

Lawyers Mutual Liability Insurance Company of North Carolina

Cary, North Carolina

Report on Examination

As of December 31, 2016

LAWYERS MUTUAL LIABILITY INSURANCE COMPANY OF NORTH CAROLINA

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Lawyers Mutual Liability Insurance Company of North Carolina Company Name
Report on Examination
December 31, 2016

REPORT ON EXAMINATION OF FINANCIAL CONDITION

January 16, 2018

Honorable Mike Causey
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section 58-2-131 of the General Statutes of North Carolina ("G.S."), the North Carolina Department of Insurance ("Department") conducted an examination of the records, business affairs and financial condition of

Lawyers Mutual Liability Insurance Company of North Carolina

(hereinafter referred to as the "Company"), at its main administrative and statutory home office located at 5020 Weston Parkway, Suite 200, Cary, North Carolina, 27513. The following report on examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covers the period from January 1, 2012, to December 31, 2016, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department's most recent prior examination of the Company was as of December 31, 2011.

This examination was conducted in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners ("NAIC"). We examined the Company to evaluate the financial condition and identify prospective risks by obtaining information regarding its corporate governance structure, identifying and assessing inherent risks, and evaluating system controls and other procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with G.S. Chapter 58.

This examination was risk-focused and consisted of a seven-phase process used to identify and assess risk, assess the adequacy and effectiveness of strategies and controls used to mitigate risk and assist in determining the extent and nature of testing procedures to review the Company's key activities. This process included a determination of the quality and reliability of the Company's corporate governance structure and risk management programs, as well as verification of specific portions of the financial statement. All accounts and activities of the Company were considered; however, the examination focused on areas of high risk and fewer tests were performed on the accounts identified as having a low risk of misstatement.

Our examination was directed specifically to the quality, value and integrity of the admitted assets and liabilities reported by the Company in its 2016 Annual Statement, as those balances are critical to determining financial solvency.

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REPORT ACRONYMS

LIA	Lawyers Insurance Agency, Inc.
WREHC	Weston Real Estate Holding Company, LLC
LCHC	Lake Crabtree Holding Company, LLC
LRC	Lawyers Reinsurance Company
CALM	Weston Calm, LLC
FCAS	Fellow Casualty Actuarial Society
MAAA	Member of American Academy of Actuaries

SUMMARY OF EXAMINATION FINDINGS

Comments, Recommendations and Directives

- a. The Company did not submit prior notification to the Commissioner in writing of its intention to enter into two agreements with affiliates: 1) a Management Agreement with LIA and 2) a Management Agreement with LCHC. Notification must be submitted at least 30 days before such transactions pursuant to G.S. 58-19-30(b). The Company is directed to comply with G.S. 58-19-30(b).
- b. The Company excluded the contractual provisions required by G.S. 58-19-30(b)(4) from the Company's Management Agreement with LIA and Management Agreement with LCHC. The Company is directed to comply with G.S. 58-19-30(b)(4).
- c. The Company provides bookkeeping services to WREHC with no agreement in place and no charges. The Company has a Management Agreement in place with LCHC that does not charge fees. Pursuant to G.S. 58-19-30, an agreement is required for all services between related parties and fees for services performed shall be reasonable. The Company is directed to comply with G.S. 58-19-30.
- d. Effective January 1, 2016, the ultimate controlling person of every insurer subject to registration shall also file an annual enterprise risk report on Form F. The Company did not file Form F nor request an extension for the filing on or before April 1, 2017, as required by G.S. 58-19-25(l). The Company is directed to comply with G.S. 58-19-25(l).
- e. The Company incorrectly designated four bonds as "1FE", see table below. These bonds have not been rated by an NAIC Credit Rating Provider and should be designated as "6FE" per the Purposes and Procedures Manual of the NAIC Investment Analysis Office. According to the Statement of Statutory Accounting Principles ("SSAP") No. 26, bonds designated as Level 1 are to be reported at amortized costs and bonds designated as Level 6 are to be reported at the lower of amortized cost or fair value. The incorrect designation of these bonds resulted in an overstatement of bond value by \$191. No examination adjustment is proposed as the amount is immaterial; however, the Company is direct to designate bonds in accordance with the Purposes and Procedures Manual of the NAIC Investment Analysis Office and SSAP No. 26.

