Johnson Lambert & Co. LLP
CPAs and Consultants

Energy Insurance Mutual Limited

Audited Financial Statements

Years ended December 31, 2011 and 2010
with Report of Independent Auditors

Energy Insurance Mutual Limited

Audited Financial Statements

Years ended December 31, 2011 and 2010

Contents

Report of Independent Auditors

To the Audit Committee of the Board of Directors
Energy Insurance Mutual Limited

We have audited the accompanying balance sheets of Energy Insurance Mutual Limited ("the Company") as of December 31, 2011 and 2010 and the related statements of income and comprehensive income, changes in policyholders' surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Energy Insurance Mutual Limited at December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended.

Johnson Lambert & Co. LLP

Jacksonville, Florida
March 7, 2012

Energy Insurance Mutual Limited

Balance Sheets

(Expressed in Thousands of U.S. Dollars)

	As of December 31, 2011	As of December 31, 2010
Assets		
Investments, available-for-sale	$ 1,149,639	$ 1,207,855
Investment in subsidiary	1,586	1,520
Total investments	1,151,225	1,209,375
Cash and cash equivalents	60,650	132,903
Reinsurance recoverable	375,604	411,268
Prepaid reinsurance premiums	42,492	42,315
Accrued investment income	6,105	5,557
Receivable for securities sold	3,625	143,899
Due from subsidiary	10,987	4,268
Premiums receivable	4,064	2,651
Deferred policy acquisition costs	1,148	1,009
Other assets	824	575
Total assets	$ 1,656,724	$ 1,953,820
Liabilities and policyholders' surplus		
Liabilities:		
Reserve for losses and loss adjustment expenses	$ 680,650	$ 801,392
Unearned premiums	105,240	94,053
Reinsurance premiums payable	25,713	16,304
Payable for securities purchased	15,186	265,522
Accounts payable and accrued expenses	7,045	6,043
Net deferred tax liability	30,957	25,645
Income taxes payable	9,300	17,609
Total liabilities	874,091	1,226,568
Policyholders' surplus:		
Accumulated other comprehensive income	102,681	103,243
Members' account balance	679,952	624,009
Total policyholders' surplus	782,633	727,252
Total liabilities and policyholders' surplus	$ 1,656,724	$ 1,953,820

See accompanying notes to the financial statements

Energy Insurance Mutual Limited

Statements of Income and Comprehensive Income

(Expressed in Thousands of U.S. Dollars)

	Years ended December 31, 2011	2010
Underwriting revenue		
Net premiums earned		
Direct and assumed premiums earned	$ 176,804	$ 178,818
Ceded premiums earned	(81,149)	(86,962)
Net premiums earned	95,655	91,856
Ceding commission income	2,692	2,529
Total underwriting revenue	98,347	94,385
Underwriting expenses		
Net losses and loss adjustment expenses		
Gross and assumed losses and loss adjustment expenses	118,160	145,624
Ceded losses and loss adjustment expenses	(70,290)	(96,374)
Net losses and loss adjustment expenses	47,870	49,250
Policy acquisition costs	1,867	2,027
Administrative expenses	9,734	13,648
Total underwriting expenses	59,471	64,925
Income from underwriting	38,876	29,460
Investment income		
Net realized gain on investments sold	13,926	24,560
Other-than-temporary impairments	(3,574)	(5,593)
Interest and dividends	36,242	29,589
Total investment income	46,594	48,556
Income before policyholders' distribution and income taxes	85,470	78,016
Policyholders' distribution	-	-
Income before income taxes	85,470	78,016
Income tax expense		
Current income tax expense	(23,914)	(17,112)
Deferred income tax expense	(5,613)	(5,343)
Total income tax expense	(29,527)	(22,455)
Net income	$ 55,943	$ 55,561

(continued)

Energy Insurance Mutual Limited

Statements of Income and Comprehensive Income
(Expressed in Thousands of U.S. Dollars)

	Years ended December 31, 2011	2010
Comprehensive income		
Net income	$ 55,943	$ 55,561
Net unrealized (losses) gains on available-for-sale securities, net of income taxes of $(13,854) and $4,078, respectively	(7,291)	7,574
Less: reclassification adjustment for net gains realized in net income, net of income taxes of $3,623 and $6,638, respectively	6,729	12,329
Other comprehensive (loss) income, net of tax	(562)	19,903
Comprehensive income	$ 55,381	$ 75,464

