AES Corporation • AGL Resources Inc. • ALLETE, Inc. • Alliant Energy Corporation • American Electric Power Service Corporation • American Transmission Company LLC • Apache Corporation • Associated Electric Cooperative, Inc. • Atmos Energy Corporation • Avista Corporation • Basin Electric Power Cooperative • Bicent Power, LLC • Black Hills Corporation • British Columbia Hydro and Power Authority • California Independent System Operator • Calpine Corp. • CenterPoint Energy, Inc. • Central Arizona Water Conservation District • CH Energy Group, Inc. • Chesapeake Energy Corporation • Chugach Electric Association, Inc. • Citizens Energy Group • City of Richmond, Department of Public Utilities • City Public Service of San Antonio, Texas • City Utilities of Springfield, Missouri • Cleco Corporation • CMS Energy Corporation • Consolidated Edison Company of New York, Inc. • Continental Energy Systems LLC • Copano Energy, L.L.C. • Dairyland Power Cooperative • Deseret Generation & Transmission Cooperative • Devon Energy Corporation • Dominion Resources, Inc. • DPL Inc. • DQE Holdings LLC • DTE Energy Company • Duke Energy • Dynegy Inc. • Edison International • El Paso Electric Company • Electric Reliability Council of Texas, Inc. • Empire District Electric Company (The) • Enbridge Inc. • Energen Corporation • Energy Future Holdings Corp. • Energy Transfer Equity, L.P. • Entergy Corporation • EOG Resources, Inc. • EP Energy LLC • EQT Corporation • Exelon Corporation • FirstEnergy Corp. • Florida Municipal Power Agency • Gaz Metro Inc. • Great Plains Energy Incorporated • Great River Energy • Hawaiian Electric Industries, Inc. • Hydro One Inc. • Hydro-Quebec •

THE MUTUAL ADVANTAGE

EIM
Energy Insurance Mutual

Iberdrola USA, Inc. • IDACORP, Inc. • Imperial Irrigation District • Independent Electricity System Operator • Inergy Midstream, LP • Integrys Energy Group, Inc. • Intermountain Power Agency/Intermountain Power Service Corporation • IPALCO Enterprises, Inc. • Iroquois Gas Transmission System, LP • ISO New England Inc. • ITC Holdings Corporation • JEA and Florida Power & Light d/b/a St. Johns River Power Park • Kinder Morgan Canada, Inc. • Kinder Morgan, Inc. • Laclede Group, Inc. (The) • LDC Funding LLC • Long Island Power Authority • Los Angeles Department of Water and Power • Magellan Midstream Partners, LP • MDU Resources Group, Inc. • Metropolitan Water District of Southern California • MGE Energy, Inc. • MidAmerican Energy Holdings Company • Midwest Independent Transmission System Operator, Inc. • Modesto Irrigation District • Mountaineer Gas Company • National Fuel Gas Company • National Grid plc • National Grid USA • New Jersey Resources Corporation • New York Independent System Operator, Inc. • New York Power Authority • NextEra Energy, Inc. • NiSource Inc. • Northeast Utilities • Northwest Natural Gas Company • NorthWestern Corporation • NRG Energy, Inc. • NV Energy, Inc. • OGE Energy Corp. • Oglethorpe Power Corporation • Ohio Valley Electric Corporation • Oncor Electric Delivery Holdings Company LLC • ONEOK, Inc. • Ontario Power Generation Inc. • Optim Energy, LLC • Orlando Utilities Commission • Otter Tail Corporation • Pepco Holdings, Inc. • PG&E Corporation • Philadelphia Gas Works • Piedmont Natural Gas Company, Inc. • Pinnacle West Capital Corporation • PJM Interconnection, LLC • Plains All American Pipeline, L.P. • PNM Resources, Inc. • Portland General Electric Company • PowerSouth Energy Cooperative • PPL Corporation • Public Service Enterprise Group Incorporated • Public Utility District No. 1 of Douglas County, Washington • Public Utility District No. 2 of Grant County, Washington • Public Utility Risk Management Services Joint Self-Insurance Fund • Puget Energy, Inc. • QEP Resources, Inc. • Questar Corporation • Raven Power Holdings LLC • RGC Resources, Inc. • Sacramento Municipal Utility District • Salt River Project Agricultural Improvement and Power District • SCANA Corporation • Semco Holding Corporation • Seminole Electric Cooperative, Inc. • Sempra Energy • Sharyland Utilities, L.P. • South Carolina Public Service Authority d/b/a Santee Cooper • South Mississippi Electric Power Association • Southern Company • Southwest Gas Corporation • Southwest Power Pool, Inc. • Spectra Energy Corp. • Suburban Propane Partners, L.P. • Tallgrass GP, LLC • Targa Resources Corp. • TECO Energy, Inc. • Tennessee Valley Authority • TransCanada Corporation • Tri-State Generation and Transmission Association, Inc. • UGI Corporation • UIL Holdings Corporation • UniSource Energy Corporation • Vectren Corporation • Vermont Electric Power Company • Westar Energy, Inc. • WGL Holdings, Inc. • Williams Companies, Inc. (The) • Wisconsin Energy Corporation • WPX Energy, Inc. • Xcel Energy Inc.

2012
ANNUAL REPORT

2012

*A "**very solid**" year for EIM.*

159

Number of Member Companies at year's end.

6

Six new Members; M&A activity consolidated 14 Members to seven.

99%

Retention ratio equaled 99 percent.