CUSIP	Bond Description
644614800	New Hampshire Health & Ed FACS
6446148J1	New Hampshire Health & Ed FACS
662529AY	North Slope Boro Alaska SVC AR
80329UAE	Sarasota County FL

SUBSEQUENT EVENTS

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The Company submitted Form F for the year ended December 31, 2016, to the Department on September 13, 2017.

As of January 20, 2018, the Company has submitted notification to the Department, through the submission of Form D, of its related party agreements with LIA and LCHC. In addition, the Company has submitted revised management agreements with LCHC and LIA, updated for required contractual provisions.

During our review of subsequent board minutes, we noted that the Company has approved and amended their Bylaws as of May 12, 2017; however, the Department has no record of receiving the amended bylaws as required by G.S. 58-7-45(b). Under examiner's request, the Company submitted the amended bylaws the Department on February 2, 2018.

COMPANY HISTORY

The Company was incorporated on September 19, 1977. The Company is licensed to write lawyers' professional liability insurance in the state of North Carolina. The Company commenced business on May 1, 1978. The Company owns 100% of the outstanding common stock of LIA and is the sole member of WREHC and LCHC. LCHC was formed in 2009 to hold 50% ownership in CALM. As of December 31, 2016, the Company owned 31.27% of the authorized and outstanding shares of LRC.

CORPORATE RECORDS

We reviewed the minutes for the meetings of the board of directors and its committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events and that the directors approved these transactions and events.

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. Based on the review, there have not been any amendments to the Articles of Incorporation, and the Bylaws have been amended on October 16, 2012, and on May 12, 2017.

MANAGEMENT AND CONTROL

Board of Directors

The business of the Company is managed by its management team and subject to review by the board of directors ("Board"). The Bylaws specify that the number of directors shall be twelve directors. Directors are elected annually, at the annual meeting of shareholders or by the written consent of the stockholders, and each director elected shall hold office until a successor is elected and qualified.

The following individuals were serving as directors at December 31, 2016:

Name	Address	Principal Business Affiliation
John William Babcock	Winston Salem, NC	Partner at Wall Babcock, LLP
June Lynn Basden	Greensboro, NC	Partner at Carruthers & Roth, PA
Michael Allen Colombo	Charlotte, NC	Partner at Colombo Kitchin Attorneys
Ronald Lavonne Gibson	Charlotte, NC	Partner at Ruff, Bond, Cobb, Wade & Bethune, LLP
John Manning May	Pinehurst, NC	Partner at Robbins, May & Rich, LLP
Kenneth Wayne McAllister	High Point, NC	Partner at McAllister, Aldridge & Kreinbrink, PLLC

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William George Pappas	Raleigh, NC	Partner at Parker, Poe, Adams & Bernstein, LLP
Sharon Lee Parker	Marion, NC	Partner at Sharon L. Parker, P.A.
Grover Gray Wilson	Winston Salem, NC	Partner at Wilson Helms LLP
Ottis Richard Wright, Jr.	Tabor City, NC	Partner at Wright, Worley, Pope, Ekster & Moss, PLLC and Sole Owner of O. Richard Wright, Jr., P.C.
Sarah O'Neil Sparboe Thornburg	Asheville, NC	Partner at McGuire, Wood & Bissette, P.A.
Valerie Alston Johnson	Durham, NC	Partner at Copeley, Johnson & Groninger, PLLC

Committees

The Board has the authority to establish committees including, but not limited to, an Audit and Finance Committee that is comprised of at least five (5) directors and an Executive Committee that is comprised of seven (7) directors. The following individuals served on the committees as of December 31, 2016:

Audit and Finance Committee

June Lynn Basden (Chair)
 Ronald Lavonne Gibson
 John Manning May
 William George Pappas
 Sarah O'Neil Sparboe Thornburg
 Grover Gray Wilson (Ex Officio)

Executive Committee

Grover Gray Wilson (Chair)
 June Lynn Basden
 Michael Allen Colombo
 Kenneth Wayne McAllister
 Sharon Lee Parker
 William George Pappas
 Ottis Richard Wright, Jr.

Officers

The Bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a secretary, a treasurer and any other officers deemed necessary by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices, not inconsistent with each other, may be held by the same person.