See accompanying notes to the financial statements

Energy Insurance Mutual Limited

Statement of Changes in Policyholders' Surplus

(Expressed in Thousands of U.S. Dollars)

	Accumulated Other Comprehensive Income	Members' Account Balance	Total
Balance at January 1, 2010	$ 83,340	$ 568,448	$ 651,788
Change in net unrealized gain on securities available-for-sale, net of tax	19,903	-	19,903
Net income	-	55,561	55,561
Balance at December 31, 2010	103,243	624,009	727,252
Change in net unrealized loss on securities available-for-sale, net of tax	(562)	-	(562)
Net income	-	55,943	55,943
Balance at December 31, 2011	$ 102,681	$ 679,952	$ 782,633

See accompanying notes to the financial statements

Energy Insurance Mutual Limited

Statements of Cash Flows
(Expressed in Thousands of U.S. Dollars)

	Years ended December 31, 2011	2010
Net income	$ 55,943	$ 55,561
Cash flows from operating activities:		
Depreciation and amortization	(217)	162
Net realized investment gain	(10,352)	(18,967)
Deferred income taxes	5,614	5,343
Equity in loss of subsidiary	(66)	57
Changes in operating assets and liabilities:		
Reinsurance recoverable	35,664	(55,050)
Prepaid reinsurance premiums	(177)	6,218
Premiums receivable	(1,413)	(1,746)
Other assets	(719)	(300)
Reserve for losses and loss adjustment expenses	(120,742)	75,614
Unearned premiums	11,187	(8,682)
Reinsurance premiums payable	9,409	5,674
Due to subsidiary	(6,719)	(4,123)
Accounts payable and other accrued expenses	1,002	3,810
Income tax payable	(8,309)	(10,930)
Net cash from operations	(29,895)	52,641
Cash flows from investing activities:		
Cost of investments purchased	(2,580,391)	(2,797,627)
Proceeds from sales of investments	2,568,799	2,636,379
Proceeds from maturities of investments	79,296	45,877
Change in payable from purchase of investments	(110,062)	96,052
Purchases of fixed assets	-	(21)
Net cash from investing	(42,358)	(19,340)
Cash flows from financing activities:		
Draws on line of credit	50,000	-
Repayments on line of credit	(50,000)	-
Net cash from financing	-	-
Net change in cash and cash equivalents	(72,253)	33,301
Cash and cash equivalents, beginning of year	132,903	99,602
Cash and cash equivalents, end of year	$ 60,650	$ 132,903
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 31,803	$ 25,501

See accompanying notes to the financial statements

Note A - Organization and Significant Accounting Policies

Organization
Energy Insurance Mutual Limited (the "Company" or "EIM") was incorporated under the Companies Act of Barbados on June 13, 1986. EIM obtained a license to engage in exempt insurance business, in accordance with the provisions of the Exempt Insurance Act of Barbados, 1983. On August 12, 2003, the Company applied for, and was granted a license to operate as a Qualifying Insurance Company under the Insurance Act 1992-2 of Barbados.

The Company is a mutual insurance company with membership available to any utility or member of the energy services industry that meets EIM's underwriting standards. The Company provides excess general liability, excess fiduciary liability and excess directors and officers liability policies written on a claims first made basis. In addition, to a lesser extent the Company writes property insurance for its members. All members have casualty policies in place, approximately one-third of those members have property policies as well.

Basis of Reporting
The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") promulgated by the Financial Accounting Standards Board Accounting Standards Codification ("ASC" or "the guidance"). Preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment in Subsidiary
The Company is the sponsor and 100% common stockholder of Energy Insurance Services, Inc. ("EIS"), a sponsored cell captive insurance company domiciled in South Carolina.

As a sponsored captive, EIS allows EIM members, known as Mutual Business Programs ("MBP"), to insure or reinsure the risks of their sponsoring organizations, including property, general and environmental liability, asbestos, workers' compensation and retiree medical stop loss. Through Participation Agreements with the MBPs, the insurance risks underwritten by the MBPs are contractually limited to the funds available in the individual cell's account. Likewise, EIS has no right to the capital and accumulated profits of the MBP cells.

The Company accounts for its investment in EIS using the equity method of accounting because EIM is not the primary beneficiary in accordance with the accounting guidance for Consolidations.

