JOHNSON LAMBERT LLP

Energy Insurance Mutual Limited

Audited Financial Statements

Years ended December 31, 2013 and 2012
Report of Independent Auditors

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Years ended December 31, 2013 and 2012

Contents

JOHNSON LAMBERT LLP

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, 2013 and 2012 and the related statements of income and comprehensive income, changes in policyholders' surplus and cash flows for the 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, 2013 and 2012, 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
February 24, 2014

Energy Insurance Mutual Limited

Balance Sheets

(Expressed in Thousands of U.S. Dollars)

	As of December 31, 2013	2012
Assets		
Investments, available-for-sale	$ 1,283,067	$ 1,301,621
Alternative investments	5,000	-
Investment in subsidiary	2,119	1,923
Total investments	1,290,186	1,303,544
Cash and cash equivalents	81,124	63,413
Reinsurance recoverables on unpaid losses	397,130	396,510
Reinsurance recoverables on paid losses	2,427	3,160
Prepaid reinsurance premiums	44,085	40,978
Accrued investment income	8,416	7,227
Receivables for securities sold	4,112	4,321
Due from subsidiary	4,767	10,364
Premiums receivable	4,794	5,561
Deferred policy acquisition costs	1,021	1,081
Income taxes recoverable	13,937	11,205
Other assets	733	686
Total assets	$ 1,852,732	$ 1,848,050
Liabilities and policyholders' surplus		
Liabilities:		
Reserve for losses and loss adjustment expenses	$ 721,942	$ 820,734
Unearned and advance premiums	112,223	109,979
Reinsurance premiums payable	39,578	35,617
Net deferred tax liability	57,569	45,133
Policyholder distributions payable	20,000	-
Accounts payable and accrued expenses	10,570	7,407
Payables for securities purchased	1,174	6,202
Total liabilities	963,056	1,025,072
Policyholders' surplus:		
Accumulated other comprehensive income	142,531	134,848
Members' account balance	747,145	688,130
Total policyholders' surplus	889,676	822,978
Total liabilities and policyholders' surplus	$ 1,852,732	$ 1,848,050

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, 2013	2012
Underwriting revenue		
Net premiums earned		
Direct and assumed premiums earned	$ 198,061	$ 191,959
Ceded premiums earned	(78,667)	(80,651)
Net premiums earned	119,394	111,308
Ceding commission income	2,691	2,864
Total underwriting revenue	122,085	114,172
Underwriting expenses		
Net losses and loss adjustment expenses		
Gross and assumed losses and loss adjustment expenses	120,207	215,994
Ceded losses and loss adjustment expenses	(75,175)	(60,229)
Net losses and loss adjustment expenses	45,032	155,765
Policy acquisition costs	2,007	2,107
Administrative expenses	12,074	11,292
Total underwriting expenses	59,113	169,164
Income (loss) from underwriting	62,972	(54,992)
Investment income		
Net realized gain on investments sold	27,325	23,285
Other-than-temporary impairments	-	(554)
Interest and dividends	36,697	35,565
Total investment income	64,022	58,296
Income before policyholders' distribution and income taxes	126,994	3,304
Distributions to policyholders	(38,000)	-
Income before income taxes	88,994	3,304
Income tax (expense) benefit		
Current income tax (expense) benefit	(21,578)	1,731
Deferred income tax (expense) benefit	(8,401)	3,143
Total income tax (expense) benefit	(29,979)	4,874
Net income	$ 59,015	$ 8,178

(continued)

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, 2013	2012
Comprehensive income		
Net income	$ 59,015	$ 8,178
Net unrealized (losses) gains on available-for-sale securities, net of income taxes of $13,701 and $25,276, respectively	25,444	46,942
Less: reclassification adjustment for net gains realized in net income, net of income taxes of $9,564 and $7,956, respectively	(17,761)	(14,775)
Other comprehensive income, net of tax	7,683	32,167
Comprehensive income	$ 66,698	$ 40,345

See accompanying notes to the financial statements

Energy Insurance Mutual Limited

Statements of Changes in Policyholders' Surplus

(Expressed in Thousands of U.S. Dollars)