The following individuals served as officers as of December 31, 2016:

Name	Title
Daniel Matthew Zureich	President and CEO
Robert Allen Neal	Senior Vice President, CFO, and Treasurer
John Franklin Hester	Secretary
Grover Gray Wilson	Chairperson of the Board

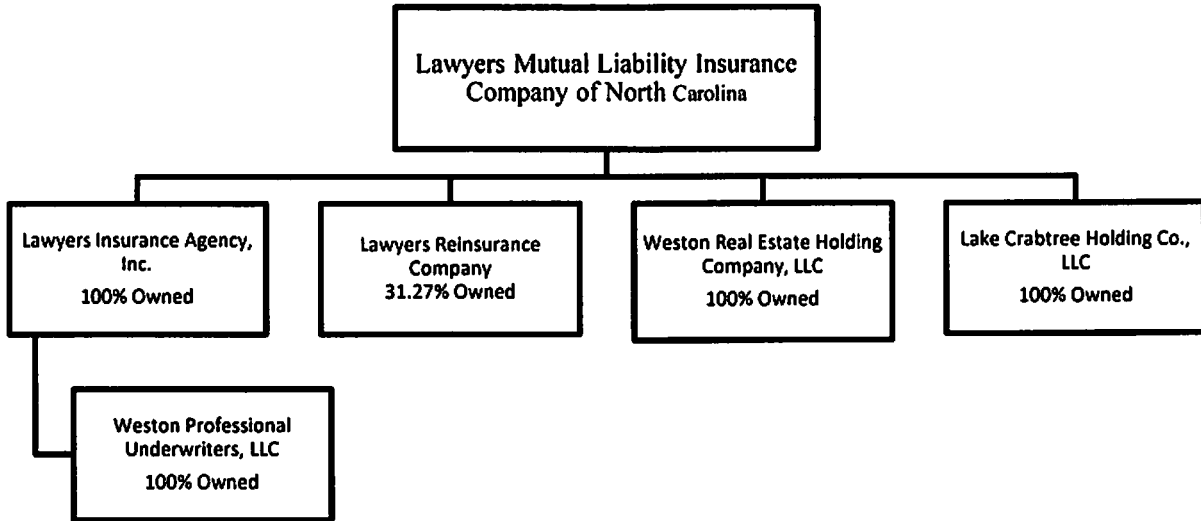
AFFILIATED COMPANIES

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Holding Company

The Company is part of an insurance holding company system as defined in G.S. 58-19. The Company is the ultimate controlling party of various organizations, including LIA, LRC, WREHC, and LCHC.

Organization Chart



Affiliated Transactions

The Company has an administrative services agreement with LIA effective January 1, 2009, whereby the Company provides operational and administrative services to LIA. The Company received fees totaling \$48,000 in both 2016 and 2015. The Company had a balance due from LIA of \$370,573 at December 31, 2016, for various expenses.

The Company provides bookkeeping services to WREHC and has a management agreement in place with LCHC effective January 1, 2013. The Company received no fees for the services provided to these affiliates for 2016 and 2015. Refer to Item c under the COMMENTS, RECOMMENDATIONS AND DIRECTIVES section.

FIDELITY BONDS AND OTHER INSURANCE

The Company had fidelity bond coverage totaling \$500,000, which meets the minimum amount recommended by the NAIC.

TERRITORY AND PLAN OF OPERATION

At December 31, 2016, the Company was licensed in the state of North Carolina only. The Company writes lawyers' professional liability insurance on a claims-made and occurrence basis. The Company currently has no plans to expand beyond North Carolina. Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2016 Annual Statement Schedule E Part 3 contains a complete

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description and listing, by State, of the Company's statutory deposits. The Company reported a statutory deposit for the state of North Carolina in the amount of \$520,107 as of December 31, 2016.

TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department and from the last report on examination, illustrates the trends of the Company for the five (5) year period ended December 31, 2016.

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2016	\$103,158,659	\$74,433,877	\$17,910,565	\$14,253,903	\$3,991,652
2015	\$98,533,268	\$68,884,020	\$17,833,336	\$14,197,884	\$3,569,213
2014	\$95,190,321	\$66,102,629	\$17,664,648	\$14,079,302	\$9,271,394
2013	\$90,331,393	\$58,783,713	\$17,642,315	\$14,313,160	\$6,265,499
2012	\$86,027,771	\$50,482,654	\$16,777,084	\$13,835,736	\$4,953,809

ACTUARIAL OPINION

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with G.S. 58-10-150 and G.S. 58-10-155.

The statutory reserves and related items for 2016 were reviewed and certified by the Company's Appointed Actuary, Susan J. Forray, FCAS and MAAA with Milliman, Inc. Actuarial opinions regarding the Company's reserves for loss and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the loss and loss adjustment expense reserves. According to the actuarial opinions, the Company's reserves on the losses and loss adjustment expenses met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made reasonable provisions for all unpaid loss and loss adjustment expense obligations of the Company.