Note A - Organization and Significant Accounting Policies (Continued)

As of December 31, 2011, EIS has assets (exclusive of assets held in MBPs) of approximately $12.3 million, shareholder's equity of $1.6 million and net income of approximately $66,000. As of December 31, 2010, EIS has assets (exclusive of assets held in MBPs) of approximately $4.5 million, shareholder's equity of $1.5 million and a net loss of approximately $56,000.

The Company and EIS file a consolidated federal income tax return. Income taxes are allocated based on separate return calculations. During 2011 and 2010, EIM provided reinsurance to certain EIS cells. For the years ended December 31, 2011 and 2010, premiums earned included $450,000 and $450,000 of premium assumed from EIS.

Investments
Management determines the appropriate classification of fixed-maturity and equity securities at the time of purchase. The Company's policy is to hold securities for investment purposes and, as such, has reported all securities as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in a separate component of policyholders' surplus. Interest and dividends on securities classified as available-for-sale are included in net investment income. Declines in value judged to be other-than-temporary are included as realized losses in the statement of income. The cost of securities sold is based on the average cost method.

Cash and Cash Equivalents
The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains certain cash and cash equivalent balances that are not subject to FDIC insurance. Management does not believe these balances represent a significant credit risk to the Company.

Losses and Loss Adjustment Expense Reserves
The reserve for losses and loss adjustment expenses represents the estimated ultimate gross cost of all reported and unreported losses incurred through December 31. Since the Company provides principally high level excess of loss coverage to its members, it is exposed to severity but infrequent claims. Therefore, standard actuarial methods, such as paid loss development, are inappropriate to use. Losses are determined based on projecting average loss and expected number of claims after reviewing historical known losses and claim counts and understanding how exposures to loss have changed over policy periods. Aggregate expected losses are represented by these estimates and theoretical size of loss distribution based upon an actuarial analysis prepared by a consulting actuary.

Note A - Organization and Significant Accounting Policies (Continued)

Case reserves represent the estimated future payments on reported losses. Case reserves are continually reviewed and updated; however, given the uncertainty regarding the extent of the Company's ultimate liability, a significant additional liability could develop. Supplemental reserves (e.g., IBNR) are recorded based on actuarial projections. Although considerable variability is inherent in these estimates, particularly due to the limited number of claims to date, management believes that the aggregate reserve for losses and loss adjustment expenses is adequate. These estimates are periodically reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

Premiums
Direct and assumed premiums are recognized as revenue on a pro-rata basis over the policy term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums. The Company pays commissions on assumed business, which is expensed over the life of the policy.

Reinsurance
In the normal course of business, the Company seeks to reduce the loss that may arise from large claims, catastrophes or other events by reinsuring certain levels of risk in various areas of exposure with other insurance companies. Reinsurance premiums, loss reimbursement and reserves related to reinsured claims are accounted for on a basis consistent with that used in accounting for the original policies or claims.

Deferred Policy Acquisition Costs
Commissions and other costs of acquiring insurance that vary with and are directly related to the production of new and renewal business are deferred and amortized over the life of the policy to which they relate. These costs are deferred, net of related ceding commissions, to the extent recoverable, and are amortized over the period during which the related premiums are earned.

Income Taxes
Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Policyholder Distribution
As a mutual insurer, EIM is owned by its policyholders. Policyholder distributions are charged to income when declared by the Board of Directors. No policyholder distributions were made for the years ended December 31, 2011 and 2010.

Note A - Organization and Significant Accounting Policies (Continued)

Reclassifications
Certain balances in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

Subsequent Events
The Company has evaluated subsequent events for disclosure and recognition through March 7, 2012, the date on which these financial statements were available to be issued.

Note B - Insurance Activity

Premium activity for 2011 and 2010 is summarized as follows *(in thousands)*:

	Direct	Assumed	Ceded	Net
2011				
Premiums written	$ 186,488	$ 1,504	$ (79,423)	$ 108,569
Change in unearned premiums	(10,988)	(200)	(1,726)	(12,914)
Premiums earned	$ 175,500	$ 1,304	$ (81,149)	$ 95,655

	Direct	Assumed	Ceded	Net
2010				
Premiums written	$ 170,014	$ 122	$ (83,422)	$ 86,714
Change in unearned premiums	8,897	(215)	(3,540)	5,142
Premiums earned	$ 178,911	$ (93)	$ (86,962)	$ 91,856

Note B - Insurance Activity (Continued)

Activity in the liability for losses and loss adjustment expenses is summarized as follows *(in thousands)*:

	2011	2010
Gross balance, beginning of year	$ 801,392	$ 725,778
Less: reinsurance recoverables on unpaid losses	(411,268)	(356,218)
Net balance, beginning of year	390,124	369,560
Incurred related to:		
Current year	73,477	113,797
Prior years	(25,349)	(59,994)
Change in related tail coverage	(258)	(4,553)
Total incurred	47,870	49,250
Paid related to:		
Current year	893	370
Prior years	132,055	28,316
Total paid	132,948	28,686
Net balance, end of year	305,046	390,124
Plus: reinsurance recoverables on unpaid losses	375,604	411,268
Gross balance, end of year	$ 680,650	$ 801,392

For the year ended December 31, 2011, incurred losses attributable to events of prior years decreased $22.8 million. The 2011 decrease relates primarily to general liability coverage from the 2009 accident year, which has experienced little claim development.

For the year ended December 31, 2010, incurred losses attributable to events of prior years decreased $60.0 million. The 2010 decrease relates primarily to general liability coverage from the 2007 accident year, revisions in the emergence patterns and the expectation of lower claims being reported.

The Company uses excess of loss reinsurance to protect the Company from severe losses on the directors and officers, general partner, general liability and fiduciary liability book of business. After certain deductibles or retentions have been satisfied, the maximum amount that could be recoverable under the 2011 and 2010 reinsurance treaties is $210,000,000 and $222,000,000 with respect of general liability and $87,000,000 and $88,200,000 with respect to directors and officers, general partner and fiduciary liability, respectively.

On May 1, 2003 the Company entered into a reinsurance arrangement with Nuclear Electric Insurance Limited ("NEIL") whereby NEIL provides excess of loss reinsurance on the directors and officers and general partner book of business for 80% of $20,000,000 excess of $30,000,000.

Note B - Insurance Activity (Continued)

The property book of business is primarily reinsured by NEIL. In addition, the Company also has an arrangement with NEIL whereby its non-nuclear property book of business is fronted by EIM.

During 2010, EIM entered into a reinsurance agreement with Oil Casualty Insurance Limited ("OCIL") providing coverage of $25,000,000 excess of $75,000,000 for all general liability policies issued during the year. OCIL secures its obligations via a funds held and/or trust arrangements. As of December 31, 2010, the total fair value of the assets held in the trust were $25,028,611, which collateralized $25,008,163 in reinsurance recoverables on losses and loss adjustment expenses.

During 2009, EIM entered into a Reinsurance Treaty Trust Account Agreement ("Trust") with NEIL to collateralize the losses and loss adjustment expenses due EIM under reinsurance agreements. EIM has been listed as the beneficiary of the Trust. As of December 31, 2011 and 2010, the total fair value of the assets held in the Trust were $816,089,256 and $801,953,102 which collateralized $97,475,392 and $73,595,650 in reinsurance recoverables on losses and loss adjustment expenses, respectively.

Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured, to the extent that the reinsurer does not meet the obligations assumed under the reinsurance agreement. The reinsurance recoverable on paid and unpaid losses is substantially due from two reinsurers, NEIL and various Lloyds syndicates, comprising 39% and 29%, respectively, of the balance at December 31, 2011 and 22% and 30%, respectively, at December 31, 2010. The remaining balance comprises amounts from various reinsurers, each not exceeding 12% of the total for 2011 and 2010.

Management periodically reviews the financial condition of its existing reinsurance and concludes as to whether any allowance for uncollectible reinsurance is required. At December 31, 2011 and 2010, no such allowances were deemed necessary.

Note C - Investments

As of December 31, 2011, the cost, gross unrealized gains, gross unrealized losses, other-than-temporarily impaired and fair value of our fixed-maturity and equity securities are summarized as follows *(in thousands)*:

2011	Cost	Other-than-temporarily Impaired	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury & Agencies	$ 136,537	$ -	$ 6,869	$ (6)	$ 143,400
U.S. state and municipal obligations	197,264	(154)	11,285	(151)	208,244
Corporate debt securities	150,395	-	7,554	(840)	157,109
Mortgage-backed securities	276,126	(17,597)	7,611	(1,441)	264,699
Total fixed-maturity securities	760,322	(17,751)	33,319	(2,438)	773,452
Domestic equities	167,779	(8,069)	109,046	(5,070)	263,686
Foreign equities	95,870	(6,483)	36,268	(13,154)	112,501
Total equities	263,649	(14,552)	145,314	(18,224)	376,187
Total investments	$ 1,023,971	$ (32,303)	$ 178,633	$ (20,662)	$ 1,149,639

As of December 31, 2010, the cost, gross unrealized gains, gross unrealized losses, other-than-temporarily impaired and fair value of our fixed-maturity and equity securities are summarized as follows *(in thousands)*:

2010	Cost	Other-than-temporarily Impaired	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury & Agencies	$ 396,691	$ -	$ 2,827	$ (2,357)	$ 397,161
U.S. state and municipal obligations	149,594	(154)	6,979	(3,632)	152,787
Corporate debt securities	140,742	-	4,433	(1,085)	144,090
Mortgage-backed securities	91,822	(19,288)	3,906	(900)	75,540
Total fixed-maturity securities	778,849	(19,442)	18,145	(7,974)	769,578
Domestic equities	210,341	(14,325)	112,548	(6,782)	301,782
Foreign equities	99,545	(5,948)	48,565	(5,667)	136,495
Total equities	309,886	(20,273)	161,113	(12,449)	438,277
Total investments	$ 1,088,735	$ (39,715)	$ 179,258	$ (20,423)	$ 1,207,855

The minimum requirement of the Company's investment guidelines is that no more than 5% of all debt securities may have a below investment-grade bond rating by at least one nationally recognized credit rating agency or the equivalent to the extent possible to determine. As of December 31, 2011 and 2010, the Company is in compliance with its investment guidelines other than the securities deemed to be other-than-temporarily impaired ("OTTI").

Note C - Investments (Continued)

The cost and estimated fair value of fixed-maturity securities at December 31, 2011, by contractual maturity, are summarized below *(in thousands)*. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities have been aged by their respective maturity dates.

	Cost	Fair Value
Maturity:		
In 2012	$ 28,311	$ 28,718
In 2013-2016	184,108	187,543
In 2017-2021	188,320	197,602
Due after 2021	359,583	359,589
Total fixed-maturity securities	$ 760,322	$ 773,452

Proceeds from maturities of investments were approximately $79,296,000 and $45,877,000 and proceeds from sales of investments were approximately $2,568,799,000 and $2,636,379,000, during 2011 and 2010, respectively. Gross gains of approximately $42,295,000 and $67,271,000 and gross losses of $21,926,000 and $42,711,000, during 2011 and 2010 respectively, were realized on sales.

The Company regularly reviews its fixed-maturity and equity securities portfolios to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value. In evaluating potential impairment, management considers, among other criteria: (i) the current fair value compared to amortized cost or cost, as appropriate; (ii) the length of time the security's fair value has been below amortized cost or cost; (iii) specific credit issues related to the issuer such as changes in credit rating, reduction or elimination of dividends or non-payment of scheduled interest payments; (iv) management's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in value to cost; (v) specific cash flow estimations for certain mortgage-backed securities and (vi) current economic conditions.

OTTI securities are assessed when the decline in fair value is below the amortized cost basis and determined to be other-than-temporary by management. OTTI losses are recorded in the statement of income with net realized losses on investments and result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process, and different judgments and assumptions could affect the timing of loss realization.

Note C - Investments (Continued)

The following table shows the number and fair value of fixed-maturity and equity securities that the Company determined was OTTI. This resulted in recording impairment write-downs as part of net realized losses on investments for the years ended December 31, 2011 and 2010, and reduced the unrealized loss included in other comprehensive income *($ in thousands)*.

	2011		2010	
	Number	Impairment Recognized	Number	Impairment Recognized
Fixed-maturity securities	2	$ 543	1	$ 154
Equity securities	13	3,031	27	5,439
Total	15	$ 3,574	28	$ 5,593

The following tables show gross unrealized losses and fair values of investments, aggregated by investment category, and the length of time that individual investments have been in a continuous unrealized loss position, at December 31, 2011 *(in thousands)*:

	Less than one year		One year or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury & Agencies	$ 24,613	$ 6	$ -	$ -	$ 24,613	$ 6
U.S. state and municipal obligations	2,739	23	4,405	128	7,144	151
Corporate debt securities	12,962	515	17,167	325	30,129	840
Mortgage-backed securities	30,116	249	6,372	1,192	36,488	1,441
Domestic equities	17,834	2,803	10,178	2,267	28,012	5,070
Foreign equities	12,597	2,974	13,527	10,180	26,124	13,154
Total temporarily impaired securities	$ 100,861	$ 6,570	$ 51,649	$ 14,092	$ 152,510	$ 20,662

Of the 248 fixed-maturity securities with unrealized losses, 16 with aggregate unrealized losses of $691,010 were 20% or greater than the cost at December 31, 2011. Of the 355 fixed-maturity securities with unrealized losses, five with aggregate unrealized losses of $66,011 were 20% or greater than the cost at December 31, 2010. The Company has evaluated these fixed-maturity securities and believes the unrealized losses are due primarily to temporary market and sector-related factors rather than to issuer specific-factors. Management does not intend to sell, and it is more likely than not that EIM will not be required to sell the securities before recovery. The Company does not consider these securities to be other-than-temporarily impaired.

Note C - Investments (Continued)

The Company's investment objective for equities is to emulate the returns of the S&P 900 and the MSCI EAFE index for its domestic and international equity portfolios, respectively. Of the 1,992 equity securities with unrealized losses, 700 with unrealized losses of $13,904,686 were 20% or greater than the cost and have been in a continuous loss position for longer than a year at December 31, 2011. Of the 409 equity securities with unrealized losses, 180 with unrealized losses of $7,162,568, were 20% or greater than the cost and have been in a continuous loss position for longer than a year at December 31, 2010. The Company has evaluated these securities based on past earnings trends, analysts' reports and analysts' earnings expectations. Management does not intend to sell, and it is more likely than not that EIM will not be required to sell the securities before recovery. The Company does not consider these securities to be other-than-temporarily impaired.

The Company did not recognize any portion of the decline in fair value below cost on OTTI debt securities within other comprehensive income as of December 31, 2011 and 2010.

The composition of net investment income is summarized below *(in thousands)*:

	2011	2010
Interest income	$ 28,261	$ 25,091
Dividend income	10,794	10,861
Loss from subsidiary	(28)	(4,256)
Other	(53)	4
Gross investment income	38,974	31,700
Investment management fees	(2,732)	(2,111)
Net investment income	$ 36,242	$ 29,589

The Company has adopted the accounting guidance for Fair Value Measurements and Disclosures. This statement provides guidance for measuring assets and liabilities at fair value. The market approach was the valuation technique used to measure fair value of the investment portfolio. The market approach was used to value EIM's equity and fixed-maturity securities.

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in the Fair Value Measurements and Disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The three levels of the hierarchy are as follows:

Note C - Investments (Continued)

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets. Included are those investments traded on an active exchange, such as the NASDAQ Global Select Market.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs. Included are investments in U.S. Treasury securities and obligations of U.S. government agencies, together with municipal bonds, corporate debt securities, commercial mortgage and asset-backed securities, certain residential mortgage-backed securities that are generally investment grade and certain equity securities.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement. Material assumptions and factors considered in pricing investment securities may include projected cash flows, collateral performance including delinquencies, defaults and recoveries, and any market clearing activity or liquidity circumstances in the security or similar securities that may have occurred since the prior pricing period. Generally included in this valuation methodology are investments in certain mortgage-backed and asset-backed securities.

Fair values are based on quoted market prices when available (Level 1). The Company receives the quoted market prices from a third party, nationally recognized pricing service ("pricing service"). When market prices are not available, the Company utilizes a pricing service to determine an estimate of fair value, which is mainly used for its fixed-maturity investments fair value. The fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). In instances where there is little or no market activity for the same or similar instruments, the Company estimates fair value using methods, models and assumptions that management believes are relevant to the particular asset or liability. This may include discounted cash flow analysis or other income based approaches (Level 3). These valuation techniques involve some level of management estimation and judgment. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used and are reflective of the assumptions that market participants would use in valuing assets or liabilities.

The following table presents the Company’s investment securities within the fair value hierarchy, and the related inputs used to measure those securities at December 31, 2011 *(in thousands)*:

	Total	Level 1	Level 2	Level 3
Fixed-maturity	$ 773,452	$ -	$ 773,452	$ -
Equities	376,187	376,187	-	-
Total	$ 1,149,639	$ 376,187	$ 773,452	$ -

Note C - Investments (Continued)

There were no transfers between fair value levels during 2011 and 2010.

Several of EIM's policyholders are companies represented in the S&P 900. Consequently, at December 31, 2011 and 2010, EIM holds investments totaling approximately $25.1 and $16.3 million, respectively, in issuers who are policyholders.

Note D - Federal Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31 are as follows *(in thousands)*:

	2011	2010
Deferred tax assets:		
Unpaid losses and loss adjustment expenses	$ 10,397	$ 14,185
Unearned premiums	4,466	3,622
AMT carryforward credit	-	36
Accrued expenses	1,423	1,250
Unrealized comprehensive losses in earnings	11,306	13,900
Original issue discount	-	903
Other	-	10
Total deferred tax assets	27,592	33,906
Deferred tax liabilities:		
Unrealized capital gains	55,290	55,592
Premium amortization	1,923	2,622
Other	1,336	1,337
Total deferred tax liabilities	58,549	59,551
Net deferred tax liability	$ (30,957)	$ (25,645)

The provision for federal income tax differs from the amount derived by applying the statutory federal tax rates to pretax income for financial reporting purposes due primarily to tax exempt income.

The Company is required to establish a "valuation allowance" for any portion of the deferred tax asset that management believes will not be realized. The Company has historically been a taxpayer, and in the opinion of management, will continue to be in the future. Because management believes that it is more likely than not that the Company will realize the benefit of the deferred tax asset, no valuation allowance has been established.

During 2003, the Company applied for, and was granted an exemption from Barbados income tax by the Minister of Finance under the Duties, Taxes and Other Payment (Exemption) Act.

Note D - Federal Income Taxes (Continued)

The Company adopted the relevant provisions of GAAP concerning uncertainties in Income Taxes on January 1, 2009. At December 31, 2011 and 2010, the Company determined there are no material unrecognized tax benefits, and no adjustments to liabilities or operations were required.

Internal Revenue Service ("IRS") Examination
In November of 2010, the Company resolved the IRS examination of its consolidated income tax returns for 2003 and 2004. The final settlement was based on adjustments provided to the IRS by EIS in early 2007 in an amended return.

Tax years 2008 through 2011 are subject to examination by the Internal Revenue Service.

Note E - Commitments and Contingencies

The Company is named as defendant in various legal actions arising in the normal course of business from claims made under insurance policies and contracts. These actions are considered by the Company in estimating the loss and loss adjustment expense reserves. The Company's management believes that the resolution of these actions will not have a material adverse effect on the Company's financial position or results of operations.

Note F - Trust Funds and Deposits

The Company has established a trust fund with a federally insured depository. This trust fund serves as security for policyholders and third-party claimants to satisfy requirements of being listed as an alien surplus lines insurer by the National Association of Insurance Commissioners. The Company is required to maintain a minimum amount of the lesser of $100,000,000 or $5,400,000 plus 30% for liabilities arising from business on or after January 1, 1998. At December 31, 2011 and 2010, the required balance was $100,000,000. In addition, the state of Florida has required the Company to deposit $300,000 as security for the Company's policyholders and creditors. The trust funds and deposit balances have been included in the accompanying balance sheets as available-for-sale investments, including both fixed-maturity securities and equities.

Note G - Line of Credit

A line of credit was established on July 22, 2011 in the amount of $50,000,000. The letter of credit was to be used solely to fund claim payments that are subject to reinsurance recovery. There were no amounts drawn on the line at December 31, 2011.

Note H - Retiree Medical Benefits

The Company provides employees with a Post-retirement Medical, Dental and Vision Plan ("the Plan"). The Plan is available to retirees (upon fulfilling eligibility requirements), their spouses and dependents as a continuation of the healthcare plan available to active employees. Currently the benefits are self insured, with a third party stop-loss reinsurance arrangement. Retirees are not required to make contributions for coverage. The Plan is unfunded.

The assumed discount rate used to determine the benefit obligation is 6.10% for 2011. The assumed healthcare cost trend rate is 7.80% for 2012, trending to 4.5% by 2027. The assumed trend rate increased due to the expected impact of health care reform on plan liabilities. The Company has recognized a liability representing the accumulated post-retirement benefit obligation in the amount of $4,066,660 as of December 31, 2011. The Company has recognized a liability representing the actuarially determined accumulated post-retirement benefit obligation in the amount of $3,630,704 as of December 31, 2010.

Note I - Margin of Solvency

In order to meet the requirements of the Qualifying Insurance Company under the Insurance Act 1992-2 of Barbados, the Company must have contributed reserves of approximately $12 million The policyholders' surplus provided an excess margin of solvency of approximately $771 million at December 31, 2011.