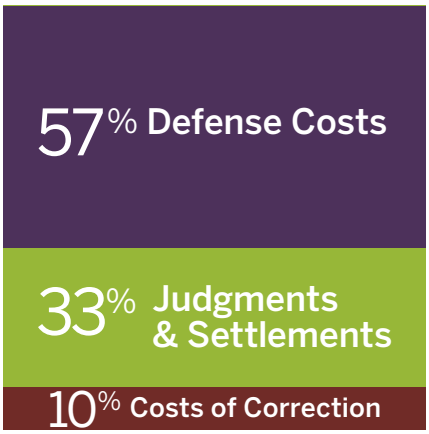
ICI Mutual Insurance Company

A Risk Retention Group

2013 ANNUAL REPORT

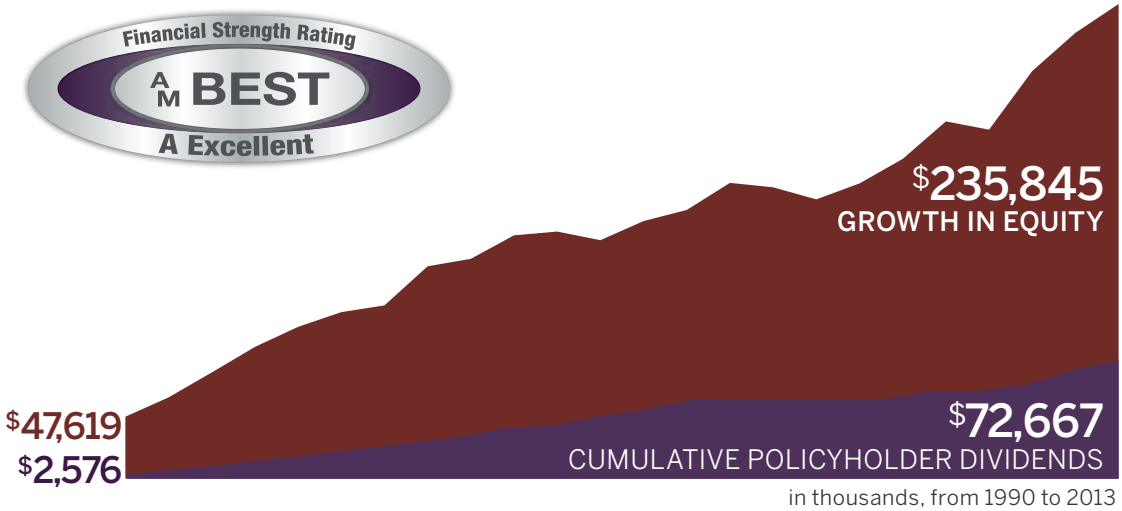
ICI MUTUAL 2013 at a glance

$910 million
CUMULATIVE CLAIMS INCURRED



ICI Mutual insureds represent **60%+**
OF INDUSTRY ASSETS UNDER MANAGEMENT

Financial Strength Rating
A M BEST
A Excellent



in thousands, from 1990 to 2013

Data as of December 31, 2013

message

More than a quarter century after its founding, ICI Mutual remains the mutual fund industry's leading provider of directors and officers/errors and omissions (D&O/E&O) liability insurance, investment company blanket (fidelity) bonds, and independent directors liability (IDL) insurance. As an insurer created, owned, and operated by the fund industry itself, ICI Mutual's interests remain fully aligned with the interests of its insured fund groups (who collectively represent over 60% of the industry's assets under management). In 2013, as in the past, ICI Mutual served these aligned interests by continuing to focus on what ICI Mutual does best—utilizing its unequaled fund industry knowledge and expertise to provide funds, fund directors and officers, and fund advisers with a stable and reliable alternative to the uncertainties and historical cyclicality of the commercial insurance market.

Daniel T. Steiner, President, and Michael J. Downer, Chairman

from the president and chairman

Looking Back on 2013

2013 was a successful year for ICI Mutual. The Company reported net income, after dividends and taxes, of $12.5 million. The Company's equity grew 5%, to reach a record high of $235.8 million. In December 2013, the Company's Board of Directors declared a dividend in the amount of $5 million, which will be paid to the Company's Participating Members in 2014 as a credit against their renewal premiums. Management's detailed discussion of 2013's operating results is provided on pages 12–13.

A.M. Best has again reaffirmed the Company's "A" (Excellent) rating, and we are pleased to note that this rating has been continuously maintained since the Company first became eligible for a rating over twenty years ago. A.M. Best has noted that the rating reflects "ICI Mutual's strong capitalization, favorable underwriting and operating results, solid risk management practices, and vast intellectual capital and expertise within the mutual fund industry."

Pursuant to its mission, ICI Mutual remains committed to differentiating fund industry risks from risks of the broader financial institutions sector, and to charging risk-related premiums for its insurance products. ICI Mutual honored this commitment in 2013, even as commercial insurance companies who compete with ICI Mutual for primary (i.e., first layer) mutual fund insurance programs were reporting premium rate increases in their broader professional liability portfolios. The Company's overall premium rates again remained stable for the year. Client retention continued to exceed 95%, evidencing strong support by insureds for the Company and their ongoing confidence in the Company's mission.

The year witnessed increased concerns in the fund industry over potential regulatory and legal exposures faced by fund independent directors, due in no small part to enforcement actions by the U.S. Securities and Exchange Commission (SEC) in Morgan Keegan and Northern Lights, and to various public comments made by high-ranking SEC officials. ICI Mutual has long focused on addressing the needs of fund independent directors and on assisting them in securing appropriate protection, both for themselves and their funds, against the financial exposures associated with regulatory investigations, regulatory proceedings, and shareholder lawsuits. In 2013, the Company completed its roll-out of special insurance policy enhancements for independent directors and introduced a new publication entitled *Independent Directors Liability (IDL) Insurance: A Guide for Fund Independent Directors and Their Insurance Advisers*. The publication serves as a comprehensive guide to IDL insurance—a type of dedicated, stand-alone insurance coverage for independent directors that has become more prevalent in the industry in recent years—and to various IDL-related topics. The publication continues ICI Mutual's long-standing efforts to provide fund directors, officers, and investment advisers with in-depth research and analysis on claims, insurance, and risk management issues affecting the fund industry. A complete list of ICI Mutual's Risk Management Studies (available for download on ICI Mutual's website at www.icimutual.com) can be found on page 19.

2013 also witnessed increased attention, both inside and outside the fund industry, to cyber threats and to the challenges inherent in safeguarding sensitive information in a digital age. Highly publicized data breaches outside the fund industry, including a massive breach of customer payment systems at a major retailer, underscored these challenges. Through its publications (including a 2012 study entitled *Risk Management in the Digital Age: Mobile Computing, Cloud Computing and Social Media*), participation at industry conferences, and presentations to fund

boards and investment advisory personnel, ICI Mutual has been actively involved in the fund industry's ongoing dialogue on cyber threats and associated risk management issues. In particular, the Company's insurance expertise leaves it well positioned to assist insured fund groups in their evaluations of how "traditional" insurance products (including investment company blanket bonds and D&O/E&O liability insurance policies) may—or may not—respond to various cyber risks and in their assessments of how specialty cyber insurance products may fit into overall risk management planning.

Risk management assistance and personal service are integral to the ICI Mutual business model, and they continue to distinguish the Company from its commercial insurance competitors. In 2013, the ICI Mutual staff made board presentations, engaged in strategic reviews of insurance programs, or otherwise visited with more than forty fund groups, and participated in over twenty industry conferences and events. The Company also expanded an outreach program, first launched in 2012, designed specifically to assist outside counsel in their assessment of insurance and related issues relevant to their fund industry clients.

In the latter half of the year, ICI Mutual completed a smooth transition in its senior management team. Daniel Steiner, the Company's long-time Executive Vice President and General Counsel, became President in September. Julia Ulstrup, an ICI Mutual veteran with prior experience at the SEC and in private practice, was promoted to General Counsel. Rounding out the senior management team, Charles Behr and John Mulligan, both long-time employees, continue in their positions as Chief Financial Officer and Chief Underwriting Officer, respectively. This senior management team brings to the Company a combined total of over seventy-five years of investment company and insurance experience. On behalf of ICI Mutual's Board of Directors and professional staff,

we extend our thanks and appreciation to Lawrence Maffia, who retired in September after seven years as President, for his dedication and contributions to the Company and its insureds.

Looking Ahead to 2014

As of the date of this letter, ICI Mutual anticipates that the market for mutual fund insurance will remain relatively stable in 2014, particularly at the primary layer where the Company writes most of its insurance. We expect that fund groups will continue to evaluate the scope of their primary coverage, the overall amount of insurance they purchase, and the structure of their insurance programs (e.g., by analyzing the role of IDL insurance in their overall insurance programs). In underwriting new and renewing accounts, ICI Mutual will continue to assess the adequacy and strength of the procedures and processes used by fund groups to identify and mitigate their insurable risks.

As noted on page 11, ICI Mutual has seen evidence in recent years of an emerging "new normal" period for fund industry claims. As of the date of this letter, we anticipate that this new normal period will continue into 2014. In this environment, the SEC and other regulatory authorities can be expected to pursue aggressive enforcement programs that focus on perceived infractions, large and small,

Remembering David Silver *(1931–2013)*

With the passing of David Silver in 2013, ICI Mutual lost a founding father, and a long-time supporter and friend. In the 1980s, as President of the Investment Company Institute, Dave was the chief architect of the fund industry's efforts to establish ICI Mutual. Dave went on to serve as ICI Mutual's first President. It was during his fourteen-year tenure in this role that the Company developed, refined, and institutionalized many of its key governance procedures, insurance coverages, underwriting guidelines, claims handling practices, reinsurance arrangements, and educational and outreach programs. All of us on the Company's Board and staff who were fortunate enough to have known Dave, and to have worked closely with him, will greatly miss his keen intellect, wise counsel, and sense of humor.

by both companies and individuals. The plaintiffs' bar will perhaps be more selective in its attacks than in the past, but it, too, can be expected to remain a potent threat.

In the coming year, ICI Mutual plans to maintain its long-standing core insurance coverages, whose practical value for funds, fund directors and officers, and fund advisers has been proven by more than twenty-five years of industry claims experience. As in the past, ICI Mutual will also continue its efforts to develop innovative and sustainable coverage enhancements to address new and evolving fund industry risks. In 2014, the Company will be introducing a new enhancement to its D&O/E&O liability insurance policy designed to defray expenses incurred by insureds in conducting designated claim-related internal corporate investigations. The new enhancement will take the form of a standard endorsement and will be provided to ICI Mutual insureds at no additional cost.

On the coverage and service fronts, the Company plans to remain actively engaged over the coming year in the industry's ongoing efforts to address and manage cyber threats. The Company's professional staff will continue efforts to assist insureds in assessing how different insurance products may fit into their overall risk management planning for such threats. The staff will also undertake a major initiative on the subject of new and emerging techniques for shareholder authentication. The initiative will position the Company to revise and modernize (as may be appropriate) relevant coverage terms and requirements under the Company's investment company blanket bond and to prepare an educational publication for insureds on shareholder authentication issues.

As 2013 ends, we look to the past with satisfaction. We are proud of the many contributions that ICI Mutual has made over the years to its insureds and to the fund industry as a whole. The ICI Mutual model—that of an insurer created, owned, and operated by the fund industry itself—is time-tested, and has proven its long-term value.

As 2014 begins, we look to the future with enthusiasm. The fund industry, and the industry's risks and insurance needs, will continue to evolve. ICI Mutual will continue to evolve along with them. We are confident that ICI Mutual, with its specialized focus and unmatched industry knowledge and expertise, is well positioned to meet the challenges that lie ahead.

Daniel T. Steiner
President

Michael J. Downer
Chairman of the Board of Directors

Postscript from the President

In June 2014, Mike Downer will complete his two-year term as Chairman of ICI Mutual. The Company's Board and senior management team extend their thanks to Mike for his leadership as Chairman and for the advice and support that he has provided over his decade of service on the Board and on various Board committees. Mike's knowledge and experience, both in the fund industry and with the Company, have proved invaluable to the work of ICI Mutual. We are fortunate that Mike has indicated a willingness to continue to serve as a director of the Company.

a decade of proof

A centuries-old proverb advises that "the proof of the pudding is in the eating." As recast for fund industry insureds, this enduring folk wisdom might counsel that "the proof of an insurer is in the claims handling." For it is only when times are tough and claims arise that the value of an insurer can truly be known.

2013 marks the close of an extraordinary decade for fund industry claims. Over the past ten years, unprecedented scrutiny of the fund industry by state and federal regulators and by the plaintiffs' bar—scrutiny ignited by the trading scandal of 2003–2004 and refueled by the credit crisis of 2007–2008—has spawned scores of regulatory investigations, regulatory enforcement actions, and shareholder lawsuits involving fund advisers, funds, and fund directors and officers. The wheels of justice turn slowly, and even today, some of these underlying matters remain underway. But with the vast majority of them now concluded (or nearly so), and their associated insurance claims resolved, the value of ICI Mutual—as a specialized insurer created by and for the fund industry—is proven.

As of year-end 2013, ICI Mutual has paid more than half a billion dollars to over fifty insured fund groups on litigation and regulatory matters initiated since late 2003. This sum (which does not include the Company's current case reserves on those matters

that remain open) accounts for approximately two-thirds of all claims payments made by ICI Mutual over its twenty-six year history. While the process of resolving claims is not always dispute-free (as evidenced by periodic insurance coverage litigation in the commercial insurance arena), the many difficult and complex insurance claims presented to ICI Mutual over the past decade have thus far been amicably resolved, to the satisfaction of all concerned. This is a testament to the Company's claims handling philosophy and practices, to its long-standing relationships with its insureds and reinsurance partners, and to its deep understanding of the industry it serves.

ICI Mutual's claims experience in more recent years suggests that the fund industry may be entering a "new normal" period for claims. In this environment, the SEC and other regulatory authorities can be expected to continue their aggressive enforcement programs. The plaintiffs' bar, while perhaps more selective in its attacks than in the past, can also be expected to remain a potent threat. Whatever the future may bring, ICI Mutual stands ready to support its insureds in their defense efforts, and to address and resolve insurance claims promptly, even-handedly, and fairly. At ICI Mutual, we understand fund industry claims. And we recognize that the proof of the pudding is in the eating.

2013 financial overview

n 2013, ICI Mutual recorded an underwriting profit of $11.9 million, of which $5 million will be returned to Participating Members in the form of a dividend credit against their 2014 renewal premiums. This excellent result, the Company's ninth consecutive year with an underwriting profit, contributed to A.M. Best reaffirming the Company's "A" (Excellent) rating.

Direct premiums written increased 3.6% to $87.7 million for the year ended 2013. The increase was due primarily to the purchase of higher limits by certain insureds, most of which was above ICI Mutual's retention. Such amounts were ceded to reinsurers, resulting in an increase to ceded premiums of approximately 3.9% from 2012 levels. The Company's underwriting approach seeks to charge premiums that are reflective of the underlying risks presented by an insured. In 2013, as in 2012, most insureds renewed their coverage at expiring rates and coverage terms. Those insureds that had

improved underwriting results received modest premium decreases, while insureds with deteriorating underwriting results experienced rate increases.

The increase in direct premiums written was not reflected in net earned premiums (the amount of premium the Company retains after paying for reinsurance), primarily due to the increased cession of the higher limits written in 2013. Net earned premiums declined 3.0% to $28.9 million from 2012 levels.

The claims environment for the Company was benign in 2013. Net loss and loss adjustment expenses incurred in 2013 amounted to $5.1 million, which yielded a loss ratio of 17.7% (loss and loss adjustment expenses divided by earned premiums). 2013's net losses incurred were lower than the $13.5 million experienced in 2012, reflecting a decrease in claim frequency. While 2013's net losses incurred were well below the Company's long-term average, management believes losses at this level are unlikely to be indicative of future results and that losses in the future are likely to return to more normal levels.

The Company's combined ratio for 2013 was 58.8% before dividends to Participating Members, and 76.1% after dividends to Participating Members.

Net investment income equaled $8.1 million in both 2013 and 2012, as the continuing low interest rate environment for the assets in which the Company typically invests (high grade fixed income securities—"AA" average quality) offset the additional earnings from the increase in the assets available for investment. The 2013 results also include $3.2 million of net gains on securities as compared to $3.6 million in 2012.

Total equity increased 5% to $235.8 million after the inclusion of $12.5 million in net income and $3 million of other changes, partially offset by a $4.3 million decline in unrealized appreciation on investments, all net of tax.

The combination of strong underwriting results, a strong balance sheet, and the ongoing conservative financial management of the Company continues to position ICI Mutual to be the primary source of D&O/E&O and fidelity bond insurance for the mutual fund industry, both now and in the future.

aligned interests

ICI MUTUAL IS THE ONLY INSURANCE SOURCE
CREATED BY AND FOR THE FUND INDUSTRY.

Founded in 1987, ICI Mutual was formed in response to the mutual fund industry's need for comprehensive, specialized insurance coverage at risk-related prices and fair claims handling. Since the commercial insurance market was, at times, unwilling or unable to fulfill this need, fund industry leaders worked with the Investment Company Institute, the industry's trade association, to form ICI Mutual, the industry's own dedicated insurance company.

As an insurance company owned and operated by and for the fund industry, ICI Mutual offers what no other insurance carrier does: an exclusive focus on the fund industry's own distinct liability needs.

Fund industry leaders serve on the Company's Board of Directors, bringing their in-depth knowledge and experience in the industry to direct the development of products and services that meet the particular needs of funds, their directors, officers, and advisers. Their involvement with the Company ensures that ICI Mutual is operated for the benefit of its insureds.

ICI Mutual's structure provides a number of distinct advantages for its insureds: a stable source of insurance in all market cycles, tailored coverage that is individually priced to reflect each insured's risk profile, control over long-term insurance costs, access to risk management services, and the potential for dividends. Now in its third decade, ICI Mutual is an established, trusted presence and the top provider of insurance for the mutual fund industry.

knowledge & expertise

Detailed descriptions of ICI Mutual's core coverages may be found online at: **www.icimutual.com/coverages.**

ICI Mutual also has the ability to craft custom coverages in response to the particular needs of its insureds.

ICI Mutual, as the industry's dedicated insurer, is in a prime position to understand the particular risks associated with the fund industry and to appreciate the perspective of its insureds. Few, if any, commercial insurers can match this knowledge advantage. ICI Mutual's staff has significant experience with mutual fund and investment adviser issues. The staff's interaction with the Board of Directors and other leading industry professionals provides invaluable insights that inform the development of appropriate insurance coverages and risk management services.

Coverages

ICI Mutual's core products are designed to address the specific insurance needs of funds, fund directors and officers, and advisers.

Directors and Officers/Errors and Omissions Liability Policy protects individual directors and officers and their insured companies against the financial impact of judgments, settlements, and legal defense costs incurred in shareholder lawsuits and regulatory investigations, and the costs of correcting errors.

Investment Company Blanket Bond meets the basic fidelity bonding requirement for funds under the Investment Company Act of 1940, plus it offers insureds protection against specified losses caused by employee theft, third-party fraud, and various other types of events.

Independent Directors Liability Policy offers comprehensive coverage tailored to meet the unique concerns and needs of fund independent directors.

Services

UNDERWRITING

Because ICI Mutual's underwriters focus solely on the mutual fund industry, they have deep insight into its risks and challenges. Insureds are assigned dedicated underwriters who work closely with them to develop a comprehensive understanding of their distinct businesses, processes, and procedures. This enables ICI Mutual to structure coverage and offer limits that appropriately reflect each insured's risk profile.

CLAIMS HANDLING

ICI Mutual is highly regarded for its balanced, prompt, and knowledgeable claims handling—an approach mandated by the Company's position as the fund industry's dedicated insurer. Each submitted claim undergoes a thorough analysis of the facts, circumstances, and applicable coverage language, with insureds kept informed throughout this process.

RISK MANAGEMENT

ICI Mutual's expert knowledge and close connection with the industry are unmatched—as are the Company's efforts to provide ongoing, pertinent information and risk management assistance to its insureds. ICI Mutual is committed to providing practical guidance to help insureds identify and manage industry risks through a number of publications and other media. The Company's Risk Management Studies, as listed on page 19, provide in-depth research and analysis of the fund industry's liability exposures and are designed to help insureds improve their organizations' risk profiles. *Claims Trends* and the online *Litigation Notebook* explain new and emerging areas of regulatory and litigation exposure and their implications for insurance claims and coverage. These publications and other materials can be accessed on the Company's website: www.icimutual.com.

ICI Mutual sponsors an annual Risk Management Conference, at which industry experts and guest speakers present information on a wide array of risk management topics and facilitate discussion among insureds. In addition, ICI Mutual's professional staff regularly meets with insureds and their boards of directors to discuss underwriting, claims, and emerging risks, and responds directly to organizations' specific insurance concerns.

a history of our RISK MANAGEMENT publications

2001 *Managing Risk in Processing Corporate Actions*

2002 *Investment Management Compliance Risks*

2002 *Understanding Bond Fund Risks*

2003 *Computer Security Lite*

2004 *Managing Defense Costs*

2005 *Fair Valuation Study—An Introduction* (co-authored with ICI and IDC)

2006 *Fair Valuation Study—The Role of the Board* (co-authored with ICI and IDC)

2006 *The Two Faces of Identity Theft*

2006 *Independent Director Litigation Risk*

2007 *Preparing for a Pandemic*

2007 *What to Expect in the Claims Process*

2008 *Managing Risks in Trade Allocation*

2008 *Outsourcing by Advisers and Affiliated Service Providers*

2009 *Mutual Fund D&O/E&O Insurance: A Guide for Insureds*

2010 *Mutual Fund Prospectus Liability: Understanding and Managing the Risk*

2010 *ERISA Liability: A Guide for Investment Advisers and Their Affiliates*

2011 *Managing Operational Risks of Private Accounts: A Guide for Investment Advisers*

2012 *Risk Management in the Digital Age: Mobile Computing, Cloud Computing and Social Media*

2013 *Independent Directors Liability (IDL) Insurance: A Guide for Fund Independent Directors and Their Insurance Advisers*

financial stability

For over 25 years, ICI Mutual has been an acknowledged and trusted presence within the fund industry, with insureds who currently represent more than 60% of the industry's managed assets. ICI Mutual's success can be attributed to its philosophy of conservative financial management in every aspect of the business. From underwriting to portfolio management and administration, the Company strives to use its resources wisely, to invest prudently, and to manage risk carefully. The result of this conservative philosophy is the enduring financial strength and stability to meet the needs of insureds.

These practices have enabled ICI Mutual to stand behind its insureds through significant financial market and industry-wide events and to prosper through varied economic and insurance cycles over the past three decades. The Company's strong network of reinsurance partners allows ICI Mutual to provide the full limits of coverage required by insureds and to promote stable premium rates and coverage terms. As a part of the fund industry, ICI Mutual offers investment companies, their directors, officers, and advisers confidence that insurance coverage will be available to them at risk-related prices.

board of directors

Michael J. Downer, *Chairman* (E, N)
Capital Research & Management Company

William V. Healey, *Vice Chairman* (E, I, N)
Allianz Global Investors U.S. Holdings LLC

Richard D. Carpenter (E, I)
The Vanguard Group, Inc.

Mark E. Carver (I, U)
UBS Global Asset Management (Americas), Inc.

Stefanie Chang Yu (R)
Morgan Stanley

John F. Cogan, Jr. (E, U)
Pioneer Investment Management USA, Inc.

Jeffrey R. Coleman (A)
BofA Global Capital Management

Kenneth C. Eich (A)
Davis Selected Advisers, L.P.

Barry Fink (E, A, R)
American Century Funds

Maureen A. Gemma (U)
Eaton Vance Management

Robert F. Gunia (I, U)
Prudential Insurance Mutual Funds

Heidi W. Hardin (R)
Janus Capital Management LLC

Lawrence H. Kaplan (E, U)
Lord, Abbett & Co. LLC

Les M. Kratter (I)
Franklin Resources, Inc.

Paul S. Kulig (A)
Kulig and Sullivan, P.C.

James J. McMonagle (E, I, U)
Selected Funds

Jennifer W. Murphy (I)
Legg Mason, Inc.

David Oestreicher (E, R)
T. Rowe Price Associates, Inc.

Mark N. Polebaum (R)
MFS Investment Management

Brian K. Reid (R)
Investment Company Institute

Daniel T. Steiner (E, I, R)
ICI Mutual Insurance Company

Paul Schott Stevens (E, U)
Investment Company Institute

Michael D. Strohm (A, N)
Waddell & Reed, Inc.

Alison Taunton-Rigby (A, R, N)
Columbia Funds

F. William McNabb III, *Ex-Officio*
Vanguard

DIRECTORS ON SABBATICAL

James H. Bodurtha
BlackRock Funds

Kevin M. Carome
Invesco Ltd.

Dawn-Marie Driscoll
DWS Funds

Ronald H. Fielding
Saturna Investment Trust

Diana P. Herrmann
Aquila Investment Management LLC

David M. Pfeffer
OppenheimerFunds, Inc.

Board Committee Involvement:
Executive (E), Audit (A), Investment (I), Nominating (N), Risk Prevention (R), Underwriting (U)

STANDING *(L–R)*:
James J. McMonagle
David Oestreicher
Richard D. Carpenter
Lawrence H. Kaplan
Barry Fink
John F. Cogan, Jr.

SEATED *(L–R)*:
Daniel T. Steiner
Michael J. Downer
William V. Healey

STANDING *(L–R)*:
James H. Bodurtha
Maureen A. Gemma
Michael D. Strohm
Alison Taunton-Rigby
Robert F. Gunia
Heidi W. Hardin
Kenneth C. Eich

SEATED *(L–R)*:
Diana P. Herrmann
Jennifer W. Murphy
Mark E. Carver
Jeffrey R. Coleman

STANDING *(L–R)*:
Les M. Kratter
Paul S. Kulig
Ronald H. Fielding
Mark N. Polebaum

SEATED *(L–R)*:
Stefanie Chang Yu
Dawn-Marie Driscoll

NOT PICTURED:
Kevin M. Carome
David M. Pfeffer
Brian K. Reid
Paul Schott Stevens

officers and staff

OFFICERS

Daniel T. Steiner
President

Charles W. Behr
Senior Vice President
and Chief Financial Officer

John T. Mulligan
Senior Vice President
and Chief Underwriting Officer

Julia S. Ulstrup
Vice President
and General Counsel

Paul S. Kulig
Secretary-Treasurer

Rodolfo C. Sinon
Assistant Secretary

STAFF

William Akishev
Director,
Information Technology

Virginia Barry
Assistant Counsel

Meloney Burrell
Staff Accountant

Joseph Costello
Underwriter

Catherine Dalton
Underwriting Manager

Briana Davis
Lead Broker

John Driggers
Director, Data Analytics

Michael Heiser
Controller

Sarah Hunt
Associate Broker

Lizabeth Hurst
Corporate Communications

Carolyn Julia
Executive Assistant

Matthew Link
Underwriting Manager

Swenitha Nalli
Underwriter

Colin Rouse
Assistant Controller

Margaret Sullivan
Underwriting Manager

David Thomas
Associate Counsel

Krystal Thomas
Policy Coordinator

Jinhua Zhang
Director,
Corporate Reporting

selected **financial highlights**

dollar amounts in thousands	*for the years ended* 2013	2012
Gross Written Premiums	$ 87,727	$ 84,707
Net Earned Premiums	$ 28,870	$ 29,752
Net Investment Income	$ 8,118	$ 8,096
Net Loss and Loss Adjustment Expenses	$ 5,119	$ 13,464
Net Underwriting Profit	$ 11,885	$ 5,633
Dividends to Policyholders	$ 5,000	$ 4,969
Net Income	$ 12,519	$ 9,404
Total Equity	$235,845	$224,639
COMBINED RATIO		
Loss and General Expense Ratio	59%	81%
Policyholder Dividends	17%	17%
Combined Ratio including Policyholder Dividends	76%	98%

ICI Mutual Insurance Company
A Risk Retention Group

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www.icimutual.com

ICI Mutual | *the safest decision you can make*

Unequaled industry knowledge and expertise:
We help insureds identify and avoid risk at the front end. We stand behind them if problems occur.

A history of stability and financial strength:
Our coverage has been available and consistent since our inception. And by reinsuring our policies, we've deliberately and prudently spread our own risk.

The best claims payment reputation in the industry:
As our insureds who have faced trouble with commercial insurers will tell you, we're dedicated to paying appropriate claims rather than haggling over them.

Not just a partner, a *good* partner:
We were created to serve the mutual fund industry and only the mutual fund industry. We answer only to our insureds and their needs.

consolidated financial statements

2013

ICI Mutual Insurance Company

A Risk Retention Group

ICI Mutual Insurance Company, a Risk Retention Group
Index
December 31, 2013 and 2012

Independent Auditor's Report

To the Board of Directors and Members of
ICI Mutual Insurance Company, a Risk Retention Group:

We have audited the accompanying consolidated financial statements of ICI Mutual Insurance Company, a Risk Retention Group, and its subsidiaries (together, the "Company"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 the consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated 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 Company'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of ICI Mutual Insurance Company, a Risk Retention Group, and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Boston, MA
April 25, 2014

PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110
T: (617) 530 5000, F:(617) 530 5001, www.pwc.com/us

ICI Mutual Insurance Company, a Risk Retention Group
Consolidated Balance Sheets
December 31, 2013 and 2012 (in 000's)

	2013	2012
Assets		
Cash and cash equivalents	$ 19,444	$ 6,099
Investments		
Debt securities, at fair value (amortized cost of $239,679 and $230,603, respectively)	239,604	244,385
Equity securities, at fair value (cost of $28,507 and $27,734, respectively)	44,657	36,606
Money market funds	3,531	2,058
Total cash and investments	307,236	289,148
Prepaid expenses	552	477
Prepaid federal and state income taxes	-	3,611
Deferred policy acquisition costs	2,705	2,637
Premiums receivable	6,408	15,306
Interest receivable	1,939	1,978
Reinsurance recoverables	117,173	110,903
Prepaid reinsurance premiums	40,274	39,179
Other amounts receivable under reinsurance contracts	1,660	2,575
Furniture and fixtures, net	432	387
Deferred income taxes	838	235
Investment securities receivable and other assets	2,379	193
Total assets	$ 481,596	$ 466,629
Liabilities and Equity		
Reserve for losses and loss adjustment expenses	$ 171,168	$ 167,922
Unearned premiums	52,868	51,454
Reinsurance premium payable	8,096	8,600
Premium taxes payable	848	363
Federal and state income tax payable	197	-
Accounts payable and other liabilities	3,492	3,070
Benefits payable	4,078	5,465
Dividends payable	5,004	5,116
Total liabilities	245,751	241,990
Contingencies (Note 10)		
Contributed surplus	22,494	21,527
Accumulated other comprehensive income	9,883	12,163
Accumulated earnings	203,468	190,949
Total equity	235,845	224,639
Total liabilities and equity	$ 481,596	$ 466,629

The accompanying notes are an integral part of these consolidated financial statements.

ICI Mutual Insurance Company, a Risk Retention Group
Consolidated Statements of Operations
Years Ended December 31, 2013 and 2012 (in 000's)

	2013	2012
Revenues		
Net premiums written	$ 29,189	$ 28,346
Change in net unearned premiums	(319)	1,406
Net premiums earned	28,870	29,752
Net investment income	8,118	8,096
Net realized gains on securities	3,196	3,584
Other income	311	307
Total revenues	40,495	41,739
Expenses		
Net loss and loss adjustment expenses	5,119	13,464
Underwriting, general and administrative expenses	11,866	10,655
Total expenses	16,985	24,119
Income before dividends to policyholders and provision for income taxes	23,510	17,620
Dividends to policyholders	5,000	4,969
Income before provision for income taxes	18,510	12,651
Provision for income taxes	5,991	3,247
Net income	12,519	9,404
Other Comprehensive Income		
Net unrealized (losses) gains on securities:		
Net unrealized (losses) gains arising during the period, net of tax	(2,199)	6,231
Reclassification adjustment for gains realized in net income, net of tax	(2,077)	(2,330)
Net actuarial unrealized gains (losses) on employee benefit plans, net of tax	1,996	(688)
Other comprehensive (loss) income, net of tax, net of reclassification adjustments	(2,280)	3,213
Comprehensive income	$ 10,239	$ 12,617
Net realized gains (losses) on securities		
Other-than-temporary impairment losses	$ -	$ (157)
Other net realized investment gains	3,196	3,741
Net realized gains on securities	$ 3,196	$ 3,584

The accompanying notes are an integral part of these consolidated financial statements.

ICI Mutual Insurance Company, a Risk Retention Group
Consolidated Statements of Changes in Equity
Years Ended December 31, 2013 and 2012 (in 000's)

	Contributed Surplus	Accumulated Other Comprehensive Income	Accumulated Earnings	Total Equity
Balance at December 31, 2011	$ 21,621	$ 8,950	$ 181,545	$ 212,116
Net income	-	-	9,404	9,404
Other comprehensive income, net of tax, net of reclassification adjustments	-	3,213	-	3,213
Distributions of contributed surplus	(94)	-	-	(94)
Balance at December 31, 2012	$ 21,527	$ 12,163	$ 190,949	$ 224,639
Net income	-	-	12,519	12,519
Other comprehensive loss, net of tax, net of reclassification adjustments	-	(2,280)	-	(2,280)
Contributions of contributed surplus	967	-	-	967
Balance at December 31, 2013	$ 22,494	$ 9,883	$ 203,468	$ 235,845

The accompanying notes are an integral part of these consolidated financial statements.

ICI Mutual Insurance Company, a Risk Retention Group
Consolidated Statements of Cash Flows
Years Ended December 31, 2013 and 2012 (in 000's)

	2013	2012
Cash Flows from Operating Activities		
Net income	$ 12,519	$ 9,404
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of premium	1,496	1,324
Deferred income taxes	625	1,278
Depreciation and amortization of furniture and fixtures	176	183
Net realized gains on sale of securities	(3,196)	(3,584)
Investment securities and other receivables	8	485
Benefits payable	(511)	513
Changes in operating assets and liabilities		
Prepaid expenses	(75)	20
Prepaid federal and state income taxes	3,611	(1,098)
Deferred policy acquisition costs	(68)	(74)
Premiums receivable	8,898	(6,551)
Interest receivable	39	(56)
Reinsurance recoverables	(6,270)	16,924
Prepaid reinsurance premiums	(1,095)	135
Other amounts receivable under reinsurance contracts	916	(1,185)
Reserve for losses and loss adjustment expenses	3,246	(17,013)
Unearned premiums	1,414	(1,542)
Reinsurance premium payable	(504)	(705)
Premium taxes payable	485	(161)
Federal and state income taxes payable	197	-
Accounts payable and other liabilities	422	96
Dividends payable	(112)	(483)
Net cash provided by (used in) operating activities	22,221	(2,090)
Cash Flows from Investing Activities		
Proceeds from sales of investments available for sale	51,089	68,477
Proceeds from maturities of investments available for sale	5,610	6,024
Purchases of furniture and fixtures	(221)	(113)
Payments for purchases of investments available for sale	(64,848)	(97,690)
Change in money market funds	(1,473)	1,057
Net cash used in investing activities	(9,843)	(22,245)
Cash Flows from Financing Activities		
Contributions (distributions) of contributed surplus	967	(94)
Net cash provided by (used in) financing activities	967	(94)
Net increase (decrease) in cash and cash equivalents	13,345	(24,429)
Cash and cash equivalents at beginning of year	6,099	30,528
Cash and cash equivalents at end of year	$ 19,444	$ 6,099

The accompanying notes are an integral part of these consolidated financial statements.

1. Significant Accounting Policies

A. Basis of Presentation

ICI Mutual Insurance Company ("Mutual") was incorporated on August 26, 1987 as an association captive insurance company domiciled in the State of Vermont and commenced accepting insurance risks on March 1, 1988. Mutual, together with its wholly owned subsidiaries described below, are collectively referred to as "the Company." The Company primarily writes fidelity bonds, Financial Industry Regulatory Authority ("FINRA") bonds, and directors and officers and errors and omissions insurance for Members and Associate Members of the Investment Company Institute ("ICI") and their affiliated companies on a claims-made basis. These Members primarily provide services to the regulated investment company industry.

On December 15, 2008, the Participating Members of Mutual voted to convert Mutual, effective January 1, 2009, from a Vermont association captive insurance company to a Vermont risk retention group ("RRG"), under the Federal Liability Risk Retention Act subject to the approval of the Vermont Department of Banking, Insurance, Securities and Healthcare Administration ("BISHCA"), now the Vermont Department of Financial Regulation ("VDFR"). Mutual received the approval of BISHCA and the change became effective on January 1, 2009. Among other things, the Act preempts certain state registration requirements and allows Mutual to solicit business and service clients in those states where it applies for admission as an RRG. The conversion to an RRG has not had a material impact on Mutual's operations or financial condition.

In 1990, ICI Mutual Insurance Brokers, Inc. ("Brokers") was formed as a wholly-owned subsidiary of Mutual. Brokers was formed to provide insurance brokerage services to Members of the ICI.

In 1992, ICIM Services, Inc. ("Services") was formed as a wholly-owned subsidiary of Mutual. Services provides the underwriting function for Mutual under a written agreement. This agreement provides that Mutual will reimburse Services for all reasonable expenses associated with performing the underwriting function plus a 5% fee.

The Consolidated Financial Statements include the consolidated accounts of Mutual, Brokers, and Services, with all significant intercompany amounts eliminated in consolidation. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which are also in accordance with practices prescribed for risk retention groups by VDFR.

GAAP requires management to make certain estimates and assumptions in the preparation of the financial statements. Therefore, actual results could differ from those estimates and assumptions.

B. Investments

The Company's debt and equity securities are classified as available-for-sale and reported at fair value as defined in Note 3. Short-term securities and money market funds are stated at amortized cost which approximates fair value.

For securities where the fair value is less than the amortized cost basis, the Company must determine whether or not an other-than-temporary impairment has occurred. See Note 2 for a detailed explanation of the procedures utilized by the Company in calculating other-than-temporary impairment losses.

The Company may utilize, to a limited extent, derivatives such as U.S. Government Treasury Note and Euro dollar futures and options to hedge certain risks within the portfolio of debt securities that are considered to be held for other than trading purposes. The return received or paid on these contracts varies in relationship to the movement in the U.S. Government Treasury Bond and Note markets. When utilized, such instruments are characterized for financial statement purposes as available-for-sale. Outstanding futures and options positions are adjusted to market and settled daily. The Company recognizes the daily mark-to-market for futures and options as a component of net realized gains (losses) on securities. Fair value of derivatives is based on a quoted market price. The Company recognizes any unrealized gains (losses) on open forward contracts as realized gains (losses) in the Consolidated Statement of Operations. The Company did not utilize any derivatives in its portfolio during 2013 or 2012.

All debt investment transactions have credit exposure to the extent that a counterparty may default on an obligation to the Company. Credit risk is a consequence of carrying trading and investing positions. To manage credit risk, the Company focuses on higher quality fixed income securities, limits its exposure in any one investment, and monitors the portfolio quality, taking into account credit ratings assigned by recognized statistical rating organizations.

Interest income on debt securities is recorded on the accrual basis. Dividend income on equity securities is recorded on the ex-dividend date. Unrealized gains and losses from changes in the fair value of the Company's holdings, net of applicable federal income taxes, are reported as a separate component of equity. Realized gains and losses on the sale of the Company's securities are determined based on specific identification and are included as a separate component of operations.

C. Premiums

Net earned premiums have been computed on a semimonthly pro rata basis over the term of the underlying insurance policies. Ceded reinsurance premiums are charged against premiums earned on the same basis. Unearned premiums represent the portion of the gross premium written which is applicable to the unexpired terms of policies in force. Prepaid reinsurance premiums represent the

portion of unearned premiums ceded to reinsurers. Commissions on reinsurance premiums ceded are considered earned when due and are reflected as a reduction to ceded reinsurance premiums.

D. Deferred Policy Acquisition Costs

Acquisition costs consist primarily of underwriter compensation, fees and premium taxes associated with the successful acquisition and underwriting of new and renewal insurance business. As further explained in Note 1J below, on January 1, 2012, the Company adopted ASU 2010-26, which clarified acquisition costs to be capitalized. These acquisition costs are being amortized over the expected policy period of related policies in proportion to the ratio of the annual earned premiums to the total premium revenue anticipated. Anticipated premium revenue was estimated using the same assumptions as those used for computing the reserve for losses and loss adjustment expenses. Expected losses, related expenses, and investment income are considered in measuring the recoverability of this asset.

E. Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses is based on management's individual case estimates of the ultimate cost of reported losses and estimates for incurred but not reported losses ("IBNR") determined in consultation with independent professional actuaries. The method of making IBNR estimates and for establishing the resulting reserves is based on actuarial assumptions as to future contingencies and as to the applicability of other data sources which the Company's independent actuaries deem to be reasonable and appropriate in the circumstances. However, given the nature of the Company's business, the ultimate amount of losses and loss adjustment expenses may vary significantly from the estimated amounts. Due to this uncertainty, the appropriateness of the current level of such estimated liability can only be determined with the passage of time. Any adjustments to these estimates, which could be significant, will be reflected in income in the period in which the estimates are changed or payments are made.

F. Provision for Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification (ASC) 740, "Accounting for Income taxes". The codification requires that 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 bases. 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. Valuation allowances are established when necessary to reduce deferred tax assets to an amount that, in the opinion of management, is more likely than not to be realized. No valuation allowance was deemed necessary at December 31, 2013 and 2012.

The guidance on accounting for uncertainty in income taxes describes how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. This guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's financial statements to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the current year. If applicable, interest and penalties are classified as other interest expense and are included in underwriting, general and administrative expenses in the Consolidated Statement of Operations. There were no interest or penalties incurred in 2013 or 2012.

G. Reinsurance

The Company utilizes both treaty and facultative reinsurance to provide protection for claims in excess of the Company's normal retention limits ($3 million). Under the Company's annual treaty reinsurance program (which runs from April 1 to March 31), limits up to $15 million, less the Company's normal retention, are automatically assumed by the treaty participants. For the treaty years ending March 31, 2012, 2013 and 2014, the Company retains an additional $2.5 million in excess of the first $15 million recoverable. Maximum recoveries under the reinsurance treaties are capped at $100 million for the treaty years ending March 31, 2005 (" '04 Treaty") and subsequent years, and at $120 million for the treaty years ending March 31, 2004 (" '03 Treaty"), and March 31, 2003 (" '02 Treaty"). A sub limit of $91 million is further imposed on the $7 million excess of $3 million layer for the '03 Treaty and the '02 Treaty.

A treaty year remains open until all noticed claims are paid or otherwise closed. As of December 31, 2013, ceded losses under all of the open treaty years were well below the respective treaty caps. Future adverse development on any of the treaty years could result in the respective caps for such treaty years being exceeded and such excess amounts, if any, would have to be paid out of the Company's earnings and surplus. While management believes that the Company is adequately capitalized to meet its ongoing claims obligations, there can be no assurance that in the event a cap on a reinsurance treaty is exceeded, the Company's resources would be sufficient to meet all of its claims liabilities.

For those insureds that require limits in excess of $15 million on Fidelity Bonds, the Company issues additional limits of up to $5 million. For limits above $20 million on Fidelity Bonds or $15 million on D&O/E&O Policies, the Company purchases facultative (case by case) reinsurance from various other reinsurers. There is no cap on facultative reinsurance except for the actual limits reinsured. In addition, from time to time, the Company may elect to retain up to $5 million in additional limits in the excess layers.

Although reinsurance agreements contractually obligate the Company's reinsurers to reimburse it for their proportionate shares of losses, they do not discharge the primary responsibility of the

Company. Thus, in the event a reinsurer did not meet its obligation under its agreement with the Company, the Company would be responsible for such amount.

The Company monitors the credit worthiness of its reinsurers and only conducts business with reinsurers that are highly rated by reputable rating agencies. As of December 31, 2013, the Company had no reason to believe that any amounts currently due from reinsurers will prove uncollectible. Accordingly, the Company has not made a separate provision for any amounts that might ultimately prove to be uncollectible from reinsurers in the future.

The '04 and '05 Treaties contain a profit-sharing feature by which the Company may recover up to 20% of the profits recognized by reinsurers on those Treaties after they have recovered any losses they may have incurred on prior treaties with the Company. The amount of the profit commission can be adjusted up or down depending on the results of the underlying treaties until such time as all of the claims for those particular treaty years are closed. The Company did not recognize any profit commission as a result of these features in 2013 or 2012.

H. Cash and Cash Equivalents

The Company considers all cash on hand and deposits in banks as cash and cash equivalents for purposes of the Consolidated Statement of Cash Flows.

I. Furniture and Fixtures

Furniture and fixtures are stated at cost net of accumulated depreciation. The costs of additions and improvements, including leasehold improvements, are capitalized while expenditures for maintenance, repairs, and minor renewals are charged to expense as incurred. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income. Depreciation of leasehold improvements is offset by the amortization of a rent incentive allowance. Provisions for depreciation are computed using the straight-line method based on useful lives ranging from three to twelve years. Depreciation expense was $148 and $158 for 2013 and 2012, respectively. Accumulated depreciation totaled $1,160 and $1,012 at December 31, 2013 and 2012, respectively.

J. Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In October, 2010, the FASB issued ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, which amended FASB ASC Topic 944, Financial Services—Insurance. ASU 2010-26 clarifies the definition of acquisition costs that are eligible for deferral. Acquisition costs are to include only those costs that are directly related to the successful acquisition or renewal of insurance contracts; incremental direct costs of contract acquisition that are incurred

in transactions with either independent first parties or employees; and advertising costs meeting the capitalization criteria for direct-response advertising. The determination of deferability must be made on a contract-level basis.

This guidance is effective for fiscal years beginning after December 15, 2011. This guidance may be applied prospectively upon the date of adoption, with retrospective application permitted, but not required. The Company adopted this guidance retrospectively on January 1, 2012, resulting in a write down of the Company's deferred acquisition costs of $1.6 million, as of the date of adoption, relating to those costs which no longer meet the revised guidance as summarized above.

K. Reclassifications

Certain amounts in prior years' Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2013 presentation.

L. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Company has evaluated all such events occurring subsequent to the balance sheet date herein of December 31, 2013 and through the date the financial statements were available to be issued of April 25, 2014. The effects of all subsequent events that provided additional evidence about conditions that existed at the date of the balance sheet, including estimates, if any, have been recognized in the accompanying Consolidated Balance Sheet and Consolidated Statements of Operations as of and for the twelve month period ended December 31, 2013. The Company did not recognize subsequent events that provided evidence about conditions that arose after the balance sheet date.

2. Investments

A summary comparison of amortized cost and fair value of debt securities is as follows:

	December 31, 2013			
Debt securities available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government, agencies and authorities securities	$ 30,355	$ 203	$ (1,746)	$ 28,812
Mortgage-backed	63,167	1,677	(825)	64,019
All other corporate bonds	146,157	4,411	(3,795)	146,773
Total debt securities	$ 239,679	$ 6,291	$ (6,366)	$ 239,604

	December 31, 2012			
Debt securities available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government, agencies and authorities securities	$ 44,002	$ 1,637	$ (109)	$ 45,530
Mortgage-backed	65,723	3,560	(39)	69,244
All other corporate bonds	120,878	9,244	(511)	129,611
Total debt securities	$ 230,603	$ 14,441	$ (659)	$ 244,385

Included in the above fair value amounts at December 31, 2013 and 2012 is approximately $35,254 and $47,249, respectively, invested in securities such as U.S. Treasury strips, collateralized mortgage obligations, and other corporate asset-backed securities.

The amortized cost and fair value of debt securities at December 31, 2013, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 3,753	$ 3,869
Due after one year through five years	33,633	35,881
Due after five years through ten years	89,082	86,888
Due after ten years	113,211	112,966
Total debt securities	$ 239,679	$ 239,604

A summary comparison of cost and fair value of equity securities is as follows:

	December 31, 2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$ 28,507	$ 16,150	$ -	$ 44,657

	December 31, 2012			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$ 27,734	$ 8,872	$ -	$ 36,606

At December 31, 2013 and 2012, the gross unrealized gains on investments in debt and equity securities of $16,075 and $22,654, respectively, have been reflected in the Consolidated Balance Sheets as a component of accumulated other comprehensive income, net of deferred taxes of $5,626 and $7,929, respectively.

There are three key investment risks that can impact an investment portfolio: Liquidity Risk, Credit Risk and Market Risk.

1. **Liquidity Risk**: Market conditions create a situation where liquid assets become illiquid. To offset this risk, the Company maintains significant cash balances and holdings in U.S. Treasury securities.

2. **Credit Risk**: An issuer (or counterparty) is unable to pay their claim and defaults. To offset this risk, the Company maintains a well-diversified portfolio containing high quality fixed income securities; 99% of these securities are rated investment grade (BBB- or higher). The portfolio is also closely monitored for downgrades on corporate bonds and cash flows on structured securities.

3. **Market Risk:** Falling market value due to changing risks in a sector or interest rate risks. The Company also maintains diversity with no more than 25% allocation to any one fixed income sector.

Unrealized loss position securities:

	December 31, 2013				
Debt securities available for sale	Fair Value	Gross Unrealized Losses < 12 months	Gross Unrealized Losses > 12 months	Total Gross Unrealized Losses	Numbers of Investment Positions
U.S. Government, agencies and authorities securities	$ 21,426	$ (638)	$ (1,108)	$ (1,746)	11
Mortgage-backed	28,138	(703)	(122)	(825)	30
All other corporate bonds	76,205	(2,906)	(889)	(3,795)	122
Total securities	$ 125,769	$ (4,247)	$ (2,119)	$ (6,366)	163

	December 31, 2012				
Debt securities available for sale	Fair Value	Gross Unrealized Losses < 12 months	Gross Unrealized Losses > 12 months	Total Gross Unrealized Losses	Numbers of Investment Positions
U.S. Government, agencies and authorities securities	$ 12,672	$ (109)	$ -	$ (109)	5
Mortgage-backed	4,011	(8)	(31)	(39)	6
All other corporate bonds	12,762	(94)	(417)	(511)	17
Total securities	$ 29,445	$ (211)	$ (448)	$ (659)	28

The Company does not have the intent to sell nor is it more likely than not that the Company will be required to sell debt securities in unrealized loss positions that are not other-than-temporarily impaired before recovery.

Other-Than-Temporary Impairment Evaluations

The Company reviews its investment securities regularly and determines whether other-than-temporary impairments have occurred. For fixed maturities, if a decline in fair value is judged by management to be other-than-temporary, and the Company does not intend to sell the security and it is not more likely than not that it will be required to sell the security prior to recovery of the security's amortized cost, the impairment is bifurcated into (a) the amount of the total impairment related to the credit loss, and (b) the amount of the total impairment related to interest and all other factors. The amount of the other-than-temporary impairment related to the credit loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statements of Operations, establishing a new cost basis for the security. The amount of the other-than-temporary impairment related to all other factors is recognized in other comprehensive income in the Statement of Operations. The factors considered by management in its regular review include, but are not limited to: the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; subordinated credit support; whether the issuer of a debt security has remained current on principal and interest payments; current expected cash flows; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions (including, in the case of fixed maturities, the effect of changes in market interest rates); and the Company's intent to sell, or be required to sell, the debt security before the anticipated recovery of its remaining amortized cost basis.

In assessing corporate debt securities for other-than-temporary impairment, the Company evaluates the ability of the issuer to meet its debt obligations and the value of the company or specific collateral securing the debt position. When evaluating whether a mortgage-backed security is other-than-temporarily impaired, the Company examines characteristics of the underlying collateral, such as delinquency and default rates, the quality of the underlying borrower, the type of collateral in the pool, the vintage year of the collateral, subordination levels within the structure of the collateral pool, the Company's intent to sell the security and whether it more likely than not will be required to sell the security before the recovery of its amortized cost basis. For all debt securities evaluated for other-than-temporary impairment (for which the Company does not have the intent to sell and it is not more likely than not that it will be required to sell the security before the recovery of its amortized cost basis), the Company considers the timing and amount of the cash flows.

The Company evaluates its mortgage-backed securities for other-than-temporary impairment using multiple inputs. Loan level defaults are estimated using appropriate modeling techniques. All bonds are modeled individually and each bond is assigned a custom default assumption based on projections for the mortgage pool, historical underlying collateral performance, and borrower characteristics.

Basic inputs to the model include data on:

- voluntary prepayments,
- defaults and,
- expected severity of losses in a liquidation scenario, taking into account loan size, geographic concentration, and loan to value percentages.

Additional variables are applied to each mortgage pool specific to structural elements such as triggers and financial guarantees to the extent that they exist. The cash flows generated by the collateral securing these securities are then determined with these default, loss severity and prepayment assumptions. These collateral cash flows are then utilized, along with consideration for the issuer's position in the overall structure, to determine the cash flows associated with the mortgage-backed security held by the Company.

To the extent that the present value of the cash flows generated by a debt security is less than the amortized cost, a credit loss exists, and an other-than-temporary impairment is recognized through earnings. It is reasonably possible that further declines in estimated fair values of such investments, or changes in assumptions or estimates of anticipated recoveries and/or cash flows, may cause further other-than-temporary impairments in the near term, which could be significant.

In addition, the Company evaluates other asset-backed securities for other-than-temporary impairment by examining similar characteristics referenced above for mortgage-backed securities. The Company evaluates U.S. Treasury securities and obligations of U.S. Government corporations, U.S. Government agencies, and obligations of states and political subdivisions for other-than-temporary impairment by examining similar characteristics referenced above for corporate debt securities.

Equity securities may experience other-than-temporary impairment based on the prospects for full recovery in value in a reasonable period of time and the Company's ability and intent to hold the security to recovery. If a decline in fair value is judged by management to be other-than-temporary, a loss is recognized by a charge to total other-than-temporary impairment losses in the consolidated statements of operations. For the purpose of other-than-temporary impairment evaluations, preferred stocks are treated in a manner similar to debt securities.

Other-than-temporary impairments included in net realized losses on securities in the consolidated statements of operations were $0 and $157 in 2013 and 2012, respectively.

Further deterioration in credit quality of the companies backing the securities, deterioration in the condition of the financial services industry, imbalance in liquidity in the marketplace, a worsening of the current economic environment, or additional declines in real estate values could affect the fair value of these securities and increase the potential that certain unrealized losses be designated as other-than-temporary in future periods and the Company may incur additional write-downs.

Proceeds from sales of debt securities and the associated gross realized gains and gross realized losses are as follows:

	Proceeds from Sales	Gross Realized Gains	Gross Realized Losses
For the year ended December 31, 2013	$ 45,214	$ 1,283	$ (421)
For the year ended December 31, 2012	$ 68,477	$ 3,892	$ (308)

Proceeds from sales of equity securities and the associated gross realized gains and gross realized losses are as follows:

	Proceeds from Sales	Gross Realized Gains	Gross Realized Losses
For the year ended December 31, 2013	$ 5,875	$ 2,334	$ -
For the year ended December 31, 2012	$ -	$ -	$ -

Net investment income is calculated as follows:

	2013		
Debt securities available for sale	Gross Investment Income	Investment Expenses	Net Investment Income
U.S. Government, agencies and authorities securities	$ 675	$ (36)	$ 639
Mortgage-backed	2,200	(118)	2,082
All other corporate bonds	4,773	(257)	4,516
Equity securities	931	(50)	881
Total	$ 8,579	$ (461)	$ 8,118

	2012		
Debt securities available for sale	Gross Investment Income	Investment Expenses	Net Investment Income
U.S. Government, agencies and authorities securities	$ 909	$ (47)	$ 862
Mortgage-backed	2,130	(110)	2,020
All other corporate bonds	4,712	(243)	4,469
Equity securities	785	(40)	745
Total	$ 8,536	$ (440)	$ 8,096

3. Fair Value

The valuation techniques required by the authoritative accounting guidance on fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market expectations. These two types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 - Instruments where significant value drivers are unobservable.

When available, the Company utilizes quoted market prices to determine fair value and classify such items in Level 1. In some cases, quoted market prices are used for similar instruments in active markets and/or model-derived valuations where inputs are observable in active markets and classify such items in Level 2. When there are limited or inactive trading markets, the Company utilizes industry–standard pricing methodologies, including discounted cash flow models, whose inputs are based on management assumptions and available current market information. These items are classified in Level 3. Further, the Company relies upon independent pricing vendors to assist in valuing certain instruments.

The following section describes the valuation methodologies used by management to measure different financial instruments at fair value.

Investments in fixed maturities and equity securities:

Pricing Level 1: Values are unadjusted quoted prices for identical securities in active markets accessible at the measurement date. Holdings consist of government securities and exchange traded mutual funds.

Pricing Level 2: Valuation is based on quoted prices for similar securities in active markets, quoted prices from those willing to trade in markets that are not active, or other observable inputs. This would include any bonds priced by FT Interactive Data ("IDC") and PricingDirect.

Pricing Level 3: Valuation is derived from unobservable inputs using techniques such as broker quotes, pricing matrices and internal calculations. The Company did not hold any Level 3 securities as December 31, 2013.

Priority of market value methodology:

1. Price from an independent pricing service, such as IDC
2. Market price from a broker-dealer
3. Matrix pricing

All of the prices are monitored month-over-month to highlight any significant price change. Any security with a significant price change is verified using a secondary pricing source and/or verification from a broker-dealer.

The following is a summary of the inputs used in valuing the Company's assets at fair value:

	December 31, 2013	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment in debt securities	$ 239,604	$ 23,529	$ 216,075	$ -
Investment in equity securities	44,657	44,657	-	-
Total	$ 284,261	$ 68,186	$ 216,075	$ -

	December 31, 2012	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment in debt securities	$ 244,385	$ 39,036	$ 205,349	$ -
Investment in equity securities	36,606	36,606	-	-
Total	$ 280,991	$ 75,642	$ 205,349	$ -

It is the Company's policy to recognize transfers of assets between levels of the fair value hierarchy at the end of a reporting period. For the twelve months ending December 31, 2013, there were no transfers of assets between Level 1 and Level 2 of the fair value hierarchy. No securities were transferred out of Level 2 and into the Level 3 category as a result of limited or inactive markets during 2013. The Company does not transfer out of Level 3 and into Level 2 until such time as observable inputs become available and reliable or the range of available independent prices narrow.

There were no changes in the carrying value of Level 3 assets for the twelve months ended December 31, 2013.

The changes in the carrying value of Level 3 assets for the twelve months ended December 31, 2012 are summarized as follows:

	Balance at 1/1/2012	Total Gains and Losses included in Net Income	Unrealized in Other Comprehensive Income	Purchases, issuances, sales and settlements	Transfer in and/or out of Level 3	Balance at 12/31/2012
ABS	$ 85	$ -	$ -	$ -	$ (85)	$ -
CMO	107	-	-	-	(107)	-
RMBS	-	-	-	-	-	-
CMBS	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Preferred stocks	-	-	-	-	-	-
	$ 192	$ -	$ -	$ -	$ (192)	$ -

4. Deferred Policy Acquisition Costs

The deferred policy acquisition costs at December 31, 2013 and 2012 are comprised of the following:

	2013	2012
Beginning balance	$ 2,637	$ 2,563
Additional costs capitalized		
Underwriting expenses	1,425	1,376
Royalty fees (Note 7)	877	847
Premium taxes	2,254	2,118
	4,556	4,341
Less current year amortization		
Underwriting expenses	1,443	1,249
Royalty expense (Note 7)	863	862
Premium taxes	2,182	2,156
	4,488	4,267
Ending balance	$ 2,705	$ 2,637

5. Contributed Surplus (Mutual only)

Mutual has two classes of Members: Participating and Non-Participating. Participating Members are required to make a capital contribution ("reserve premium") equal to 100% of initial annual premium (125% was required between July 31, 1987 and December 31, 2012). During 2013 and 2012, Mutual received $967 and $0 in additional reserve premium from Participating Members as of December 31, 2013 and 2012, respectively.

The reserve premium with respect to a policy is required to be repaid to the Participating Member within 60 days if Mutual terminates or fails to renew the policy; in all other cases, the reserve premium generally is not required to be repaid for five years after the insured cancels, terminates, or fails to renew the policy. At December 31, 2013 and 2012, $3,251 and $3,250, respectively, related to reserve premiums for all such terminated policies and were included in contributed surplus.

Non-Participating Members are not required to contribute capital. Participating Members receive dividends, share in the Company's net worth, and receive a higher proportion of votes on corporate governance matters than Non-Participating Members. Of the premiums written, 26.9% and 32.1% were attributable to Non-Participating Members during the years ended December 31, 2013 and 2012, respectively.

6. Provision for Income Taxes

The provision for income taxes consists of the following:

	2013	2012
Current provision	$ 5,366	$ 1,969
Deferred provision	625	1,278
Provision for income taxes	$ 5,991	$ 3,247

Set forth below is a reconciliation of the expected and actual income tax provision:

	2013	2012
Expected tax provision at 35%	$ 6,479	$ 4,428
Tax exempt income from municipal bonds	(198)	(309)
State income taxes, net of federal benefit	1	34
Dividend received deduction	(194)	(164)
Reconciling tax adjustment	-	(592)
Provision to return adjustments	(58)	(183)
Other	(39)	33
Actual provision for income taxes	$ 5,991	$ 3,247

During 2012, the Company identified the need to record a reconciling tax adjustment that was primarily related to accounting differences between book and tax that had accumulated over prior periods. The reconciling adjustment recorded in the 2012 financial statements resulted in a $592 reduction in the provision for income taxes in that year.

The Company files a consolidated federal income tax return. Income tax provisions are allocated to the Company's wholly-owned subsidiaries as if they had been calculated on a separate company basis. State income taxes are paid by Mutual, Brokers and Services on a separate company basis. Net payments for federal income taxes were $1,500 and $3,000 in 2013 and 2012, respectively.

The deferred income tax amounts reflected in the consolidated balance sheets at December 31, 2013 and 2012 are comprised of the following items:

	2013	2012
Net unearned premiums	$ 936	$ 878
Discounting of loss reserves	1,450	1,719
Post-retirement employee benefits	1,427	2,692
Other than temporarily impaired securities	1,389	1,459
Nondeductible portion of policyholder dividend	1,751	1,790
Nondeductible capital loss carry forward	-	165
Other	573	510
Gross deferred tax assets	7,526	9,213
Deferred policy acquisition costs	(947)	(923)
Net unrealized gains on investments	(5,627)	(7,929)
Bond discount accretion	(114)	(126)
Gross deferred tax liabilities	(6,688)	(8,978)
Valuation allowance	-	-
Net deferred tax assets	$ 838	$ 235

The Company believes that as of December 31, 2013, there were no material uncertain tax positions that would require disclosure under GAAP. As of December 31, 2013, the Company's 2012, 2011, and 2010 tax years were open under current Internal Revenue Service regulations and as such, potentially subject to examination.

7. Related Party Transactions

Mutual is party to a royalty agreement and a services and facilities agreement with the ICI. Under the royalty agreement, Mutual is required to pay 1% of gross annual premium as a royalty fee to the ICI, limited to a total maximum of $1,000 in any calendar year. Royalty fees paid for 2013 and 2012 were $885 and $853, respectively.

The services and facilities agreement requires the Company to reimburse the ICI for actual direct and indirect expenses incurred on behalf of the Company. Service and facility fees amounted to approximately $796 and $765 for 2013 and 2012, respectively.

Amounts payable at December 31, 2013 and 2012 under these agreements were approximately $216 and $178, respectively.

8. Reinsurance Agreements

The Company utilizes reinsurance agreements to provide protection for claims in excess of the Company's normal retention limits. In addition, the Company may utilize reinsurance agreements to provide increased limits of liability on a case-by-case basis.

The Company reports ceded reinsurance balances on a gross basis. Accordingly, the following balance sheet accounts are grossed up by the amounts noted below:

	2013	2012
Reserve for losses and loss adjustment expenses	$ 115,627	$ 110,038
Unearned premiums	$ 40,274	$ 39,179

At December 31, 2013 and 2012, reinsurance recoverable was most concentrated with two third party reinsurance groups, Travelers Insurance Companies (approximately 20% and 16%, respectively) and Lloyds of London (approximately 14% and 14%, respectively).

Insurance risks ceded to reinsurance companies would become a liability in the event the reinsurers are unable to meet their obligations assumed under reinsurance contracts.

Premiums and losses in 2013 and 2012 have been adjusted as follows as a result of voluntary reinsurance:

	2013		2012	
Premiums	**Written**	**Earned**	**Written**	**Earned**
Direct and assumed	$ 87,727	$ 86,314	$ 84,707	$ 86,249
Ceded	(58,538)	(57,444)	(56,361)	(56,497)
Net	$ 29,189	$ 28,870	$ 28,346	$ 29,752

Losses and loss adjustment expenses	**2013**	**2012**
Direct	$ 19,521	$ 23,765
Ceded	(14,402)	(10,301)
Net	$ 5,119	$ 13,464

9. Reserve for Losses and Loss Adjustment Expenses

The following table sets forth a reconciliation of beginning and ending reserve for losses and loss adjustment expenses, as shown, in the Company's consolidated financial statements for the periods indicated:

	2013	2012
Balance at January 1	$ 167,922	$ 184,935
Less reinsurance recoverable, unpaid losses	(110,038)	(126,562)
Net balance at January 1	57,884	58,373
Incurred related to		
Current year	17,308	23,681
Prior years	(12,189)	(10,217)
Total incurred	5,119	13,464
Paid related to		
Current year	120	2,015
Prior years	7,342	11,938
Total paid	7,462	13,953
Net balance at December 31	55,541	57,884
Plus reinsurance recoverable, unpaid losses	115,627	110,038
Balance at December 31	$ 171,168	$ 167,922

As a result of changes in estimates of incurred losses related to insured events of prior years, the reserve for losses and loss adjustment expenses decreased $12,189 and $10,217, in 2013 and 2012, respectively.

10. Contingencies

In the normal course of its business activities, the Company may be subject to various asserted and unasserted claims and lawsuits covering a wide range of matters. The Company is not aware of any events that would give rise to a claim at December 31, 2013.

11. Policyholders' Dividend

In determining the level of dividend to declare the Board of Directors ("Board") reviews the financial results of the Company as well as the anticipated capital levels needed to fund the Company's future operations and to maintain the Company's sound financial condition. After a review of all these factors, the Board declared a dividend of $5.0 million in both 2013 and 2012. $5.0 million of the total dividends declared in 2012 have been paid as of December 31, 2013.

The 2013 dividend will be allocated to Participating Members based equally on each Participating Member's share of the Company's net worth determined at December 31, 2013, before payment of the dividend, and the proportion of 2013 gross earned premium of the Company attributable to each Participating Member. In accordance with the by-laws of the Company, dividends will only be paid to those eligible Participating Members that renew a participating policy in the year after the dividend declaration. Dividends on renewed policies will be paid on or around the policy renewal date or May 15, 2014, whichever is later.

As per Title 8, Chapter 141, Section 6005 of the Vermont Statutes, the Company sought and received the approval of the Commissioner of the Department prior to the payment of these dividends.

12. Employee Benefit Plans

A. Retirement Plans

The Company has three retirement plans for its employees: a noncontributory defined benefit plan, a 401(k) defined contribution plan, and a supplemental employee retirement plan.

The noncontributory defined benefit plan ("the Plan") covers substantially all regular full-time employees. The Company uses a December 31st measurement date for the Plan. Plan assets consist of equity and balanced mutual funds.

The Plan uses the Projected Unit Credit Method as the actuarial cost method and the following weighted-average assumptions to determine the benefit obligation and net periodic pension cost for the years ended December 31, 2013 and 2012:

	2013	2012
Discount rate for benefit obligation	5.38%	4.42%
Discount rate for pension cost	4.42%	5.23%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	4.00%	4.00%

Plan amounts recognized in the Consolidated Balance Sheet consist of:

	2013	2012
Assets	$ 2,379	$ 193

Plan amounts recognized in accumulated other comprehensive income, net of tax, consist of:

	2013	2012
Net loss	$ 110	$ 1,537

Other components of the Plan for the years ended December 31, 2013 and 2012, were as follows:

	2013	2012
Projected benefit obligation	$ 7,332	$ 8,622
Fair value of plan assets	9,711	8,815
Funded status of the plan	$ 2,379	$ 193
Employer contributions	$ 583	$ 856
Lump sum payments	$ 1,100	$ -
Benefits paid	$ 31	$ 31

The Plan's accumulated benefit obligation is $5,234 as of December 31, 2013 and was $6,358 as of December 31, 2012. Pension expense for the Plan equaled $591 and $465 for the years ended December 31, 2013 and 2012, respectively, and is included in "Underwriting, general and administrative expenses" in the Consolidated Statements of Operations.

The Company determines the long-term expected rate of return on Plan assets by examining historical returns and the Plan's asset allocation. Factors such as inflation and current interest rates are also evaluated. The result is reviewed against benchmarking data to ensure that the return is a reasonable and appropriate assumption.

The Plan's asset allocation at December 31, by asset category, is as follows:

	2013	2012
Asset Category:		
Equities	60%	60%
Fixed income securities	40%	40%
Total	100%	100%

The Company's expected long-term rate of return and projected asset allocation are as follows:

	Expected Rate of Return	Guideline Asset Allocation	Expected Net Rate of Return
Asset Category:			
Equities	8%	60%	5%
Fixed income securities	5%	40%	2%
Total		100%	7%

	Guideline Allocation	Permissible Range
Asset Category:		
Equities	60%	+ – 1%
Fixed income securities	40%	+ – 1%

The Plan's assets will be invested in a prudent manner for the exclusive purpose of providing benefits to Plan participants. The Company's objective is to maximize the return on assets, over the long term, by investing a majority of assets in equities. The inclusion of additional asset classes with differing rates of return, volatility, and correlation are utilized to reduce the risk by providing diversification relative to equities. The Company's investment policy states that equities will comprise 60% of assets, and fixed income securities 40% of assets. The actual allocation will be compared to the target allocation monthly and if any fund allocation is more than one percentage point different than the target, funds will be bought or sold to bring the allocation to the target.

The Company made contributions of $583 and $856 to the Plan for the years ended December 31, 2013 and 2012, respectively, which were in excess of the minimum required ERISA contributions. The Company's funding policy is to contribute up to the maximum tax deductible amount and to fund at an amount equal to, or greater than 150% of the Plan's accumulated benefit obligation.

The estimated net loss and prior service cost for the Plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $0 and $37, respectively.

Benefit payments expected to be paid from the Plan over the next five years and accumulated over the five years thereafter are as follows as of December 31:

Year	Benefits
2014	$ 122
2015	$ 109
2016	$ 112
2017	$ 1,465
2018	$ 114
2019-2023	$ 2,164

The 401(k) defined contribution plan covers substantially all employees. Effective January 1, 2007, the Company contributes amounts to the plan sufficient to credit each participant's account with an amount equal to 3% of the participant's eligible compensation, subject to IRS limitations, during the plan year. In addition, the Company matches 100% of the first 1% and 50% of the next 1% of employee voluntary contributions of the participant's eligible compensation. Participants are not required to contribute to the plan. Participants may voluntarily contribute up to 50% of eligible compensation paid to the participant during the plan year up to a maximum of $17.5. The Company contributed approximately $156 and $147 to this plan in 2013 and 2012, respectively.

The Company has a supplemental employee retirement plan ("SERP") for certain key employees. The SERP provides benefits equal to what would be available under both the qualified non-contributory defined benefit plan and the 401(k) defined contribution plan, if there were no statutory limitations on the amount of compensation that could be covered by the qualified plans.

Defined Benefit Component:

The SERP uses the Projected Unit Credit Method as the actuarial cost method and the following weighted-average assumptions to determine the benefit obligation and net periodic pension cost for the years ended December 31, 2013 and 2012:

	2013	2012
Discount rate for benefit obligation	4.84%	3.90%
Discount rate for pension cost	3.90%	5.07%
Rate of compensation increase	4.00%	4.00%

SERP amounts recognized in the Consolidated Balance Sheet consist of:

	2013	2012
Current liabilities	$ -	$ 871
Noncurrent liabilities	1,252	1,317
Total	$ 1,252	$ 2,188

SERP amounts recognized in accumulated other comprehensive income, net of tax, consist of:

	2013	2012
Net loss	$ 146	$ 387

Other components of the SERP for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Projected benefit obligation	$ 1,252	$ 2,188
Fair value of plan assets	-	-
Funded status of the plan	$ (1,252)	$ (2,188)
Employer contributions	$ -	$ -
Lump sum payments	$ 1,074	$ -
Benefits paid	$ -	$ -

The SERP's accumulated benefit obligation is $971 as of December 31, 2013 and was $1,863 as of December 31, 2012. Included in "Underwriting, general and administrative expenses" in the accompanying Consolidated Statements of Operations at December 31, 2013 and 2012, are amounts attributable to this plan of approximately $509 and $294, respectively. The Company anticipates contributing amounts equal to the benefits payable during future plan years.

A settlement occurred during the fiscal year ending 2013. Settlements are fairly common in supplemental employee retirement plans that allow lump sum payments. This year, the settlement resulted in an $193 loss to the net periodic benefit cost which is recognized in changes in other comprehensive income.

The estimated net loss and prior service cost for the SERP that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $18 and $3, respectively.

Benefit payments expected to be paid from the SERP over the next five years and accumulated over the five years thereafter are as follows as of December 31:

Year	Benefits
2014	$ -
2015	$ -
2016	$ -
2017	$ 497
2018	$ -
2019-2023	$ 1,426

The accrued liability included in the Consolidated Balance Sheet for the defined contribution component of the SERP was $113 at December 31, 2013 and $187 at December 31, 2012. Amounts recognized in the Consolidated Statement of Operations for the defined contribution component of the SERP were $28 at December 31, 2013 and $29 at December 31, 2012.

B. Postretirement Benefit Plan

The Company provides health benefits to employees and retirees. The Company recognizes the expected cost of these benefits during the years in which employees render service. No assets are set aside for postretirement health benefits.

The Company has determined that any benefits to be derived under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "2003 Act") would be outweighed by the costs involved in applying for benefits under the 2003 Act. Consequently, the Company has not applied for benefits under the 2003 Act and any measures of the accumulated postretirement benefit obligation or net periodic postretirement benefit cost in the financial statements or accompanying notes do not reflect the effects of the 2003 Act on the Company's postretirement benefit plan.

As of December 31, 2010, the Company has included a 1% load in the plan's amounts to account for the anticipated impact of the excise tax on high cost plans as a result of the Patient Protection and Affordable Care Act of 2010 (the "2010 Act"). The other provisions of the 2010 Act are not expected to have a material impact on the Company's postretirement benefit plan obligation.

Plan amounts recognized in the Consolidated Balance Sheet consist of:

	2013	2012
Liabilities	$ 1,769	$ 2,091

Plan amounts recognized in accumulated other comprehensive income, net of tax, consist of:

	2013	2012
Net loss	$ 310	$ 638

Other components of the plan for the years ended December 31, 2013 and 2012, were as follows:

	2013	2012
Benefit obligation	$ 1,769	$ 2,091
Fair value of plan assets	-	-
Funded status of the plan	$ (1,769)	$ (2,091)
Employer contributions	$ 38	$ 29
Benefits paid	$ 41	$ 29

The following table shows the plan's obligation by participant as well as assumed discount rates:

	2013	2012
Retirees	$ (644)	$ (761)
Other active participants	(1,125)	(1,330)
Accumulated postretirement benefit obligation	$ (1,769)	$ (2,091)
Weighted average assumed discount rate to determine:		
The benefit obligation	5.26%	4.35%
The net benefit cost	4.35%	5.17%

Included in "Underwriting, general and administrative expenses" in the accompanying consolidated statements of operations at December 31, 2013 and 2012, are amounts attributable to this plan of approximately $221 and $178, respectively.

The Company's policy is to contribute the amount required to fund postretirement benefits as they become due to retirees. The amount expected to be required in contributions to the plan during 2013 is $74.

The estimated net loss and prior service cost for the plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $18 and $0, respectively.

Benefit payments expected to be paid from the plan over the next five years and accumulated over the five years thereafter are as follows as of December 31:

Year	Benefits
2014	$ 74
2015	$ 85
2016	$ 69
2017	$ 72
2018	$ 80
2019-2023	$ 385

For measurement purposes, an 8.5% increase in healthcare costs was assumed for fiscal year 2013, trending down to 5.0% in 2020 and thereafter. A 1% increase in this rate would increase the postretirement benefit obligation by $390 and the service and interest cost by $38. A 1% decrease in this rate would decrease the postretirement benefit obligation by $303 and the service cost and interest cost by $29.

C. Deferred Compensation Plan

During 2010, the Company adopted a deferred compensation plan for certain key employees. The amount and timing of awards to participants is at the sole discretion of the Company and amounts remain unfunded and unvested until the employee meets all of the criteria established by the Company for payment of the awarded amounts. Included in "Underwriting, general and administrative expenses" in the accompanying Consolidated Statements of Operations at December 31, 2013 and 2012 are amounts attributable to this plan of approximately $1 and $2, respectively.

13. Other Comprehensive Income

The Company's other comprehensive (loss) income is calculated as follows:

For the Year Ended December 31, 2013	Pretax Amount	Tax Expense or Benefit	Net of Tax Amount
Net unrealized losses on investments			
Net unrealized losses arising during the period	$ (3,383)	$ (1,184)	$ (2,199)
Reclassification adjustment for gains realized in net income	(3,196)	(1,119)	(2,077)
Net actuarial unrealized gains on employee benefit plans	3,071	1,075	1,996
Other comprehensive loss	$ (3,508)	$ (1,228)	$ (2,280)

For the Year Ended December 31, 2012	Pretax Amount	Tax Expense or Benefit	Net of Tax Amount
Net unrealized gains on investments			
Net unrealized gains arising during the period	$ 9,586	$ 3,355	$ 6,231
Reclassification adjustment for gains realized in net income	(3,584)	(1,254)	(2,330)
Net actuarial unrealized losses on employee benefit plans	(1,058)	(370)	(688)
Other comprehensive income	$ 4,944	$ 1,731	$ 3,213

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