REINSURANCE

Reinsurance Ceded

Professional Liability Excess of Loss Reinsurance

The Company has professional liability excess of loss contracts with various reinsurers during the examination period, which provide up to \$4,250,000 of coverage on each claim and each policy in excess of \$750,000 on its professional liability business. LRC, an affiliate, is obligated to assume 5.0% of the ultimate net loss. The Company ceded premiums totaling \$1,617,750 in 2016 under these contracts with \$80,888 of such premiums being ceded to LRC.

Casualty Excess Facility Reinsurance

The Company has casualty excess facility contracts with various reinsurers during the examination period, which provide up to \$5.0 million coverage of loss in excess of \$5.0 million of loss per each claim and each policy. The Company ceded premiums totaling \$607,904 in 2016 under these contacts.

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Aggregate Excess of Loss Reinsurance

The Company has aggregate excess of loss contracts with a reinsurer effective beginning July 1, 2013 through the examination period. The subscribing reinsurer accepts 85% share of the liabilities under these contracts. The latest contract beginning July 1, 2016, to July 1, 2018, requires the Company to retain the ultimate net loss equal to 58.5% of net written premium subject to a minimum retention of \$7,965,807 per contract year. The reinsurer shall indemnify the Company for the aggregate ultimate net loss in excess of the Company's retention, subject to a limit of liability to the reinsurer equal to 20% of the net written premium per year, not to exceed a maximum of \$3,684,536. The Company ceded premiums during 2016 totaling \$739,593 under these contracts.

Facultative Coverage

The Company has various facultative contracts written for specific law firms, in addition to the terms of the aforementioned contracts. The Company ceded premiums totaling \$372,845 in 2016 under these contracts.

ACCOUNTS AND RECORDS

The Company's books and records are maintained at its main administrative and statutory home office at 5020 Weston Parkway, Suite 200, Cary, North Carolina 27513.

Independent Auditor

The books and records of the Company are audited annually by independent certified public accountants in accordance with G.S. 58-10-185(a). Johnson Lambert & Co, LLP of Raleigh, North Carolina, the designated independent public accountant of the Company, issued an unqualified opinion as to the NAIC statutory-basis financial statements for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2016.

FINANCIAL STATEMENTS

The accompanying financial statement presents the Company's statutory financial position as of December 31, 2016. The supporting notes and exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. No examination adjustment was made to surplus as a result of the examination. The financial statements and supporting schedules as of December 31, 2015, are unexamined and are presented for comparative purposes only.

Lawyers Mutual Liability Insurance Company of North Carolina
Statutory Statement of Admitted Assets

	December 31,	
	2016	2015
	<i>(unexamined)</i>	
<u>Admitted Assets</u>		
Bonds	\$ 52,690,452	51,920,888
Preferred stocks	3,390,232	3,172,118
Common stocks	26,538,850	23,231,545
Cash and short-term investments	4,289,531	4,130,686
Other invested assets	10,061,438	9,881,773
Receivable for securities	-	24,842
Total cash and invested assets	96,970,503	92,361,852
Investment income due and accrued	645,465	656,128
Premiums and agents' balances in course of collection	2,937,530	3,038,207
Amounts recoverable from reinsurers	-	136
Other amounts receivable under reinsurance contracts	545,340	624,891
Federal income tax recoverable and interest thereon	1,552,192	1,183,136
Net deferred tax asset	15,834	246,378
Electronic data processing equipment and software	13,574	21,166
Receivable from subsidiaries and affiliates	370,571	360,591
Deductibles receivable	107,650	36,712
Taxes, licenses, fees receivable	-	4,071
Total admitted assets	\$ 103,158,659	98,533,268

See accompanying notes to the statutory financial statement

Lawyers Mutual Liability Insurance Company of North Carolina
Statutory Statement of Liabilities, Surplus and Other Funds