	Accumulated Other Comprehensive Income	Members' Account Balance	Total
Balance at January 1, 2012	$ 102,681	$ 679,952	$ 782,633
Other comprehensive income, net of tax	32,167	-	32,167
Net income	-	8,178	8,178
Balance at December 31, 2012	134,848	688,130	822,978
Other comprehensive income, net of tax	7,683	-	7,683
Net income	-	59,015	59,015
Balance at December 31, 2013	$ 142,531	$ 747,145	$ 889,676

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, 2013	2012
Net income	$ 59,015	$ 8,178
Cash flows from operating activities:		
Depreciation	201	113
Amortization of bond premium or discount	4,521	3,854
Net realized investment gain	(27,325)	(22,731)
Deferred income taxes	8,401	(3,143)
Equity in earnings of subsidiary	(196)	(337)
Changes in operating assets and liabilities:		
Reinsurance recoverable	113	(24,066)
Prepaid reinsurance premiums	(3,107)	1,790
Due from subsidiary	5,597	623
Premiums receivable	767	(1,497)
Other assets	(1,163)	(729)
Reserve for losses and loss adjustment expenses	(98,792)	140,084
Unearned premiums	2,244	4,318
Reinsurance premiums payable	3,961	9,262
Policyholder distribution payable	20,000	-
Accounts payable and other accrued expenses	3,163	1,148
Income taxes recoverable	(2,732)	(20,505)
Net cash from operations	(25,332)	96,362
Cash flows from investing activities:		
Cost of investments purchased	(750,624)	(1,302,658)
Proceeds from sales of investments	772,256	1,189,024
Proceeds from maturities of investments	26,445	30,017
Change in payable from purchase of investments	(4,819)	(9,680)
Purchases of fixed assets	(215)	(302)
Net cash from investing	43,043	(93,599)
Cash flows from financing activities:		
Draws on line of credit	29,250	10,500
Repayments on line of credit	(29,250)	(10,500)
Net cash from financing	-	-
Net change in cash and cash equivalents	17,711	2,763
Cash and cash equivalents, beginning of year	63,413	60,650
Cash and cash equivalents, end of year	$ 81,124	$ 63,413
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 24,276	$ 18,775

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 of EIS' operations.

Note A - Organization and Significant Accounting Policies (Continued)

As of December 31, 2013, EIS has assets (exclusive of assets held in MBPs) of approximately $10.1 million, shareholder's equity of $2.1 million and net income of approximately $203,000. As of December 31, 2012, EIS had assets (exclusive of assets held in MBPs) of approximately $10.7 million, shareholder's equity of $1.9 million and a net income of approximately $337,000.

The Company and EIS file a consolidated federal income tax return. Income taxes are allocated based on separate return calculations. During 2013 and 2012, EIM provided reinsurance to certain EIS cells. For the years ended December 31, 2013 and 2012, premiums earned included $318,750 and $482,500 of premium assumed from EIS, respectively.

Investments
Management determines the appropriate classification of marketable 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 specific identification method.

Alternative investments include interest in shares of off-shore investment funds ("the Funds") which are considered non-marketable securities. Participants in the Funds are subject to the results of the pool which are based largely on catastrophe reinsurance activity. These alternative investments are accounted for under the equity method, with the Company recording its proportionate share of investee earnings or losses as a component of net investment income. The financial statements of the Funds are audited annually by independent auditors, although the timing for reporting the results of such audits may not coincide with the Company's financial reporting.

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.

Note A - Organization and Significant Accounting Policies (Continued)

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 initially capitalized and 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 are directly related to the successful acquisition 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.

Note A - Organization and Significant Accounting Policies (Continued)

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 Distributions
As a mutual insurer, EIM is owned by its policyholders. Policyholder distributions are charged to income when declared by the Board of Directors. During 2013, the Board of Directors approved the declaration of policyholder distributions in the amounts of $18 million and $20 million. No policyholder distributions were made in the year ended December 31, 2012.

Reclassifications
Certain balances in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

Subsequent Events
The Company has evaluated subsequent events for disclosure and recognition through February 24, 2014, the date on which these financial statements were available to be issued.

Note B - Insurance Activity

Premium activity for 2013 and 2012 is summarized as follows *(in Thousands of U.S. Dollars)*:

2013	Direct	Assumed	Ceded	Net
Premiums written	$ 198,178	$ 1,664	$ (75,560)	$ 124,282
Change in unearned premiums	(1,622)	(159)	(3,107)	(4,888)
Premiums earned	$ 196,556	$ 1,505	$ (78,667)	$ 119,394

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

Note B - Insurance Activity (Continued)

Activity in the liability for losses and loss adjustment expenses is summarized as follows *(in Thousands of U.S. Dollars)*:

	2013	2012
Gross balance, beginning of year	$ 820,734	$ 680,650
Less: reinsurance recoverables on unpaid losses	(396,510)	(372,006)
Net balance, beginning of year	424,224	308,644
Incurred related to:		
Current year	113,249	87,344
Prior years	(68,217)	68,421
Total incurred	45,032	155,765
Paid related to:		
Current year	1,527	1,210
Prior years	142,917	38,975
Total paid	144,444	40,185
Net balance, end of year	324,812	424,224
Plus: reinsurance recoverables on unpaid losses	397,130	396,510
Gross balance, end of year	$ 721,942	$ 820,734

For the year ended December 31, 2013, incurred losses attributable to events of prior years decreased $68.2 million. The 2013 decrease relates primarily to favorable development of IBNR reserves on general liability coverage from the 2008, 2009, 2010 and 2011 accident years, which experienced less than expected claim development.

For the year ended December 31, 2012, incurred losses attributable to events of prior years increased $68.4 million. The 2012 increase relates primarily to case development on two general liability claims from the 2009 accident year.

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 books of business. After certain deductibles or retentions have been satisfied, the maximum amount that could be recoverable under the 2013 and 2012 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.

During 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 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, 2013 and 2012, the total fair value of the assets held in the Trust were $1,247,826,000 and $990,552,000, which collateralized $107,448,000 and $121,126,000 in reinsurance recoverables on losses and loss adjustment expenses, respectively.

During 2010, EIM entered into a reinsurance agreement with Oil Casualty Insurance Limited ("OCIL") providing coverage of $25,000,000 in 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. As of December 31, 2013 and 2012, the total amount of the funds held account was $34,820,000 and $31,401,000, 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 27% and 25%, respectively, of the balance at December 31, 2013 and 30% and 26%, respectively, at December 31, 2012. The remaining balance comprises amounts from various reinsurers, each not exceeding 9% of the total for 2013 and 2012.

Management periodically reviews the financial condition of its existing reinsurers and concludes as to whether any allowance for uncollectible reinsurance is required. At December 31, 2013 and 2012, no such allowances were deemed necessary.

Note C - Investments

As of December 31, 2013, the cost, gross unrealized gains, gross unrealized losses, other-than-temporarily impaired and fair value of marketable fixed-maturity and equity securities are summarized as follows *(in Thousands of U.S. Dollars)*:

2013	Cost or Amortized Cost	Other-than-temporarily Impaired	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury & Agencies	$ 9,448	$ -	$ 67	$ (550)	$ 8,965
U.S. state and municipal obligations	502,449	-	8,897	(11,013)	500,333
Corporate debt securities	141,387	-	4,613	(2,187)	143,813
Mortgage-backed securities	277,997	(12,358)	6,770	(3,948)	268,461
Total fixed-maturity securities	931,281	(12,358)	20,347	(17,698)	921,572
Domestic equities	87,773	(2,258)	157,691	(721)	242,485
Foreign equities	59,754	(403)	62,144	(2,485)	119,010
Total equities	147,527	(2,661)	219,835	(3,206)	361,495
Total investments	$ 1,078,808	$ (15,019)	$ 240,182	$ (20,904)	$ 1,283,067

As of December 31, 2012, the cost, gross unrealized gains, gross unrealized losses, other-than-temporarily impaired and fair value of marketable fixed-maturity and equity securities are summarized as follows *(in Thousands of U.S Dollars)*:

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

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, 2013 and 2012, 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, 2013, by contractual maturity, are summarized below *(in Thousands of U.S. Dollars)*. 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 2014	$ 19,414	$ 19,538
In 2015-2018	123,337	126,374
In 2019-2023	221,372	222,307
Due after 2023	567,158	553,353
Total fixed-maturity securities	$ 931,281	$ 921,572

Proceeds from maturities of investments were approximately $26,445,000 and $30,017,000 and proceeds from sales of investments were approximately $772,256,000 and $1,189,024,000, during 2013 and 2012, respectively. Gross gains of approximately $49,666,000 and $56,252,000 and gross losses of $22,341,000 and $32,967,000, during 2013 and 2012 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.

