail' policy or seek 'prior acts' coverage from a subsequent insurer. New lawyers receive the benefit of a discounted rate from Lawyers Mutual, which gradually increases until their practice is considered mature after six years.

Lawyers Mutual is the only company that has served lawyers in North Carolina continuously for 31 years. Other companies enter the lawyers professional liability market when conditions appear favorable, then exit when circumstances change. When that happens, their policyholders are left to deal with the consequences, which can be harsh if there are potential claims that must be reported or other indications of risk.

One of the rewards of a long tenure with Lawyers Mutual is free Extended Reporting or 'tail' coverage for retiring lawyers that have been with Lawyers Mutual for 10 consecutive years. Another unique aspect of Lawyers Mutual's coverage is that our rates have less differentiation between areas of practice than virtually any other carrier. We are here to serve the whole bar, not just selected practices.

EDUCATION AND RISK MANAGEMENT

We hope you are one of the thousands of policyholders who have attended a Lawyers Mutual continuing education seminar in recent years. We travel throughout the State to put on programs focusing on both the pitfalls of practice and ways to enhance it. Since we handle hundreds of claims each year, we are on the front line learning about the latest difficulties confronting lawyers on a daily basis, and we use this knowledge to forewarn our policyholders.

We maintain a bank of information on subjects to help lawyers avoid claims and this information is at your disposal by contacting us or going to our website. Our claims attorneys are at your service, and it is not

uncommon for them to receive a call from a lawyer in the midst of a matter or transaction seeking advice on a thorny issue that has arisen.

We proudly support the NC Bar Association, the NC Advocates for Justice, the NC Association of Defense Attorneys, and a host of smaller bar-related organizations and local bar groups in their missions of service and education. We would be pleased to come speak to your group or firm.

ALL OF YOUR INSURANCE NEEDS

There are many additional insurance products and services that are a natural fit with our core mission of professional liability insurance. Since 1990, our subsidiary, Lawyers Insurance, has methodically expanded to address many such needs.

Lawyers Insurance manages the NC Bar Association Health Benefit Trust, which gives law firms an option for their health coverage that most small businesses do not have. We complement this with other employee benefits, and property and general liability protection for your firm. We can assist your clients with court bonds and structured settlements. We can also help with all your individual needs, including disability, life, medicare supplement coverage and even your personal home and auto.

OUR PEOPLE

As we entered 2009 with changes in management, it is notable that each member of the new management team has been with Lawyers Mutual for more than 10 years. Many of our staff members have 15-25 years of experience at Lawyers Mutual. We are extremely proud of our people, and each of them will take the time necessary to understand and address your needs.

Our state has changed dramatically in recent years, economic times change, the practice of law changes, but one thing that never changes is the importance of service. We'll stay committed to serving the lawyers of North Carolina.

LAWYERS
HELPING
LAWYERS

Our claims attorneys are genuinely committed to providing the highest level of service possible to our policyholders. We truly are lawyers helping lawyers. This commitment was recently illustrated when one of our claims attorneys, Warren Savage, received a call from an insured who had failed to file a timely answer to a complaint. The policyholder's client was a business that was facing execution on its business assets as a result of a default judgment. Warren immediately responded with calls to the judgment creditor, the client and the deputy sheriff, who had instructions to proceed with the execution sale. Through Warren's diligent efforts, he was able to delay the imminent execution, avoid the loss of the client's business, and settle the claim for less than the amount of the judgment. While we take pride in effectively handling claims such as this for our policyholders, we see our mission as much more. The breadth and depth of services that we provide to our policyholders is unmatched in the industry.

In 2008, our claims staff was put to the test in handling a record number of claims. We rose to this challenge by drawing on the diverse talents and expertise of our claims attorneys. However, the claims statistics do not tell the entire story. These numbers do not reflect the number of claims that were avoided as a result of the guidance and counseling provided by our claims attorneys. In fact, we spent as much time this year assisting policyholders with claims avoidance and claims repair as we did in handling claims. We are in this together with our policyholders. This is why we encourage our policyholders to call us when they have a question or problem and need guidance. If we don't know the answer, we have a talented panel of outside counsel that we are able to call upon for any practice area.

In addition to claims handling, claims repair and counseling, we strive to provide our policyholders with the tools necessary to improve their practices and client relationships. One of the ways we do this is by traveling throughout the State to present seminars addressing issues of claims avoidance and common malpractice traps. In 2008, claims attorneys Mark Scruggs and Warren Savage partnered with our Risk Management Department to present a series of seminars that provided guidance on what to do when a lawyer discovers a mistake. Programs such as this are mutually beneficial to Lawyers Mutual and its policyholders.

We have been serving North Carolina lawyers since 1977 and appreciate the great responsibility that we have to our policyholders. We make every effort to provide our policyholders with the tools and guidance to avoid mistakes. However, when our lawyers call to report a problem, we take that to heart. We understand that one of the hardest calls a lawyer has to make is the call to a client to report a mistake. We are here to guide our policyholders through this difficult process and stand by them to the end.

CLAIMS SERVICE

LAWYERS INSURANCE

Lawyers Insurance seeks to serve North Carolina lawyers and law firms with insurance offerings beyond Lawyers Mutual's professional liability policy. Where possible, we seek to provide a product or a price that cannot be found elsewhere, and when that is not possible, we strive to give our clients the highest level of service and best information available to meet their needs.

A big part of what we do is the management and promotion of the North Carolina Bar Association Health Benefit Trust. The key advantage of this health plan is that it provides North Carolina lawyers with another option beyond the small group plans available in the marketplace. Since our rates are determined by our own group's experience, they are frequently more competitive. We have a variety of plans and we are available to help our customers with any needs related to the health plan.

We can cover your Home, Auto and Office, including Workers' Compensation. We can also provide benefits to complement your health plan, such as Disability and Dental insurance. If you are nearing 65, then you have received many mailings about Medicare Supplement insurance. Our representative will take the time to fully explain the various elements of coverage.

Our Court Bond program allows you to talk directly with an underwriter. Our Long Term Care program can cover association members, their spouses or parents at a significant discount. Our Structured Settlement program is headed by a NC lawyer with years of experience and ties throughout the legal community.

Lawyers Insurance will work hard to serve North Carolina lawyers and help build the financial strength of Lawyers Mutual.

FINANCIAL HIGHLIGHTS

Revenue	\$2,465,094
Expenses	\$1,406,848
State & Federal Taxes	\$414,772
Net Income	\$643,474

BOARD OF DIRECTORS



Bottom Row, L-R: Glen B. Hardymon, Chairman, Judge Gerald Arnold, President, Henry A. Mitchell, Jr., Chairman Emeritus. Back Row, L-R: G. Gray Wilson, John E. Raper, Jr., Doris R. Bray, James B. Maxwell, June L. Basden, Tony Hornthal, Jr., Sharon L. Parker, Eric C. Michaux, Kenneth McAllister (not pictured, O. Richard Wright, Jr.)

LAWYERS MUTUAL OFFICERS

Judge Gerald Arnold, *President*
William R. Stroud, Jr., *Senior Vice President*
Robert Neal, *Vice President Finance & Treasurer*
Will Graebe, *Vice President Claims*
Renee Riggsbee, *Vice President Underwriting*
John Hester, *Corporate Secretary*

LAWYERS INSURANCE AGENCY:

William R. Stroud, Jr., *President and Treasurer*
Mardy Bell, *Vice President Marketing*

University of North Carolina at Chapel Hill School of Law. Founded 1845. The first university law school in the state of North Carolina, Carolina Law strives to link theory and practice through an expansive array of skills and capstone courses. Carolina Law started a new series of externship and clinical programs designed to combine academic rigor with essential professional practice which has enhanced the learning experience during the second and third years. The school's student-initiated pro bono efforts have achieved national distinction and exhibit the highest values of legal professionalism.

Wake Forest School of Law. Founded 1894. Wake Forest University School of Law's Professionalism Program was the recipient of the 2004 ABA Gambrell Professionalism Award. Wake Forest emphasizes the importance of professionalism from orientation through the third year in a variety of connected settings including clinics and field work. The well-established Elder Law Clinic provides free legal assistance to moderate income seniors. In partnership with the School of Medicine, the E-Clinic offers law students a unique opportunity to learn about the medical and health law issues of older clients. The Community Law & Business Clinic is a new clinical education program within the School of Law that provides graduate students in law and business the opportunity to develop the skills demanded by the increasingly complex legal and regulatory environment that they will encounter as professionals.

Duke University Law School. Founded 1904. As a community of scholars, Duke Law School provides leadership at the national and international levels in an effort to improve legal institutions and practice through teaching, research, and other forms of public service. At Duke Law, students and faculty experience an academically rigorous, interdisciplinary environment emphasizing creativity and innovation. In 2005, Duke Law won the ABA Gambrell Professionalism Award for its Duke Blueprint to LEAD, a powerful set of principles for leadership growth that informs the development of committed, ethical lawyers who are well-equipped for the 21st century.

North Carolina Central University School of Law. Founded 1939. NCCU School of Law was founded during segregation as a place for African-Americans to obtain a formal legal education in North Carolina. NCCU School of Law is now one of the most diverse law schools in the nation by both faculty and students. Featuring a demanding academic program of legal education, the law school also operates one of the largest law clinics in the nation. In 2008, the law school was ranked number one on National Jurist Magazine's list of Best Value Law Schools based on bar passage rate, affordability, and job placement.

Norman Wiggins School of Law. Founded 1976. The Norman Adrian Wiggins School of Law at Campbell University strives to graduate competent lawyers endowed with moral conviction and social compassion, and who view the law as a calling to serve others and to create a more just society. The School was awarded the 2003 ABA Gambrell Professionalism Award for its first-year professionalism development series: Talking with Lawyers about Professionalism. It was also recongized by the American Academy of Trial Lawyers for having the nation's best Trial Advocacy Program. Norman Wiggins School of Law is moving to downtown Raleigh in the Fall of 2009.

Charlotte School of Law. Founded 2006. The Charlotte School of Law (CharlotteLaw) has a student-centered orientation designed to advance the success of students in law school, on the bar exam and in their careers. The school offers a rigorous curriculum focused on equipping graduates with the leadership, management and interpersonal skills necessary for career success. Practical prep and community focused, CharlotteLaw received provisional approval by the American Bar Association in June, 2008, and will graduate its inaugural class in May 2009.

Elon University School of Law. Founded 2006. Elon's Law program begins with a comprehensive orientation to the legal profession, introducing students to their roles as leaders in society. Elon Law incorporates the best of leadership education through courses, community activities and capstone experiences. It is home of the North Carolina Business Court, one of a handful of law schools in the nation to house a working court. The school collaborates with the neighboring American Judicature Society Institute of Forensic Science & Public Policy, researching issues at the intersection of law and science. Elon University's first law school class will graduate in May of 2009.



LAWYERS MUTUAL

PO Box 1929, Cary, NC 27512
5020 Weston Parkway, Suite 200
Cary, NC 27513

LAWYERS INSURANCE AGENCY

8000 Weston Parkway, Suite 200
Cary, NC 27513

919.677.8900 or 800.662.8843
Fax: 919.677.9641