	December 31,	
	2016	2015
		<i>(unexamined)</i>
<u>Liabilities</u>		
Losses	\$ 6,623,081	8,212,593
Loss adjustment expenses	9,214,241	9,599,762
Other expenses	1,002,935	874,698
Taxes, licenses and fees	129,294	-
Unearned premiums	6,989,039	6,670,469
Advance premium	929,279	886,584
Policyholders dividends declared and unpaid	1,058,826	1,088,349
Ceded reinsurance premiums payable	638,284	671,206
Funds held by Company under reinsurance contracts	1,939,260	1,440,774
Amounts withheld or retained by Company for account of others	7,696	7,696
Provision for reinsurance	1,029	-
Payable for securities	88,421	67,245
Unearned installment charges	89,115	105,590
Deductibles received in advance	14,282	24,282
	28,724,782	29,649,248
<u>Surplus and Other Funds</u>		
Unassigned funds	74,433,877	68,884,020
	74,433,877	68,884,020
Total liabilities, surplus and other funds	\$ 103,158,659	98,533,268

See accompanying notes to the statutory financial statement

Lawyers Mutual Liability Insurance Company of North Carolina
Statutory Statement of Operations

	December 31,	
	2016	2015
	<i>(unexamined)</i>	
<u>Underwriting Income</u>		
Premiums earned	\$ 14,253,903	14,197,884
Losses incurred	1,429,761	2,661,736
Loss adjustment expenses incurred	4,655,000	5,380,697
Other underwriting expenses incurred	4,506,278	3,991,427
Total underwriting deductions	10,591,039	12,033,860
Net underwriting gain	3,662,864	2,164,024
<u>Investment Income</u>		
Net investment income earned	2,571,446	2,596,252
Net realized capital gain	363,407	301,845
Net investment gain	2,934,853	2,898,097
<u>Other Income</u>		
Net (loss) from agents' or premium balances charged off	(1,805)	(30,665)
Finance and service charges not included in premiums	315,356	273,087
Other Income	10,701	27,014
Total other income	324,252	269,436
Dividends to policyholders	1,000,599	979,524
Federal income tax incurred	1,929,718	782,820
<u>Net income</u>	\$ 3,991,652	3,569,213

See accompanying notes to the statutory financial statements

Lawyers Mutual Liability Insurance Company of North Carolina
Statutory Statement of Surplus

	December 31,	
	2016	2015
	<i>(unexamined)</i>	
Surplus, beginning of year	\$ 68,884,020	66,102,629
Surplus increases (decreases):		
Net income	3,991,652	3,569,213
Change in net unrealized capital gains or (losses)	1,084,211	(859,847)
Change in net deferred income tax	327,990	430,325
Change in non-admitted assets	147,032	(358,300)
Change in provision for reinsurance	(1,029)	-
Change in surplus as regards policyholders for the year	5,549,856	2,781,391
Surplus, end of year	\$ 74,433,876	68,884,020

See accompanying notes to the statutory financial statements

Lawyers Mutual Liability Insurance Company of North Carolina
Statutory Statement of Cash Flow

	Year ended December 31,	
	2016	2015
Cash From (Used by) Operations		
Premiums collected net of reinsurance	\$ 14,762,677	13,918,531
Net investment income	3,468,117	3,000,698
Miscellaneous income	324,252	269,436
Totals	18,555,046	17,188,665
Benefit and loss related payments	3,019,137	2,862,984
Commissions, expenses paid and aggregate write-ins for deductions	9,529,246	8,073,206
Dividends paid to policyholders	1,030,122	1,680,862
Federal income taxes paid (recovered) net of tax on capital gains (losses)	2,485,987	193,541
Totals	16,064,492	12,810,593
Net cash from (used by) operations	2,490,554	4,378,072
Cash From (Used by) Investments		
Proceeds from investments sold, matured or repaid	18,055,143	14,302,562
Cost of investments acquired	20,918,368	19,812,558
Net cash from (used by) investments	(2,863,225)	(5,509,996)
Cash From (Used by) Financing and Miscellaneous Sources		
Other cash applied	531,516	(25,418)
Net cash from (used by) financing and miscellaneous sources	531,516	(25,418)
Reconciliation of Cash and Short-Term Investments		
Net change in cash and short-term investments	158,845	(1,157,342)
Cash and short-term investments, beginning of year	4,130,686	5,288,028
Cash and short-term investments, end of year	\$ 4,289,531	4,130,686

See accompanying notes to the statutory financial statements

Lawyers Mutual Liability Insurance Company of North Carolina
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NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying financial statement has been prepared in conformity with the accounting practices prescribed by the G.S. The more significant accounting policies followed by the Company are as follows:

Bonds: Carried at amortized cost or fair value based on their NAIC rating.

Preferred stocks: Where permitted are carried at amortized cost or at values provided by the NAIC Securities Valuation Office.