For the year ended December 31, 2013, the Company determined that no investments were other-than-temporarily impaired. For the year ended December 31, 2012, the Company determined five securities were other-than-temporarily impaired. This resulted in recording an impairment write-down of $554,000 as part of net realized losses on investments and reduced the unrealized loss included in other comprehensive income.

Note C - Investments (Continued)

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, 2013 *(in Thousands of U.S. Dollars)*:

	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	$ 7,551	$ 363	$ 903	$ 187	$ 8,454	$ 550
U.S. state and municipal obligations	221,019	10,764	2,016	249	223,035	11,013
Corporate debt securities	49,429	2,187	-	-	49,429	2,187
Mortgage-backed securities	141,139	3,498	14,807	450	155,946	3,948
Domestic equities	3,623	463	856	258	4,479	721
Foreign equities	6,362	813	19,438	1,672	25,800	2,485
Total temporarily impaired securities	$ 429,123	$ 18,088	$ 38,020	$ 2,816	$ 467,143	$ 20,904

As of December 31, 2013, the Company had 640 fixed-maturity securities with unrealized losses. Fourteen with aggregate unrealized losses of $397,000 were 20% or greater than the cost. 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. 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 732 equity securities with unrealized losses, 131 with unrealized losses of $1,389,000 were 20% or greater than the cost and have been in a continuous loss position for longer than a year at December 31, 2013. 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. 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.

Note C - Investments (Continued)

The composition of net investment income is summarized below *(in Thousands of U.S. Dollars)*:

	2013	2012
Interest income	$ 31,963	$ 28,636
Dividend income	8,132	10,118
Loss from subsidiary	198	(267)
Other	(163)	172
Gross investment income	40,130	38,659
Investment management fees	(2,967)	(2,845)
Interest expense	(466)	(249)
Net investment income	$ 36,697	$ 35,565

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.

Note C - Investments (Continued)

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, 2013 *(in Thousands of U.S. Dollars)*:

	Total	Level 1	Level 2	Level 3
Fixed-maturity	$ 921,572	$ -	$ 921,572	$ -
Equities	361,495	361,495	-	-
Total	$ 1,283,067	$ 361,495	$ 921,572	$ -

There were no transfers between fair value levels during 2013 and 2012.

Several of EIM's policyholders are companies represented in the S&P 900. Consequently, at December 31, 2013 and 2012, EIM holds investments with a total fair value of approximately $14.2 and $22.4 million, respectively, in issuers who are policyholders.

On December 27, 2013, the Company purchased shares of Upsilon Reinsurance Funds Opportunities Ltd. for $5 million. The investment is recorded as an alternative investment.

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 of U.S. Dollars)*:

	2013	2012
Deferred tax assets:		
Unpaid losses and loss adjustment expenses	$ 8,656	$ 13,228
Unearned premiums	4,803	4,851
Accrued expenses	2,456	2,205
Unrealized comprehensive losses in earnings	5,257	7,136
Net operating loss carryforward	-	2,446
Total deferred tax assets	21,172	29,866
Deferred tax liabilities:		
Unrealized capital gains	76,747	72,610
Premium amortization	1,582	1,302
Other	412	1,087
Total deferred tax liabilities	78,741	74,999
Net deferred tax liability	$ (57,569)	$ (45,133)

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. Management believes that it is more likely than not that the Company will realize the benefit of the deferred tax asset, therefore 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, 2013 and 2012, the Company determined there are no material unrecognized tax benefits, and no adjustments to liabilities or operations were required.

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 $150,000,000 or $5,400,000 plus 30% for liabilities arising from business on or after January 1, 1998. At December 31, 2013 and 2012, the required balance was $150,000,000 and $100,000,000, respectively. 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 is used solely to fund claim payments that are subject to reinsurance recovery. There were no amounts outstanding as of December 31, 2013 and 2012 on the line of credit. Draws and subsequent repayments on the line of credit amounted to $29,250,000 and $10,500,000, during 2013 and 2012, respectively.

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 2013. The assumed healthcare cost trend rate is 7.3% for 2014, trending to 4.5% by 2027. The Company recognized a liability representing the actuarially determined accumulated post-retirement benefit obligation in the amount of $7,018,000 and $6,300,000 as of December 31, 2013 and 2012, respectively, which is included in accounts payable and accrued expenses.

Note I - Margin of Solvency

In order to meet the requirements of a 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 $877 million at December 31, 2013.