From the President and Chief Executive Officer

CAPITALIZING ON THE MUTUAL ADVANTAGE

This annual report focuses on the qualities that distinguish Energy Insurance Mutual (EIM) and create the framework for a mutually beneficial partnership with Member Companies. 2012 clearly highlighted the importance of the mutual advantage as EIM benefited substantially from the ongoing support and commitment of its Membership and successfully managed an active loss year.

Through November 2012, EIM was on pace to grow surplus to a record level and to record a net loss ratio well below its 90-percent target. But, the month of December delivered a full limits general liability loss, highlighting the uncertainty inherent in excess liability coverages. Whether it is systemic losses in the D&O arena, wildfires in California, or gas explosions across the United States, we are continuously reminded of the volatile nature of our business.

There is, however, much good news in EIM's 2012 operating results. If you parse the details of EIM's operations, you can see that EIM has positioned itself well to manage the uncertainty attendant to being in the excess insurance business. EIM surplus grew to $823 million, up 5 percent from 2011. This growth was juxtaposed against a net loss ratio of 140 percent, the highest in the Company's history. This loss ratio reflected reserves established for a 2012 oil spill, together with adverse reserve development on prior underwriting year losses relating to California wildfires and an electrical contact—the latter two losses contributing almost 95 percent to EIM's net loss ratio. Countering the net loss development was a stellar 9.2-percent return on EIM's $1.3-billion investment portfolio. Gains on investments, particularly in the equity arena, enabled EIM to absorb not only the almost $130 million in net loss reserves established in 2012, but also allowed the Company to grow surplus by $40 million. Simply stated, investment gains turned significant net loss experience into an earnings event rather than a capital event.

The EIM business model does not contemplate that investment income routinely will be used to pay losses. To the contrary, EIM's strategic plan calls for a 90-percent net loss ratio and 10-percent expense ratio, with investment income to be returned to Member Companies through distributions, used to capitalize coverage enhancements for existing products, or invested to support expansion of coverage into lines of business where Member Companies have unmet risk management needs. Relying on investment performance to meet the capital demands of a 140-percent net loss ratio is not a sustainable long-term proposition.

However, the fact that EIM generated sufficient capital to respond to 2012 loss activity is not purely fortuitous. EIM has consistently articulated a conservative risk philosophy designed to enable the Company to effectively address not only expected losses but also unexpected loss occurrences — those events that reside as outliers at the far end of the risk spectrum. This conservative approach manifests itself in a number of ways, each of which increases the Company's ability to effectively manage risk.

"While, in the context of excess risk assessment, there is notable uncertainty, one thing remains unquestioned: EIM is well-positioned—financially, operationally, and strategically—to help Member Companies meet the challenges of an evolving energy industry."

Scott Goodell

EIM President and Chief Executive Officer

HIGHLIGHTS OF 2012

$823

Surplus grew 5 percent to $823 million.

$1,848

Total assets at year end reached $1,848 million.

9%

Operated to a net expense ratio of 9 percent.

5%

Return on average surplus totaled 5 percent.

First, EIM and the Board pursue a prudent investment policy that is regularly reviewed and revised to ensure not only a meaningful return on assets but also to safeguard against significant downside risk. Second, EIM routinely evaluates the adequacy of its pricing by line of business to identify and quickly respond to trends that suggest pricing imbalances. Finally, EIM overlays its underwriting and investment risk profiles and stress tests the combined effects of market downturns and escalating loss ratios. Through these efforts, EIM met the financial hurdles presented in 2012 and remains well positioned to address the challenges of a volatile marketplace going forward.

The overarching question posed by 2012 is whether the risk profile of EIM's underwriting portfolio is changing. Can we expect to see a continued proliferation of natural gas occurrences that will ultimately impact excess insurance layers, and have we seen a dramatic change in the nature of underlying exposures, such as electrical contact, that will prompt excess insurance coverage involvement on a more regular basis? These considerations will weigh heavily on EIM's assessment of risk and the capital needed to adequately meet Member Company excess insurance needs.

Despite these uncertainties, 2012 represented a year of continued growth, marked by extraordinary Membership support, with retention rates close to 100 percent. EIM welcomed six new Members in 2012, while merger and acquisition activity reduced 14 Member Companies to seven. Energy Insurance Services continued to add new business and expand existing protected cell activity. Surplus reached an all-time high and EIM was pleased to be able to provide an $18-million distribution to Members of record at December 31, 2012.

While, in the context of excess risk assessment, there is notable uncertainty, one thing remains unquestioned: EIM is well-positioned—financially, operationally, and strategically—to help Member Companies meet the challenges of an evolving energy industry.

The success of EIM reflects the commitment and insights provided by our dedicated Board of Directors, the hands-on expertise delivered by the Insurance Advisory Committee, and the hard-work and dedication exhibited by the EIM staff—a loyal group of professionals who practice daily the essence of EIM's Member-driven philosophy. Thanks to all for the collective effort that has built and sustains the mutual advantage.

Scott K. Goodell
President and CEO
April 9, 2013

HIGHLIGHTS OF

2012

$151

Gross loss reserves established totaled $151 million.

4

Four IAC task forces focused on cyber risk, wildfires, settlor liability, and environmental pollution.

18

Enterprise Risk Management risk metrics increased to 18.

1993

EIM rated "A" by A.M. Best since 1993.

THE MUTUAL ADVANTAGE

- Commitment to Energy Industry
- Governance by Industry Professionals
- Shared Vision
- Financial Strength and Long Term Stability
- Coverage Terms and Conditions
- Capacity
- Competitive Expense Ratio
- Claims Handling
- Profit Sharing

In 2010, as part of Energy Insurance Mutual's updated three-year strategic plan, the Board of Directors encouraged senior managers to reach out to EIM Member Company executives to reaffirm the principles that underscored the creation of EIM 25 years earlier. Over the past three years, EIM has visited dozens of Member Companies to update them on key initiatives underway at the Company and to point out the advantages of doing business with EIM. These advantages—"mutual advantages" that individually and collectively benefit Member Companies—distinguish EIM in the marketplace and set the Company apart from traditional commercial insurers.

1986

EIM incorporated June 13, 1986, in Barbados, where it remains domiciled.

17

EIM's 17 Founding Members are still current Members.

1988

EIM began operating in Tampa in 1988.

4

EIM offers four products: GL, D&O, Fiduciary, and Property.

THE MUTUAL ADVANTAGE

COMMITMENT TO ENERGY INDUSTRY

EIM was founded by the energy industry exclusively for utility and energy services companies. The Company's primary goal, then and now, is to offer much-needed excess insurance protection that encompasses excess general liability (GL), excess directors and officers (D&O), excess fiduciary, and property coverages. EIM's sole imperative is to focus its people, resources, and capital on providing meaningful risk management solutions that help Member Companies excel.

EIM's core product portfolio remains dedicated to four lines of business that have historically required substantial capacity and/or unique coverage terms and conditions not otherwise available in the commercial insurance market. This clarity of purpose has enabled EIM to remain responsive to Member Companies where it counts the most, in areas where risk management is critically important and where challenges are most significant.

GOVERNANCE BY INDUSTRY PROFESSIONALS

For utility and energy services companies, the challenge of risk management is never ending. The nature of risks may change as energy portfolios evolve, regulatory landscapes shift, and technologies advance. Successfully addressing these risks is an ongoing process that extends decade after decade. This dynamic lends itself to partnerships that require knowledgeable and well-informed parties, committed business dealings that extend long-term, and meaningful communication designed to identify and address evolving risk management issues.

EIM was structured to ensure that it was governed by industry professionals, not only at the Board level but through the Insurance Advisory Committee (IAC) and Member Company representatives. Throughout its history, EIM has called upon Member Company senior executives to set the Company's strategic direction and ensure ongoing availability of the excess insurance products required to sustain continuous, stable risk management programs. In addition, the IAC, created almost contemporaneously with the formation of EIM, provides valuable input not only to the EIM Board but to the Company's senior management team as well.

Collectively, the EIM Board, IAC, and Member Company risk managers and representatives provide substantial industry experience and expertise. This industry knowledge uniquely positions EIM to anticipate, understand, and respond to trends and emerging issues facing the energy industry. Simply stated, Member Company issues are EIM issues.

"As a company formed to serve our industry, governed by our industry professionals, and offering coverages designed to meet the specific needs of energy and energy services companies, EIM stands apart from traditional property and casualty insurers."

Linda Barnett

Director of Corporate Risk Management, Dominion Resources

EIM

9.2%

The $1.3-billion investment portfolio returned 9.2 percent.

25%

EIM equity investments comprised 25 percent of the investment portfolio.

75%

EIM fixed income investments represented 75 percent of the investment portfolio

$1,304

Invested assets grew by $152 million, or 13 percent, to total $1,304 million.

THE MUTUAL ADVANTAGE

SHARED VISION

EIM's commitment to the energy industry, together with governance by industry professionals creates a shared vision of EIM short- and long-term strategic direction as well as consensus regarding the goals and objectives that define the Company's day-to-day operations.

Nothing embodies this collective view better than EIM's Vision, "To be the premier provider of insurance and risk management services to utilities and the energy services industry," and its Mission, "To provide Members with a financially sound organization offering a secure, stable source of superior long-term insurance and risk financing products and services." EIM's direction has been singular and unwavering over these past 27 years, focused on providing a reliable platform of risk management solutions to best meet the excess insurance needs of Member Companies.

EIM's directive is clear. Whether expressed by members of the Board, or articulated by Member Company risk managers, the common understanding of a strong, stable, and enduring industry-focused excess insurer is universally acknowledged.

FINANCIAL STRENGTH AND LONG-TERM STABILITY

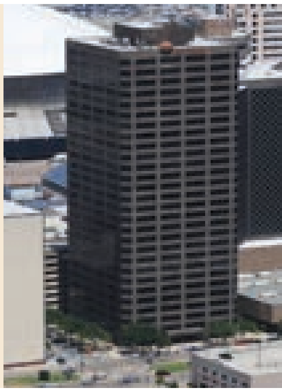
EIM enjoys a unique financial position characterized by substantial capital, almost $2 billion at year-end 2012, and solid Policyholders' surplus in excess of $820 million. Equally important is the modest 13 percent leverage employed against this surplus with EIM's $111 million net premiums earned. While returning more than 9 percent on its 2012 investment portfolio, EIM has worked diligently to reduce volatility by paring the equity component of its investments from over 30 percent at the beginning of 2012 to a projected 20 percent in 2013.

These conservative financial measures are designed to achieve long-term stability which, in turn, enables Member Companies to better plan risk management strategies and execute complex insurance coverages. In addition, long-term relationships foster better understanding of business operations, build stronger working relationships, and strengthen lines of communication and trust.

"Long-term relationships are the product of planning and commitment. In an economy where short-term results often trump long-term stability, EIM distinguishes itself as an organization that embraces an operating philosophy designed to provide consistent, stable financial performance over time."

Steve McNeal

Vice President and Treasurer, Entergy Services



30

30 protected cells formed to date within EIS.

$79

Combined equity for EIS Mutual Business Programs (MBPs) increased 46% from $54 million to $79 million.

$127

Total gross premium written by MBPs totaled $127 million.

23

EIS is authorized to write 23 different lines of coverage.

THE MUTUAL ADVANTAGE

COVERAGE TERMS AND CONDITIONS

Managing risk for utilities and energy services organizations is no easy task. Multiple facilities and resources ranging from production to transmission to distribution, complex technologies, and potentially volatile and dangerous processes and materials provide myriad risk management challenges. When these challenges are coupled with an insurance marketplace that is either non-receptive or cost-prohibitive, innovative solutions are required.

EIM has long distinguished itself with its broad excess GL coverage language and industry-specific terms and conditions. The Company's pollution language is unique to mutual insurance policies and designed to address specific concerns of Member Companies. Similarly, EIM's joint venture clause more broadly covers joint and several liability. In addition, Members can secure protection for workers' compensation and professional liability exposures as part of the GL policy rather than having to access multiple carriers to secure the same coverages.

The coverages offered through EIM can be augmented with customized insurance protections developed through Energy Insurance Services (EIS), EIM's wholly-owned sponsored cell captive insurance subsidiary. Using protected cells called Mutual Business Programs (MBPs), EIS is able to provide Members with a broad array of risk management solutions. The 30 protected cells formed to date, encompassing 13 active cells, include coverages ranging from property, automobile, excess workers' compensation, professional liability, retiree medical, terrorism, transmission and distribution, and wildfire.

EIM and EIS coverages offer Member Companies greater flexibility in addressing risk and provide a more efficient mechanism to control loss and manage claims.

"An important consideration in our partnership with EIM is the broader coverage terms designed to meet the needs of our industry as well as the company-specific coverages that can be tailored through EIS."

John Mellette

Manager, Corporate Insurance SCANA

$100

Maximum GL limit in millions that EIM offers.

$50

Maximum D&O limit in millions that EIM offers.

$25

Maximum Fiduciary limit in millions that EIM offers.

$35

Maximum Property limit in millions that EIM offers.

THE MUTUAL ADVANTAGE

CAPACITY

EIM continues to offer $100 million in excess GL limits and $50 million in excess D&O capacity. Few excess insurers are able to commit this level of capital to a single policy or company. When coupled with EIM's $25-million fiduciary capacity and $35 million in property limits, Member Companies can access over $200 million in coverage.

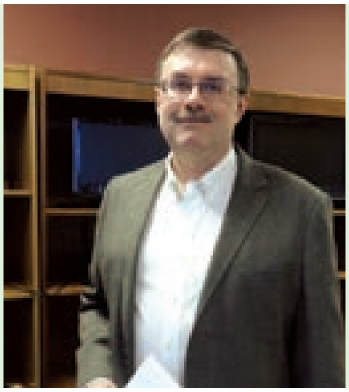
While capacity expands and contracts based on market appetite, EIM has been a source of continuous, stable limits that can be relied upon to support substantial excess insurance programs.

EIM is cognizant of the obligations attendant to offering limits of this size and, through a combination of reinsurance, conservative investment strategy, and modest leverage of Policyholders' surplus to net premiums earned, ensures that it can readily meet claims obligations even in the most extreme loss scenarios.

COMPETITIVE EXPENSE RATIO

Given the Company's strong Member support and focused strategy, EIM enjoys an enviable expense ratio in comparison to similarly situated commercial insurers. Because it maintains a narrowly defined array of products, and because Member Companies routinely support EIM's policy capacity, the Company is able to sustain a net expense ratio that, for the past three years, has been below 10 percent.

Expense efficiencies are transferred to Members through competitive pricing, sustained policy limits, and broad coverage terms and conditions—all distinct benefits to EIM Members.



"For organizations that buy substantial insurance limits each year, EIM's ability to provide meaningful GL, D&O, Fiduciary, and Property capacity allows Members to fulfill much-needed excess insurance needs."

Henry Martin

Manager, Claims and Loss Prevention Risk Management, National Fuel Gas

$190

More than $190 million has been returned to Members as distributions.

78%

EIM net loss ratio over the past 10 years totals to 78 percent.

$1,500

EIM has paid over $1,500 million in gross losses since its inception.

$75

Gross claim payments made by EIM totaled $75 million.

THE MUTUAL ADVANTAGE

CLAIMS HANDLING

Insurance is a form of contingent capital. Rather than setting aside corporate funds to meet expected losses, insurance offers a cost-efficient alternative to sidelining corporate capital that could otherwise be deployed to provide a better return. However, when losses do occur, it is essential that insurance recoveries are made expeditiously.

EIM claims handling is highlighted by a number of distinctive characteristics. First, the Company engages in an ongoing dialogue with Member Companies from the time a claim is first reported until payment is made. Communications are focused, collaborative, and designed to address and resolve any potential coverage issues. Second, there is a level of openness and candor that enables both Members and EIM to better understand the facts surrounding a claim and more quickly move the claim to resolution. Finally, once the claim is agreed, prompt payment is made.

Every loss occurrence is unique, and Member Companies recognize the fact that coverage must be established under the terms and conditions of the EIM policy. However, the ability to work cooperatively with EIM from the time a loss is reported through payment is a clear benefit to all Member Companies.

EIM's responsiveness, industry knowledge, and financial strength create trust and confidence when losses occur. EIM has paid over $1.5 billion in Member Company gross losses since its inception. With another $374 million in pending gross case reserves, EIM will approach, and in all likelihood exceed, $2 billion in total gross paid claims over the next five years.

PROFIT SHARING

Member Companies own EIM. When risk is effectively managed and EIM returns positive income, EIM Members share in this profitability. Unlike commercial insurance relationships where profits are paid as dividends to stakeholders, successful EIM Member Company risk management efforts translate into return of capital.

Including the $18-million distribution declared to Member Companies of record at December 31, 2012, EIM has returned more than $190 million to its Membership over the 27 years it has served the industry.

"When a company experiences a significant loss, it is essential to have insurance partners who are knowledgeable and responsive. In responding to loss occurrences, EIM stands out as a company that understands our business and works cooperatively to see that claims are resolved in an expeditious and equitable manner."

Denise Straka

Vice President Corporate Insurance, Calpine

Financials and Notes to the Financials

The financial statements to this Annual Report have been approved by the Board of Directors of Energy Insurance Mutual Limited.

G. Edison Holland, Jr.
Chairman of the Board
March 1, 2013

REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of Energy Insurance Mutual Limited ("the Company") which comprise the balance sheets as of December 31, 2012 and 2011 and the related statements of comprehensive income, changes in Policyholders' surplus and cash flows for years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Johnson Lambert LLP

Jacksonville, Florida
March 1, 2013

BALANCE SHEETS

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	As of December 31, 2012	2011
ASSETS		
Investments, available-for-sale	**$ 1,301,621**	$ 1,149,639
Investment in subsidiary	**1,923**	1,586
Total investments	**1,303,544**	1,151,225
Cash and cash equivalents	**63,413**	60,650
Reinsurance recoverable	**399,670**	375,604
Prepaid reinsurance premiums	**40,702**	42,492
Accrued investment income	**7,227**	6,105
Receivable for securities sold	**4,321**	3,625
Due from subsidiary	**10,364**	10,987
Premiums receivable	**5,561**	4,064
Deferred policy acquisition costs	**1,081**	1,148
Income taxes recoverable	**11,205**	-
Other assets	**686**	824
TOTAL ASSETS	**$ 1,847,774**	$ 1,656,724
LIABILITIES AND POLICYHOLDERS' SURPLUS		
LIABILITIES		
Reserve for losses and loss adjustment expenses	**$ 820,734**	$ 680,650
Unearned premiums	**109,558**	105,240
Reinsurance premiums payable	**34,975**	25,713
Payable for securities purchased	**6,202**	15,186
Accounts payable and accrued expenses	**8,194**	7,045
Net deferred tax liability	**45,133**	30,957
Income taxes payable	**-**	9,300
TOTAL LIABILITIES	**1,024,796**	874,091
POLICYHOLDERS' SURPLUS		
Accumulated other comprehensive income	**134,848**	102,681
Members' account balance	**688,130**	679,952
TOTAL POLICYHOLDERS' SURPLUS	**822,978**	782,633
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	**$ 1,847,774**	$ 1,656,724

See accompanying Notes to Financial Statements

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	Years Ended December 31, 2012	2011
UNDERWRITING REVENUE		
Net premiums earned		
Direct and assumed premiums earned	$ 191,959	$ 176,804
Ceded premiums earned	(80,651)	(81,149)
Net premiums earned	111,308	95,655
Ceding commission income	2,864	2,692
Total underwriting revenue	114,172	98,347
UNDERWRITING EXPENSES		
Net losses and loss adjustment expenses		
Gross and assumed losses and loss adjustment expenses	215,994	118,160
Ceded losses and loss adjustment expenses	(60,229)	(70,290)
Net losses and loss adjustment expenses	155,765	47,870
Policy acquisition costs	2,107	1,867
Administrative expenses	11,292	9,734
Total underwriting expenses	169,164	59,471
(Loss) income from underwriting	(54,992)	38,876
INVESTMENT INCOME		
Net realized gain on investments sold	23,285	13,926
Other-than-temporary impairments	(554)	(3,574)
Interest and dividends	35,565	36,242
Total investment income	58,296	46,594
Income before policyholders' distribution and income taxes	3,304	85,470
Policyholders' distribution	-	-
Income before income taxes	3,304	85,470
Income tax benefit (expense)		
Current income tax benefit (expense)	1,731	(23,914)
Deferred income tax benefit (expense)	3,143	(5,613)
Total income tax benefit (expense)	4,874	(29,527)
NET INCOME	$ 8,178	$ 55,943
COMPREHENSIVE INCOME		
Net income	$ 8,178	$ 55,943
Net unrealized gains (losses) on available-for-sale securities, net of income taxes of $9,365 and $(3,926), respectively	17,392	(7,291)
Less: reclassification adjustment for net gains realized in net income, net of income taxes of $7,956 and $3,623, respectively	14,775	6,729
Other comprehensive income (loss), net of tax	32,167	(562)
Comprehensive income	$ 40,345	$ 55,381

See accompanying Notes to Financial Statements

STATEMENT OF CHANGES IN POLICYHOLDERS' SURPLUS

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	Accumulated Other Comprehensive Income	Members' Account Balance	Total
Balance at January 1, 2011	$ 103,243	$ 624,009	$ **727,252**
Net unrealized losses arising during the period 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**
Net unrealized gains arising during the period on securities available-for-sale, net of tax	32,167	-	**32,167**
Net income	-	8,178	**8,178**
Balance at December 31, 2012	$ 134,848	$ 688,130	$ **822,978**

See accompanying Notes to Financial Statements

STATEMENTS OF CASH FLOWS

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	Years Ended December 31, 2012	2011
NET INCOME	$ 8,178	$ 55,943
Cash flows from operating activities:		
Depreciation	113	(217)
Amortization of bond premium or discount	3,854	1,803
Net realized investment gain	(22,731)	(10,352)
Deferred income taxes	(3,143)	5,614
Equity in earnings of subsidiary	(337)	(66)
Changes in operating assets and liabilities:		
Reinsurance recoverable	(24,066)	35,664
Prepaid reinsurance premiums	1,790	(177)
Premiums receivable	(1,497)	(1,413)
Other assets	(729)	(719)
Reserve for losses and loss adjustment expenses	140,084	(120,742)
Unearned premiums	4,318	11,187
Reinsurance premiums payable	9,262	9,409
Due from subsidiary	623	(6,719)
Accounts payable and other accrued expenses	1,148	1,002
Income taxes recoverable	(20,505)	(8,309)
NET CASH FROM OPERATIONS	96,362	(28,092)
Cash flows from investing activities:		
Cost of investments purchased	(1,302,658)	(2,582,194)
Proceeds from sales of investments	1,189,024	2,568,799
Proceeds from maturities of investments	30,017	79,296
Change in payable from purchase of investments	(9,680)	(110,062)
Purchases of fixed assets	(302)	-
NET CASH FROM INVESTING	(93,599)	(44,161)
Cash flows from financing activities:		
Draws on line of credit	10,500	50,000
Repayments on line of credit	(10,500)	(50,000)
NET CASH FROM FINANCING	-	-
Net change in cash and cash equivalents	2,763	(72,253)
Cash and cash equivalents, beginning of year	60,650	132,903
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 63,413	$ 60,650
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	$ 18,775	$ 31,803

See accompanying Notes to Financial Statements

NOTES TO 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.

As of December 31, 2012, EIS has assets (exclusive of assets held in MBPs) of approximately $10.7 million, shareholder's equity of $1.9 million and net income of approximately $337,000. As of December 31, 2011, EIS had assets (exclusive of assets held in MBPs) of approximately $12.3 million, shareholder's equity of $1.6 million and a net income of approximately $66,000.

The Company and EIS file a consolidated federal income tax return. Income taxes are allocated based on separate return calculations. During 2012 and 2011, EIM provided reinsurance to certain EIS cells. For the years ended December 31, 2012 and 2011, premiums earned included $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 specific identification.

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 severe 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.

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.

The Company adopted new accounting guidance related to the deferral of policy acquisition costs during 2012. This guidance modifies the definition by specifying that the costs of acquiring insurance must be directly related to the successful acquisition of new and renewal business. The adoption had no effect on the Company's deferred policy acquisition costs.

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, 2012 and 2011. On January 8, 2013, the Board of Directors approved the declaration of policyholder distributions in the amount of $18 million.

Reclassifications

Certain balances in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

Subsequent Events

The Company has evaluated subsequent events for disclosure and recognition through March 1, 2013, the date on which these financial statements were available to be issued.

Note B - Insurance Activity

Premium activity for 2012 and 2011 is summarized as follows *(in thousands):*

2012	**Direct**	**Assumed**	**Ceded**	**Net**
Premiums written	**$ 194,314**	**$ 1,963**	**$ (78,861)**	**$ 117,416**
Change in unearned premiums	**(4,057)**	**(261)**	**(1,790)**	**(6,108)**
Premiums earned	**$ 190,257**	**$ 1,702**	**$ (80,651)**	**$ 111,308**

2011	Direct	Assumed	Ceded	Net
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

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

	2012	2011
Gross balance, beginning of year	$ 680,650	$ 801,392
Less: reinsurance recoverables	(375,604)	(411,268)
Net balance, beginning of year	305,046	390,124
Incurred related to:		
Current year	87,344	73,477
Prior years	55,223	(25,349)
Change in related tail coverage	13,198	(258)
Total incurred	155,765	47,870
Paid related to:		
Current year	1,229	893
Prior years	38,518	132,055
Total paid	39,747	132,948
Net balance, end of year	421,064	305,046
Plus: reinsurance recoverables	399,670	375,604
Gross balance, end of year	$ 820,734	$ 680,650

For the year ended December 31, 2012, incurred losses attributable to events of prior years increased $55.2 million. This development relates primarily to case development on two general liability claims from the 2009 accident year.

For the year ended December 31, 2011, incurred losses attributable to events of prior years decreased $25.3 million. The 2011 decrease relates to favorable development of IBNR reserves on general liability coverage from the 2008, 2009 and 2010 accident years, which experienced less than expected claim development.

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 2012 and 2011 reinsurance treaties is $210,000,000 with respect of general liability and $87,000,000 with respect to directors and officers, general partner and fiduciary liability.

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.

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 through a funds held and/or trust arrangements.

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, 2012 and 2011, the total fair value of the assets held in the Trust were $990,552,000 and $816,089,000 which collateralized $85,355,000 and $97,475,000 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 NEIL and various Lloyds syndicates, comprising 42% and 29%, respectively, of the balance at December 31, 2012 and 39% and 29%, respectively, at December 31, 2011. The remaining balance comprises amounts from various reinsurers, each not exceeding 9% and 12% of the total for 2012 and 2011.

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, 2012 and 2011, no such allowances were deemed necessary.

Note C - Investments

As of December 31, 2012, 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):*

2012	Cost or amortized cost	Other-than-temporarily Impaired	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury & Agencies	$ 60,147	$ -	$ 636	$ (317)	$ 60,466
U.S. state and municipal obligations	293,759	-	18,771	(269)	312,261
Corporate debt securities	195,176	-	13,404	(120)	208,460
Mortgage-backed securities	371,870	(14,711)	10,810	(1,134)	366,835
Total fixed-maturity securities	920,952	(14,711)	43,621	(1,840)	948,022
Domestic equities	115,707	(3,944)	121,264	(319)	232,708
Foreign equities	77,221	(1,063)	48,820	(4,087)	120,891
Total Equities	192,928	(5,007)	170,084	(4,406)	353,599
Total investments	$ 1,113,880	$ (19,718)	$ 213,705	$ (6,246)	$ 1,301,621

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 or amortized 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

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, 2012 and 2011, the Company is in compliance with its investment guidelines other than the securities deemed to be other-than-temporarily impaired ("OTTI").

The cost and estimated fair value of fixed-maturity securities at December 31, 2012, 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 2013	$ 26,650	$ 26,827
In 2014–2017	171,596	177,677
In 2018–2022	264,784	280,087
Due after 2022	457,922	463,431
Total fixed-maturity securities	$ 920,952	$ 948,022

Proceeds from maturities of investments were approximately $30,017,000 and $79,296,000 and proceeds from sales of investments were approximately $1,189,024,000 and $2,568,799,000, during 2012 and 2011, respectively. Gross gains of approximately $56,252,000 and $42,295,000 and gross losses of $32,967,000 and $28,369,000, during 2012 and 2011 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.

Impaired securities are assessed when the decline in fair value is below the amortized cost basis for a specified duration. OTTI losses are recorded in the statement of income and comprehensive income as 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.

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, 2012 and 2011, and reduced the unrealized losses included in other comprehensive income *($ in thousands)*.

	2012		2011	
	Number	**Impairment Recognized**	Number	Impairment Recognized
Fixed-maturity securities	**2**	**$ 234**	2	$ 543
Equity securities	**3**	**320**	13	3,031
Total	**5**	**$ 554**	15	$ 3,574

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, 2012 *(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	$ 17,464	$ 317	$ -	$ -	**$ 17,464**	**$ 317**
U.S. state and municipal obligations	28,219	234	1,322	35	**29,541**	**269**
Corporate debt securities	21,627	120	-	-	**21,627**	**120**
Mortgage-backed securities	99,790	975	745	159	**100,535**	**1,134**
Domestic equities	3,342	264	2,222	55	**5,564**	**319**
Foreign equities	7,149	823	9,851	3,264	**17,000**	**4,087**
Total temporarily impaired securities	$ 177,591	$ 2,733	$ 14,140	$ 3,513	**$ 191,731**	**$ 6,246**

As of December 31, 2012, the Company had 372 fixed-maturity securities with unrealized losses. Two with aggregate unrealized losses of $30,000 were 20% or greater than the cost. As of December 31, 2011, the Company had 248 fixed-maturity securities with unrealized losses. 16 with aggregate unrealized losses of $691,000 were 20% or greater than the cost. 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.

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 909 equity securities with unrealized losses, 425 with unrealized losses of $2,933,000 were 20% or greater than the cost and have been in a continuous loss position for longer than a year at December 31, 2012. Of the 1,992 equity securities with unrealized losses, 700 with unrealized losses of $13,905,000 were 20% or greater than the cost and have been in a continuous loss position for longer than a year at December 31, 2011. 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 composition of net investment income is summarized below *(in thousands):*

	2012	2011
Interest income	**$ 28,603**	$ 28,261
Dividend income	**10,118**	10,794
Loss from subsidiary	**(267)**	(28)
Other	**(44)**	(53)
Gross investment income	**38,410**	38,974
Investment management fees	**(2,845)**	(2,732)
Net investment income	**$ 35,565**	$ 36,242

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:

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, 2012 *(in thousands):*

	Total	Level 1	Level 2	Level 3
Fixed-maturity	**$ 948,022**	$ -	$ 948,022	$ -
Equities	**353,599**	353,599	-	-
Total	**$ 1,301,621**	$ 353,599	$ 948,022	$ -

There were no transfers between fair value levels during 2012 and 2011.

Several of EIM's policyholders are companies represented in the S&P 900. Consequently, at December 31, 2012 and 2011, EIM holds investments with a total fair value of approximately $22.4 and $31.3 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):*

		2012		2011
Deferred tax assets:				
Unpaid losses and loss adjustment expenses	**$**	**13,228**	$	10,397
Unearned premiums		**4,851**		4,466
Accrued expenses		**2,205**		1,423
Unrealized comprehensive losses in earnings		**7,136**		11,306
Net operating loss carryforward		**2,446**		-
Total deferred tax assets		**29,866**		27,592
Deferred tax liabilities:				
Unrealized capital gains	**$**	**72,610**	$	55,290
Premium amortization		**1,302**		1,923
Other		**1,087**		1,336
Total deferred tax liabilities		**74,999**		58,549
Net deferred tax liability	**$**	**(45,133)**	$	(30,957)

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 investment 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.

At December 31, 2012 and 2011, the Company determined there are no material unrecognized tax benefits, and no adjustments to liabilities or operations were required.

Tax years 2008 through 2012 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, 2012 and 2011, 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, 2012 and 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.

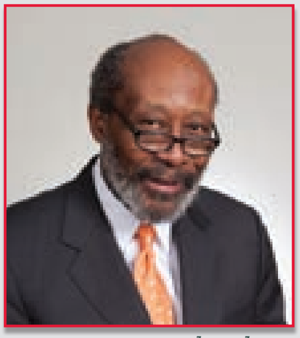
The assumed discount rate used to determine the benefit obligation is 4.45% for 2012. The assumed healthcare cost trend rate is 7.50% for 2013, trending to 4.5% by 2027. The Company has recognized a liability representing the accumulated post-retirement benefit obligation in the amount of $6,300,000 as of December 31, 2012. The Company recognized a liability representing the actuarially determined accumulated post-retirement benefit obligation in the amount of $4,067,000 as of December 31, 2011.

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 $811 million at December 31, 2012.

EIM Directors


Darryl Bradford


Trevor Carmichael


Marian Durkin


Will Evans


Ben Fowke


Scott Goodell

Darryl M. Bradford
Senior Vice President and General Counsel,
Exelon Corporation, Chicago, Illinois

Trevor A. Carmichael
Barrister-at-Law, Chancery House,
Chancery Chambers, Bridgetown, Barbados

Marian M. Durkin
Senior Vice President, General Counsel, and Chief Compliance Officer,
Avista Corporation, Spokane, Washington

Willard S. Evans, Jr.
President,
Peoples Gas and North Shore Gas, Chicago, Illinois

Benjamin G. S. Fowke, III
Chairman, President, and Chief Executive Officer,
Xcel Energy Inc., Minneapolis, Minnesota

Scott K. Goodell
President and Chief Executive Officer,
Energy Insurance Mutual, Tampa, Florida


Jim Hatfield


Ed Holland


Darren Olagues


Carter Reid

James R. Hatfield
Senior Vice President and Chief Financial Officer,
Pinnacle West Capital Corporation, Phoenix, Arizona

G. Edison Holland, Jr.
Executive Vice President, General Counsel, and Corporate Secretary,
Southern Company, Atlanta, Georgia

Darren J. Olagues
Senior Vice President and Chief Financial Officer,
Cleco Corporation, Pineville, Louisiana

Carter M. Reid
Vice President, General Counsel, Chief Compliance Officer and Corporate Secretary,
Dominion Resources, Inc., Richmond, Virginia

Joseph M. Rigby
Chairman, President, and Chief Executive Officer,
Pepco Holdings, Inc., Washington, D.C.

Charles W. Shivery
Chairman,
Northeast Utilities, Hartford, Connecticut

As of December 31, 2012


Joe Rigby


Chuck Shivery

Board Committees

Audit Committee
Darren J. Olagues, Chairman | Willard S. Evans, Jr., Vice Chairman
Darryl M. Bradford | Joseph M. Rigby | Charles W. Shivery

Claims Committee
Marian M. Durkin, Chairman | Darryl M. Bradford, Vice Chairman
Willard S. Evans, Jr. | James R. Hatfield | Carter M. Reid

Executive Committee
G. Edison Holland, Jr., Chairman | Benjamin G. S. Fowke, III, Vice Chairman
Marian M. Durkin | Scott K. Goodell | James R. Hatfield

Insurance Advisory Committee
Randall L. Martin, Chairman | Sandra K. Hart, Vice Chairman
Edsel L. Carlson | Robert W. Dillard | Julie R. Jackson | Dean R. Jobko | Gary Y. Little
Jerry E. Rhoades | John J. Vinski | Mark A. Webster

Investment Committee
Charles W. Shivery, Chairman | Benjamin G. S. Fowke, III, Vice Chairman
Darren J. Olagues | Carter M. Reid | Joseph M. Rigby

Nominating Committee
Marian M. Durkin, Chairman | Charles W. Shivery, Vice Chairman
Darryl M. Bradford | Scott K. Goodell | Darren J. Olagues

Reinsurance Committee
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As of December 31, 2012

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As of December 31, 2012

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Ben Fowke

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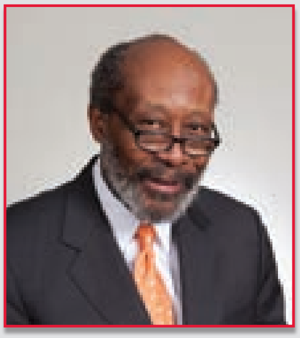

Trevor Carmichael

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As of December 31, 2012

Energy Insurance Mutual *www.eimltd.com*

Bayport Plaza, Suite 550, 3000 Bayport Drive, Tampa, Florida 33607-8418

Telephone: 813-287-2117 or 800-446-2270 • Facsimile: 813-874-2523

Contact:

Scott Goodell, *sgoodell@eimltd.com*

Tommy Bolton, *tbolton@eimltd.com*

Jill Dominguez, *jdominguez@eimltd.com*

Energy Insurance Services

307 Falls Street, Suite A, Greenville, South Carolina 29601-2829

Telephone: 864-527-5908 • Facsimile: 864-527-5909

Contact:

Robert Schmid, *rschmid@eimltd.com*

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