Common stocks: Carried at fair value except investments in stock of subsidiaries which are carried at a value determined under equity method.

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

Premiums: Earned over the policy period and reduced for reinsurance ceded.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

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2. Analysis of Assets

The following represents an analysis of the Company's net admitted assets:

	December 31, 2016		
	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$ 52,690,452		52,690,452
Preferred stocks	3,390,232		3,390,232
Common stocks	26,538,850		26,538,850
Properties held for sale	5,641	5,641	-
Cash and short-term investments	4,289,531		4,289,531
Other invested assets	10,296,263	234,825	10,061,438
Total cash and invested assets	97,210,969	240,466	96,970,503
Investment income due and accrued	645,465		645,465
Premiums and agents' balances in course of collection	2,939,349	1,819	2,937,530
Other amounts receivable under reinsurance contracts	545,340		545,340
Federal income tax recoverable	1,552,192		1,552,192
Net deferred tax assets	15,834		15,834
Electronic data processing equipment and software	13,624	50	13,574
Furniture and equipment	24,823	24,823	-
Receivable from subsidiaries and affiliates	370,571		370,571
Accounts receivable	72,563	72,563	-
Deductibles receivables	223,798	116,148	107,650
Prepaid expenses	142,002	142,002	-
State tax credits	348,306	348,306	-
Total admitted assets	\$104,104,836	946,177	103,158,659

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3. Reinsurance

The Company has excess of loss contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company. The Company utilized Aon Benfield as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks as of December 31, 2016. Effective March 6, 2017, Willis Re. Inc. assumed administrative responsibility for all reinsurance intermediary services.

Direct and ceded premiums written and earned are as follows:

	December 31,	
	2016	2015
		<i>(unexamined)</i>
Direct and assumed written	\$ 17,910,565	17,833,336
Ceded written	3,338,092	3,456,475
Net written	14,572,473	14,376,861
Direct and assumed earned	17,661,909	17,689,362
Ceded earned	3,408,006	3,491,478
Net earned	\$ 14,253,903	14,197,884

The reinsurers share in the risks at different levels as specified in the reinsurance contracts. The types of contracts, retention limits, and insurance coverage are described in the REINSURANCE section.

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4. Reserves

The following provides a reconciliation of the Company's reserves for losses and loss adjustment expenses:

	December 31,	
	2016	2015
		<i>(unexamined)</i>
Reserve for losses and loss adjustment expenses, beginning of year	\$ 17,812,355	16,769,561
Add:		
Provision for losses and loss adjustment expenses, current year	9,412,237	10,171,952
Change in estimated losses and loss adjustment expenses, prior years	(3,327,476)	(2,129,519)
Total incurred	6,084,761	8,042,433
Deduct:		
Losses and loss adjustment expenses paid, current year	2,531,034	2,195,477
Losses and loss adjustment expenses paid, prior year	5,528,760	4,804,162
Total paid	8,059,794	6,999,639
Reserve for losses and loss adjustment expenses, end of year	15,837,322	17,812,355
Increase in reserve for losses and loss adjustment expenses	\$ (1,975,033)	1,042,794

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2016 and 2015, the liability for losses and loss adjustment expenses was reduced by \$1,278,000 and \$1,358,000, respectively, for amounts to be recovered from reinsurers.

5. Contingencies and Commitments

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. The Company is of the opinion that these proceedings will not have a material effect on the financial position of the Company.

The Company's rental commitments extend to March 31, 2024. The future minimum rental payments are as followed:

Year ending	Amount
2017	\$ 668,973
2018	684,427
2019	700,238
2020	666,146
2021	631,858
Thereafter	1,478,480
Total	\$4,830,122

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December 31, 2016

Appendix A – Report Distribution

Daniel Matthew Zureich, President and CEO
Lawyers Mutual Liability Insurance Company of North Carolina
5020 Weston Parkway, Suite 200
Cary, NC 27513

Robert Allen Neal, CFO and Treasurer
Lawyers Mutual Liability Insurance Company of North Carolina
5020 Weston Parkway, Suite 200
Cary, NC

CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of G.S. 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$1,000,000.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,



Ke Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

January 16, 2018

NOTARY

STATE OF NORTH CAROLINA
COUNTY OF WAKE

Venus Ang, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature: *Venus Ang* Date: 2/27/18
Venus Ang

Sworn and subscribed before me this 27 day of February, 2018.

Notary Public Signature: *Dijade B. Mubayi* Notary Public Seal:

