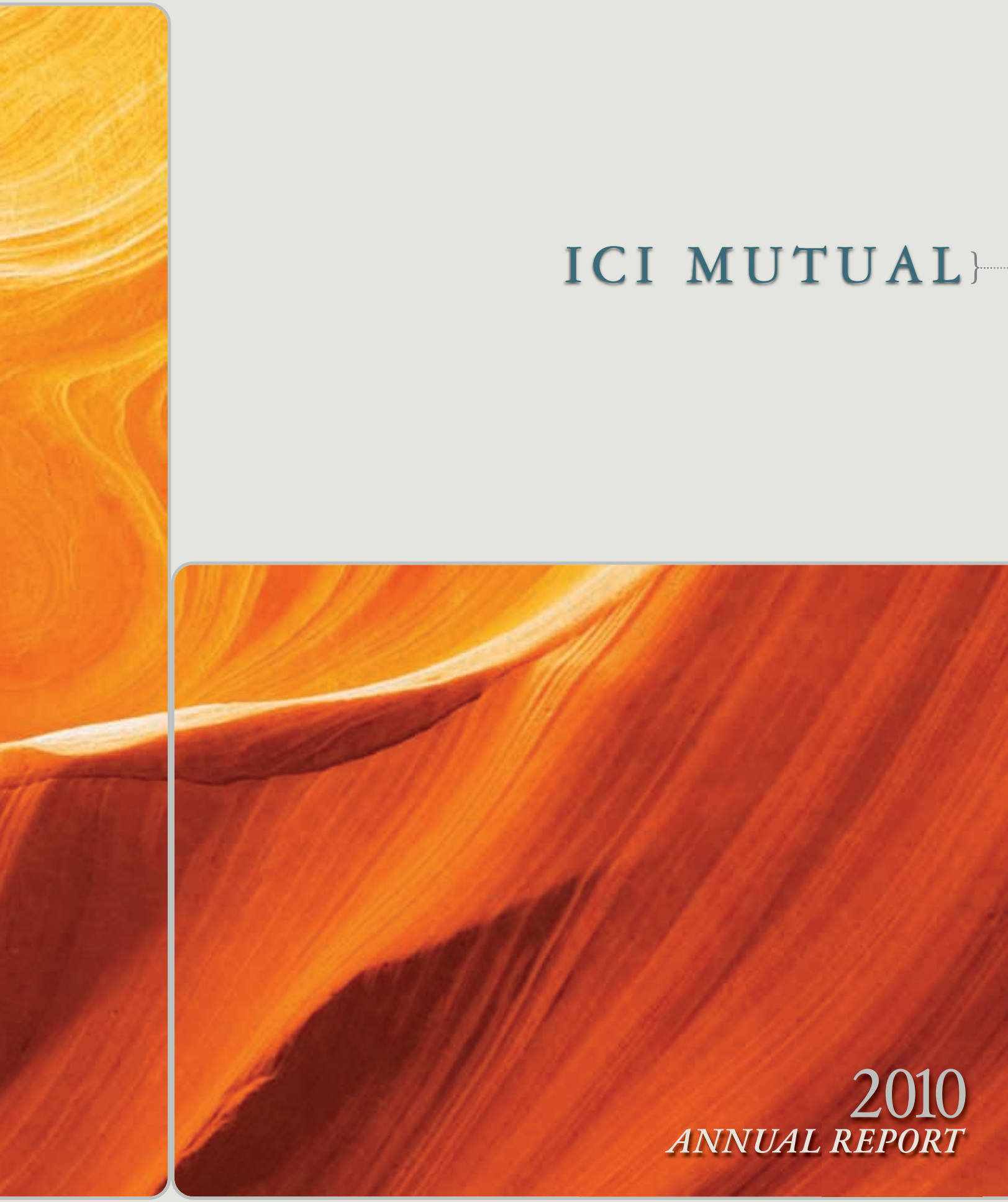
ICI MUTUAL



2010
ANNUAL REPORT

Since its founding in 1987, ICI Mutual has been committed to fulfilling the Fidelity Bond, D&O/E&O and related insurance needs of ICI member organizations with policies and services that provide:

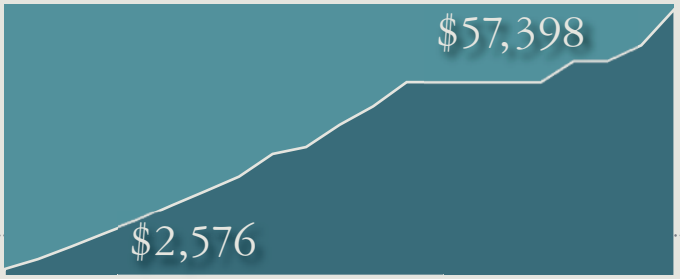
- Rational, tailored and sustainable coverage at risk-related prices
- Continuity of coverage limits and terms in hard and soft insurance markets
- Superior claims handling
- Risk management services tailored to the needs of funds and their advisers

ICI Mutual at a glance {2010}

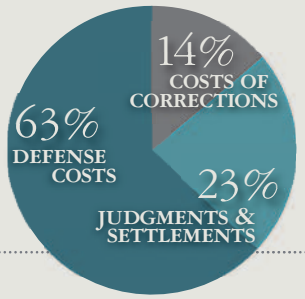
ICI MUTUAL'S GROWTH IN EQUITY
(in thousands, from 1988 to 2010)

ICI MUTUAL INSUREDS REPRESENT

ICI MUTUAL'S CUMULATIVE POLICYHOLDER DIVIDENDS
(in thousands, from 1990 to 2010)



$619 MILLION PAID IN D&O/E&O CLAIMS



A.M. BEST RATING
(since 1993, ICI Mutual's first year of eligibility)

ICI MUTUAL CLIENT RETENTION

Data shown here represents tabulations as of December 31, 2010.

message

from the president and chairman

We are pleased to report that 2010 was a successful year for ICI Mutual. Net income after dividends and taxes amounted to $8.5 million and total equity reached $200 million. Based on these results, the Board of Directors declared dividends to Participating Members totaling $7.7 million during 2010 and A.M. Best continued its "A" (Excellent) rating of ICI Mutual.

Over its 23 year history, ICI Mutual has built the capital necessary to fulfill its principal mandate—to provide a stable source of insurance coverage for the investment management industry at premium rates that reflect the industry's risk profile—while also returning a portion of its earnings to Participating Members in the form of dividends. In 16 of its 23 years, ICI Mutual has paid dividends to Participating Members. Management's discussion of 2010's operating results follows this letter.

Lawrence R. Maffia and Ronald H. Fielding

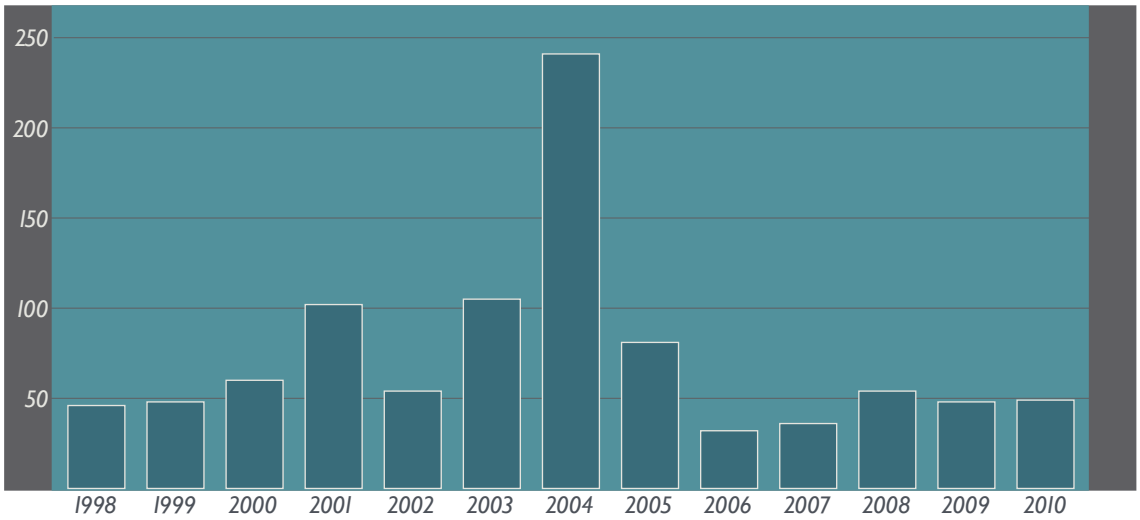
The Insurance Markets

Over the past four years, 2007 through 2010, commercial insurance market premiums for financial institution risks have followed their historic, highly cyclical, pattern. When the mortgage/credit crisis began, commercial insurers sought to increase premium rates for financial institution risks by an average of 20%, regardless of the exposures a particular institution had to losses from credit market events. In 2010, once the loss exposures were better known, commercial insurers were forced to reduce premium rates to reflect the actual insurable loss experience.

By contrast, throughout this period, ICI Mutual followed its mandate to provide stable, risk-related premiums to insureds. In ICI Mutual's view, the requirements of the Investment Company Act of 1940 would minimize the mutual fund industry's exposure to systemic losses from the credit crisis, a view that was proven correct as only a few mutual fund organizations reported credit crisis claims. As a result, the majority of ICI Mutual insureds benefited from stable premium rates throughout the credit crisis. Where necessary, ICI Mutual adjusted premium rates for those insureds that presented unique risks.

Mutual Fund Claim Trends

Casualty insurance companies use two measures to assess claim trends—frequency and severity. As the accompanying graph shows, other than the 2003–2004 period which was heavily influenced by the impact of the late trading and market timing events, the number of claims reported to ICI Mutual has remained relatively stable



over time, in the range of 40 to 60 claims per year. Despite the current intense regulatory scrutiny of the financial services industry, ICI Mutual does not anticipate conditions developing that will significantly change the frequency of claims brought against mutual funds and their affiliated parties.

However, claim severity has traveled a different path. Civil litigation—in particular prospectus liability class action and excessive fee lawsuits—can be very costly to

defend. The size of the mutual fund industry and the complexity of the issues involved in these claims can cause defense costs alone to reach eight-digit sums; settlements in prospectus liability lawsuits can reach eight, and sometimes nine digits.

The combination of stable frequency and periodic high severity leaves the mutual fund industry with a loss profile resembling the profile generally associated with natural catastrophe risks such as hurricanes (i.e., periods of calm interspersed with significant claim events). While the Supreme Court's *Jones v. Harris* decision bodes well for the prospect of fewer excessive fee lawsuits down the road, ICI Mutual's view is that the cost of defending litigation and settling prospectus liability lawsuits will continue to accelerate claim severity.

One recent claim development of particular note is the spate of demand letters and derivative actions challenging fund board decisions related to auction rate securities and the payment of 12b-1 fees. Given the fund industry's record of success in defending itself against litigation, the plaintiffs' bar has sought additional avenues from which to attack mutual funds and their directors and advisers. Derivative/demand actions, while not entirely new in the fund industry, have not been widely used in the mutual fund arena in the past. Derivative/demand actions present unique insurance coverage issues. As described below, effective January 1, 2011, ICI Mutual introduced enhanced coverage to assist fund boards to respond to derivative/demand actions.

2010 Strategic Initiatives

Scope of Coverage: As the predominant provider of D&O/E&O insurance and fidelity bonding for the mutual fund industry, ICI Mutual continually strives to offer those coverages that respond to the unique risks faced by funds, and their directors, officers and advisers. As new mutual fund risks emerge, ICI Mutual and its Board of Directors evaluate how the Company's current policy forms can better meet the industry's needs. The emergence of derivative/demand actions in the past year provided ICI Mutual with an opportunity to enhance the coverage it offers.

On January 1, 2011, ICI Mutual introduced a new coverage to address the increased threat of derivative/demand actions. The coverage is designed to assist fund boards by ensuring that sufficient resources are available to them to conduct thorough derivative/demand investigations, and thereby reduce the risk that any subsequent litigation challenging the decision of the fund board will be successful. The coverage is also designed to address any uncertainty regarding the availability of insurance coverage for derivative/demand investigations. ICI Mutual's new coverage provides up to $1 million of coverage on a first dollar 50:50 coinsurance basis for *no* additional premium.

Risk Management Services: Providing insureds with specialized risk management services has always been a key component of ICI Mutual's mission and a tangible, highly-valued benefit to its clients. ICI Mutual analyzes claims and underwriting data on an ongoing basis to identify emerging industry risks and inform insureds about ways to mitigate their exposures. These efforts led to the publication of two new risk management studies in 2010, *Mutual Fund Prospectus Liability: Understanding and Managing the Risk* and *ERISA Liability: A Guide for Investment Advisers and Their Affiliates*. In addition, the Company published its annual *Claims Trends* newsletter and Volume VI of the *Investment Management Litigation Notebook*. All of these materials and other risk management resources are available to clients at www.icimutual.com.

Outlook for 2011

ICI Mutual was formed to be the ballast against a highly cyclical commercial insurance market where carriers enter, exit and reenter market segments freely, and premium rates, coverage terms and available capacity swing from one extreme to another. Not much has changed in the past 23 years. In a November 2010 article in the Professional Liability Underwriting Society (PLUS) newsletter, the financial institutions underwriting manager for one of ICI Mutual's competitors wrote, "The future of the D&O and E&O insurance marketplace will likely be characterized by shorter cycles and smaller margins as insurers become more nimble and can enter and exit segments

of the market more quickly." As our insureds know, ICI Mutual never exits the mutual fund insurance market.

During 2010, commercial insurers reinforced market cyclicality by reducing rates for those accounts whose premiums were increased during the credit crisis. ICI Mutual renewed most insureds at their expiring premium; adjusting premiums up or down where an insured's underwriting results supported the change. ICI Mutual will follow this same course of action in 2011 as we pursue the Company's core mission of providing meaningful coverage at risk-related prices.

Over the course of 2011, ICI Mutual will undertake a number of initiatives to further improve the products and services it offers. Staff will be evaluating potential enhancements to coverage terms offered in funds-only and IDL policies and conducting an analysis of the types of asset management structures eligible for coverage. At present, the *Litigation Notebook* is being converted from a biennial paper publication to a web-based resource that consolidates and frequently updates information about investment management related litigation and regulatory proceedings. This service is scheduled to be available to insureds in July of 2011.

The management, staff and Board of Directors thank you for your ongoing support of ICI Mutual. As the mutual fund industry's captive insurer, we look forward to fulfilling the liability insurance needs of your organization for many years to come.

Lawrence R. Maffia
President

Ronald H. Fielding
Chairman of the Board of Directors

ICI Mutual financial overview {2010}

As the selected financial information on the inside back cover of this report shows, ICI Mutual produced excellent financial results in 2010. Despite the uncertainty in the claims environment that resulted from the credit crisis and strong competition for the business the Company writes, ICI Mutual produced net underwriting profits of $16.9 million and net income of $8.5 million, after declaration in 2010 of $7.7 million of dividends to Participating Members. At December 31, 2010, total equity reached $200 million, a record for the Company.

In 1987, ICI Mutual was created by the mutual fund industry. Because ICI Mutual is owned by members of the fund industry, the Company's Board of Directors and staff have direct knowledge of the issues and insurance needs of its customers—the mutual funds, their directors, officers and affiliated advisers. This knowledge, combined with a detailed and disciplined underwriting approach, has positioned the Company as an industry leader and has enabled it to achieve excellent financial results.

Gross premiums written, which represents amounts the Company charges insureds for the coverage they purchase, declined modestly to approximately $90 million, or about 4.5% below 2009's levels. The decline in gross premiums written is due to several factors: the recession and slow recovery, which caused some insureds to purchase less insurance as their assets under management declined; increased competition in the market place; and, most importantly, an improvement in the underwriting environment for the products the Company offers. This last factor allowed ICI Mutual to reduce the premiums on those accounts where underwriting results supported a reduction. Despite the decline in gross premiums, net premiums written, which represents amounts the Company retains after purchasing reinsurance, equaled $30.9 million, approximately the same amount as 2009 because the Company was able to negotiate lower rates for reinsurance.

ICI Mutual remains committed to its mission of providing meaningful insurance coverage to the investment management industry at premium rates that are representative of the underlying risks and that are sustainable over the long term. As a result, ICI Mutual does not seek to

increase market share by offering premiums to either new or renewing policyholders that it believes will result in underwriting losses. The Company's 2010 combined ratio, a widely accepted measure of profitability for an insurance company, was 45% before dividends to policyholders and 70% after dividends. A combined ratio under 100% indicates a profitable underwriting year. The industry average for property and casualty companies in 2009, the latest year for which industry data is available, was approximately 99%.

As previously mentioned, the 2010 claims environment for the Company's insureds was relatively benign, resulting in net loss and loss adjustment expenses incurred of $3.4 million for the year. This amount reflects the release of $10 million of reserves that were established for certain prior year (2003–2004) claims that ultimately proved unnecessary. Without this reserve release, the combined ratio before dividends would have been approximately 78% of net earned premiums, still a favorable result.

The excellent underwriting results were shared with the Company's owners in the form of policyholder dividends to Participating Members of $7.7 million for the year, an all-time record.

Like most entities, in 2008 ICI Mutual suffered both realized and unrealized losses in its investment portfolio, due to the liquidity and credit crisis events of that year. However, the Company's policy of only owning high-quality securities helped to moderate these losses. By the end of 2010, the Company's investment portfolio had returned to a net unrealized gain position.

2010 was the sixth consecutive year ICI Mutual achieved an underwriting profit. The combination of strong underwriting profits and a solid balance sheet, with over $200 million of total equity (an amount well in excess of what would be required to support the business the Company writes), resulted in A.M. Best reaffirming the Company's "A" (Excellent) Financial Strength Rating; a rating it has maintained since 1993, the first year it was eligible to receive a rating from A.M. Best.

ICI Mutual's strategic advantage—its unique knowledge of the mutual fund industry, its continued commitment to rational and sustainable underwriting and its solid financial base—positions the Company to continue to be the insurer of choice for the mutual fund industry.

Aligned Interests

ICI Mutual is the only insurance source created by and for the mutual fund industry. The Company was founded in 1987 in response to the industry's need for comprehensive, specialized insurance coverage at risk-related prices and fair claims handling. Since the commercial insurance market was not always able to fulfill this need, mutual fund leaders collaborated with the Investment Company Institute (ICI), the industry's trade association, to form ICI Mutual, the industry's own captive insurance company.

As an insurance company owned and operated by and for the fund industry,

ICI Mutual offers what no other insurance carrier can: an exclusive focus on the unique liability needs of mutual funds and their directors, officers and advisers.

Mutual fund 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 unique needs of funds, their directors, officers and advisers. Their involvement with the Company ensures that ICI Mutual is operated for the long-term benefit of its insureds.

This captive structure directly aligns ICI Mutual's interests with those of the clients it serves, providing them with a number of distinct advantages: a stable source of insurance in all market cycles, tailored coverage that is individually priced to reflect each client's risk profile, control over long-term insurance costs, access to specialized 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.

Mutual Fund Knowledge *and*

As a captive, ICI Mutual is in a unique position to understand the particular risks associated with the investment management industry and to appreciate the perspective of its insureds. Few, if any, commercial insurers can match this knowledge advantage. ICI Mutual's staff, many of whom have significant experience with mutual fund and investment adviser issues, interact with the Board of Directors and other leading industry professionals to gain insights that facilitate the development of appropriate insurance coverages and risk management educational materials.

Coverages

ICI Mutual's core products are designed specifically to address the unique risk financing needs of funds, fund directors and officers, and advisers.

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

More detailed descriptions of ICI Mutual's coverages may be found online at: www.icimutual.com/coverages.php

ICI Mutual also has the ability to craft custom coverage for its insureds when their needs fall outside of the Company's standard policies. This may include coverage for trust company services, personal financial planning services and administrative services for in-house and third-party plans.

Expertise

Investment Company Blanket Bond meets the basic fidelity bonding required under the Investment Company Act of 1940, plus it offers protection against specified losses caused by employee theft, third-party fraud and various other types of events. In addition, ICI Mutual's Bond (unlike many fidelity bonds generally) expressly insures legal liability for direct compensatory damages resulting from a covered loss.

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 exclusively on the mutual fund industry, they have deep insight into its unique risks and challenges. Each insured is assigned a dedicated underwriter who collaborates closely with them to develop a thorough understanding of their particular business, processes and procedures. This enables ICI Mutual to structure coverage and offer limits that appropriately reflect the 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 investment management industry's captive insurer. Each claim submitted

undergoes a thorough analysis of the facts, circumstances and applicable coverage language, with insureds kept informed throughout this process.

Insureds stay with ICI Mutual long after their claims are resolved, which serves as the ultimate testament to their satisfaction with the Company.

Risk Management

ICI Mutual's specialized knowledge and close connection with the industry is unmatched—as are the Company's efforts to provide on-going, 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 15, provide in-depth research and analysis of the fund industry's unique liability exposures and are designed to help insureds improve their organizations' risk profiles. *Claims Trends* and the *Litigation Notebook* explain new and emerging areas of regulatory and litigation exposure and their implications for insurance claims and coverage. All of these publications and other materials can be readily accessed by insureds on the Company's website: www.icimutual.com.

At ICI Mutual's annual Risk Management Conference, industry experts and guest speakers present information on a wide array of risk management topics and facilitate discussion among insureds. ICI Mutual's professional staff is always available to meet with insureds and their boards of directors to discuss underwriting, claims and emerging risks, and respond directly to an organization's 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***

MOST RECENT RISK MANAGEMENT PUBLICATION

2011 ***Managing Operational Risks of Private Accounts: A Guide for Investment Advisers*** focuses on operational risks associated with private account management. The Guide discusses common operational errors involving private accounts, explores some of the underlying causes of such errors and reviews various risk management techniques employed by advisers to reduce and address operational risks of private accounts.

Availability, Stability *and* Financial Strength *in All Markets*

Since 1987, ICI Mutual has grown into a proven, trusted presence within the fund industry, with its insureds representing more than 65% of the industry's managed assets. ICI Mutual's success can be attributed to its philosophy of conservative financial management, reflected in every aspect of its business.

From underwriting to portfolio management and administration, the Company strives to use its resources wisely, invest prudently and manage risk carefully in order to build its long-term strength and stability to meet the ongoing needs of its insureds.

These practices have enabled ICI Mutual to stand solidly behind its insureds through the many significant financial market and industry-wide events and to prosper through all types of economic and insurance cycles over the past 23 years. The Company's strong network of reinsurance partners allows ICI Mutual to provide the full limits of coverage required by its insureds and helps to promote stable rates and terms, even in challenging economic environments. ICI Mutual's captive status offers investment companies, their directors, officers and advisers confidence that insurance coverage will always be available at risk-related prices in all kinds of markets.

company information

Board of Directors

Ronald H. Fielding, *Chairman*
Saturna Investment Trust
(Independent Director)

Michael J. Downer, *Vice Chairman*
Capital Research & Management Company

Kevin M. Carome
Invesco Ltd.

Richard D. Carpenter
The Vanguard Group, Inc.

Stefanie Chang Yu
Morgan Stanley

Michael G. Clark
DWS Investments

John F. Cogan, Jr.
Pioneer Investment Management USA, Inc.

Kenneth C. Eich
Davis Selected Advisers, L.P.

Maureen A. Gemma
Eaton Vance Management

Diana P. Herrmann
Aquila Investment Management LLC

Lawrence H. Kaplan
Lord, Abbett & Co. LLC

Les M. Kratter
Franklin Resources, Inc.

Paul S. Kulig
Kulig & Sullivan, P.C.

Thomas P. Lemke
Legg Mason, Inc.

Lawrence R. Maffia
ICI Mutual Insurance Company

David Oestreicher
T. Rowe Price Associates, Inc.

David M. Pfeffer
OppenheimerFunds, Inc.

Mark N. Polebaum
MFS Investment Management Company

Jeffrey L. Steele
Washington Management Corporation

Paul Schott Stevens
Investment Company Institute

Michael D. Strohm
Waddell & Reed, Inc.

Edward C. Bernard, *Ex-officio*
T. Rowe Price Group, Inc.

Directors on Sabbatical

James H. Bodurtha
BlackRock Funds *(Independent Director)*

Dawn-Marie Driscoll
DWS Funds *(Independent Director)*

Barry Fink
American Century Investments

William V. Healey
Allianz Global Investors of America L.P.

Kelley A. Howes
Janus Capital Group Inc.

Clockwise from left: Les M. Kratter, Richard D. Carpenter, James H. Bodurtha, Maureen A. Gemma

Clockwise from left: Mark N. Polebaum, Thomas P. Lemke, Kelley A. Howes, Jeffrey L. Steele

Not pictured: Stefanie Chang Yu, Michael G. Clark, Dawn-Marie Driscoll, Barry Fink, Michael D. Strohm

Executive Committee

Standing: Kenneth C. Eich, Lawrence H. Kaplan, John F. Cogan, Jr.
Seated: Lawrence R. Maffia, Ronald H. Fielding, Michael J. Downer; *Not pictured:* Paul Schott Stevens

From left to right: David Oestreicher, Kevin M. Carome, Diana P. Herrmann

From left to right: Paul S. Kulig, William V. Healey, David M. Pfeffer

Officers

Lawrence R. Maffia, President
Daniel T. Steiner, Executive Vice President and General Counsel
Charles W. Behr, Senior Vice President and Chief Financial Officer
John T. Mulligan, Vice President, Underwriting
Paul S. Kulig, Secretary-Treasurer
Rodolfo C. Sinon, Assistant Secretary

Staff

William Akishev
Director of
Information Technology

Meloney Burrell
Staff Accountant

Joseph Costello
Underwriter

Catherine Dalton
Senior Underwriter

Briana Davis
Lead Broker

John Driggers
Software Analyst/Developer

Michael Heiser
Controller

Sarah Hunt
Associate Broker

Carolyn Julia
Executive Assistant

Matthew Link
Senior Underwriter

Swenitha Nalli
Underwriting Analyst

Colin Rouse
Assistant Controller

Lizabeth Staursky
Corporate Communications

Margaret Sullivan
Senior Underwriter

David Thomas
Associate Counsel

Krystal Thomas
Policy Coordinator

Julia Ulstrup
Associate Counsel

Jinhua Zhang
Director,
Corporate Reporting

Committees

Executive Committee

Ronald H. Fielding, ***Chairman***
Saturna Investment Trust

Michael J. Downer, ***Vice Chairman***
Capital Research & Management Company

John F. Cogan, Jr.
Pioneer Investment Management USA, Inc.

Kenneth C. Eich
Davis Selected Advisers, L.P.

Lawrence H. Kaplan
Lord, Abbett & Co. LLC

Lawrence R. Maffia
ICI Mutual Insurance Company

Paul Schott Stevens
Investment Company Institute

Audit Committee

Kenneth C. Eich, ***Chairman***
Davis Selected Advisers, L.P.

Richard D. Carpenter
The Vanguard Group, Inc.

Paul S. Kulig
Kulig & Sullivan, P.C.

Jeffrey L. Steele
Washington Management Corporation

Michael D. Strohm
Waddell & Reed, Inc.

Investment Committee

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Capital Research & Management Company

Michael G. Clark
DWS Investments

Diana P. Herrmann
Aquila Investment Management LLC

Lawrence R. Maffia
ICI Mutual Insurance Company

David M. Pfeffer
OppenheimerFunds, Inc.

Underwriting Committee

John F. Cogan, Jr., ***Chairman***
Pioneer Investment Management USA, Inc.

Kevin M. Carome
Invesco, Ltd.

Richard D. Carpenter
The Vanguard Group, Inc.

Maureen A. Gemma
Eaton Vance Management

David Oestreicher
T. Rowe Price Associates, Inc.

Mark N. Polebaum
MFS Investment Management Company

Paul Schott Stevens
Investment Company Institute

Risk Prevention Committee

Lawrence H. Kaplan, ***Chairman***
Lord, Abbett & Co. LLC

Stefanie Chang Yu
Morgan Stanley

Les M. Kratter
Franklin Templeton Investments

Thomas P. Lemke
Legg Mason, Inc.

Lawrence R. Maffia
ICI Mutual Insurance Company

David M. Pfeffer
OppenheimerFunds, Inc.

Nominating Committee

Ronald H. Fielding, ***Chairman***
Saturna Investment Trust

Michael J. Downer, ***Vice Chairman***
Capital Research & Management Company

Thomas P. Lemke
Legg Mason, Inc.

Mark N. Polebaum
MFS Investment Management Company

selected financial highlights

dollar amounts in thousands	*for the years ended* 2010	2009
Gross Premiums Written	$ 89,997	$ 94,242
Net Premiums Earned	$ 31,074	$ 31,188
Net Investment Income	$ 8,704	$ 10,576
Net Loss and Loss Adjustment Expenses	$ 3,353	$ 7,751
Net Underwriting Profit	$ 16,895	$ 14,486
Dividends to Policyholders	$ 7,694	$ 3,250
Net Income	$ 8,530	$ 14,469
Total Equity	$ 200,184	$ 183,030
Combined Ratio		
Loss and General Expense Ratio	45%	54%
Policyholder Dividends	25%	10%
Combined Ratio including Policyholder Dividends	70%	64%

ICI Mutual | *an uncommon value*

Aligned Interests:
owned by, governed by and operated for mutual funds and their advisers, directors and officers

Mutual Fund Knowledge and Expertise:
tailored, innovative coverage combined with expert claims handling

Availability, Stability and Financial Strength in All Markets:
consistent coverage and strong capital

ICIMutual
A Risk Retention Group

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ICI MUTUAL

A Risk Retention Group

2010

CONSOLIDATED FINANCIAL STATEMENTS

ICI Mutual Insurance Company, a Risk Retention Group
Index
December 31, 2010 and 2009

Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in equity and of cash flows present fairly, in all material respects, the financial position of ICI Mutual Insurance Company, a Risk Retention Group, and its subsidiaries (together, the "Company") at December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

April 27, 2011

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, 2010 and 2009 (in 000's)

	2010	2009
Assets		
Cash and cash equivalents	$ 5,022	$ 11,650
Investments		
Debt securities, at fair value (amortized cost of $222,482 and $245,311, respectively)	226,829	237,452
Equity securities, at fair value (cost of $15,954 and $11,393, respectively)	22,358	15,203
Money market funds	21,722	664
Total cash and investments	275,931	264,969
Prepaid expenses	450	465
Prepaid federal income taxes	503	1,373
Deferred policy acquisition costs	4,128	4,201
Premiums receivable	8,405	8,473
Interest receivable	1,938	1,844
Reinsurance recoverables	294,363	186,289
Prepaid reinsurance premiums	38,754	42,771
Other amounts receivable under reinsurance contracts	2,372	4,609
Furniture and fixtures, net	579	737
Deferred income taxes	3,832	6,873
Investment securities receivable and other assets	1,319	1,207
Total assets	$ 632,574	$ 523,811
Liabilities and Equity		
Reserve for losses and loss adjustment expenses	$ 360,353	$ 261,989
Unearned premiums	51,880	56,020
Reinsurance premium payable	8,290	11,101
Premium taxes payable	412	1,949
State income taxes payable	64	24
Accounts payable and other liabilities	3,015	3,962
Benefits payable	3,598	2,486
Dividends payable	4,778	3,250
Total liabilities	432,390	340,781
Commitments and contingencies (Notes 6 and 11)		
Contributed surplus	21,885	22,285
Accumulated other comprehensive income (loss)	5,894	(3,130)
Accumulated earnings	172,405	163,875
Total equity	200,184	183,030
Total liabilities and equity	$ 632,574	$ 523,811

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, 2010 and 2009 (in 000's)

	2010	2009
Revenues		
Net premiums written	$ 30,943	$ 30,928
Change in net unearned premiums	131	260
Net premiums earned	31,074	31,188
Net investment income	8,704	10,576
Net realized losses on securities	(5,429)	(324)
Reinsurance profit-sharing (loss) income	(323)	528
Other income	296	304
Total revenues	34,322	42,272
Expenses		
Net loss and loss adjustment expenses	3,353	7,751
Underwriting, general and administrative expenses	10,503	9,479
Total expenses	13,856	17,230
Income before dividends to policyholders and provision for income taxes	20,466	25,042
Dividends to policyholders	7,694	3,250
Income before provision for income taxes	12,772	21,792
Provision for income taxes	4,242	7,323
Net income	8,530	14,469
Other comprehensive income, net of tax, net of reclassification adjustments	9,024	12,120
Comprehensive income	$ 17,554	$ 26,589
Net realized losses on securities		
Other-than-temporary impairment losses	$ (4,569)	$ (6,244)
Other-than-temporary impairment losses transferred to other comprehensive income	3,214	4,937
Other net realized investment (losses) gains	(4,074)	983
Net realized losses on securities	$ (5,429)	$ (324)

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, 2010 and 2009 (in 000's)

	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings	Total Equity
Balance at December 31, 2008	$ 22,539	$ (13,174)	$ 147,330	$ 156,695
Cumulative effect of adjustment on January 1, 2009 to initially apply new accounting guidance, net of tax	-	(2,076)	2,076	-
Net income	-	-	14,469	14,469
Other comprehensive income, net of tax, net of reclassification adjustments	-	12,120	-	12,120
Distributions of contributed surplus	(254)	-	-	(254)
Balance at December 31, 2009	$ 22,285	$ (3,130)	$ 163,875	$ 183,030
Net income	-	-	8,530	8,530
Other comprehensive income, net of tax, net of reclassification adjustments	-	9,024	-	9,024
Distributions of contributed surplus	(400)	-	-	(400)
Balance at December 31, 2010	$ 21,885	$ 5,894	$ 172,405	$ 200,184

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, 2010 and 2009 (in 000's)

	2010	2009
Cash Flows from Operating Activities		
Net income	$ 8,530	$ 14,469
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization (accretion) of premium (discount)	419	(1,477)
Deferred income taxes	(1,818)	563
Depreciation of furniture and fixtures	201	145
Net realized losses on sale of securities	5,429	324
Investment securities receivable and other assets	(570)	(79)
Benefits payable	652	5
Changes in operating assets and liabilities		
Prepaid expenses	15	246
Prepaid federal income taxes	870	(1,373)
Deferred policy acquisition costs	73	(1,466)
Premiums receivable	68	3,564
Interest receivable	(94)	217
Reinsurance recoverables	(108,074)	(22,400)
Prepaid reinsurance premiums	4,017	2,599
Other amounts receivable under reinsurance contracts	2,238	(6)
Reserve for losses and loss adjustment expenses	98,364	28,139
Unearned premiums	(4,140)	(2,858)
Reinsurance premium payable	(2,810)	2,972
Premium taxes payable	(1,537)	1,748
State income taxes payable	40	(874)
Accounts payable and other liabilities	(946)	2,562
Dividends payable	1,528	2,843
Net cash provided by operating activities	2,455	29,863
Cash Flows from Investing Activities		
Proceeds from sales of investments available for sale	92,410	65,851
Proceeds from maturities of investments available for sale	2,646	6,413
Purchases of furniture and fixtures, net	(43)	(313)
Payments for purchases of investments available for sale	(82,638)	(117,018)
Net payments from derivative activity	-	669
Change in money market funds	(21,058)	20,466
Net cash used in investing activities	(8,683)	(23,932)
Cash Flows from Financing Activities		
Distributions of contributed surplus	(400)	(254)
Net cash used in financing activities	(400)	(254)
Net (decrease) increase in cash and cash equivalents	(6,628)	5,677
Cash and cash equivalents at beginning of year	11,650	5,973
Cash and cash equivalents at end of year	$ 5,022	$ 11,650

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"). 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 will allow 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 allow the Company 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 the Company 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 captive insurance companies by BISHCA.

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 below. 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 below 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 as of December 31, 2010 or 2009.

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 serve to reduce ceded reinsurance premiums.

D. Deferred Policy Acquisition Costs

Acquisition costs consist primarily of fees and premium taxes associated with the acquisition and underwriting of new and renewal insurance business. 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. A provision for losses and loss adjustment expenses is charged to operations by management. 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.

F. Provision for Income Taxes

As required by authoritative accounting guidance, the Company uses the liability method of accounting for deferred income taxes including the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. 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 2010 or 2009.

Deferred income taxes arise principally from differences between the timing of expense or income recognition of deferred policy acquisition costs, loss reserve discounting, bond accretion, unrealized gains and losses, and the revenue offset for unearned premium reserves. Valuation allowances established when necessary to reduce deferred tax assets to the amounts expected to be realized. No valuation allowance was deemed necessary at December 31, 2010 and 2009.

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. Maximum recoveries under the reinsurance treaties are capped at $100 million for the treaty years ending March 31, 2005 (" '04 Treaty") and subsequent, 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, 2010, ceded losses under all of the open treaty years were well below the respective treaty caps with the exception of the 2003 treaty year, where they are equal to the cap for that year. 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 appropriate rating agencies. As of December 31, 2010, 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 recognized $323 in profit commission loss and $528 of profit commission income as a result of these features in 2010 and 2009, respectively.

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 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. Provisions for depreciation are computed using the straight-line method based on useful lives ranging from three to twelve years. Depreciation expense was $175 and $145 for 2010 and 2009, respectively. Accumulated depreciation totaled $798 and $622 at December 31, 2010 and 2009, respectively.

J. Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In January 2010, the Financial Accounting Standards Board ("FASB") issued standards requiring new disclosures regarding (i) transfers in and out of Level 1 and Level 2 fair value measurements and (ii) activity in Level 3 fair value measurements. This guidance also clarifies existing disclosures regarding (i) the level of asset and liability disaggregation and (ii) fair value measurement inputs and valuation techniques. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010; early adoption is permitted. The adoption of this guidance, effective January 1, 2010, did not have a material effect on the Company's consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In October 2010, the FASB issued guidance that specifies the accounting treatment for the costs incurred by insurance entities when acquiring new and renewal insurance contracts. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011 and should be applied prospectively upon adoption. The Company is currently evaluating

the potential impact the amendments in this update will have on its consolidated financial statements.

K. Reclassifications

Certain amounts in prior years' Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2010 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, 2010 and through the date the financial statements were available to be issued of April 27, 2011. 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, 2010. 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, 2010			
Debt securities available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government, agencies and authorities securities	$ 55,855	$ 1,128	$ (1,119)	$ 55,864
Mortgage-backed	53,864	2,061	(687)	55,238
All other corporate bonds	112,763	5,215	(2,251)	115,727
Total debt securities	$ 222,482	$ 8,404	$ (4,057)	$ 226,829

	December 31, 2009			
Debt securities available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government, agencies and authorities securities	$ 61,418	$ 499	$ (1,273)	$ 60,644
Mortgage-backed	77,245	1,536	(7,511)	71,270
All other corporate bonds	106,648	3,573	(4,683)	105,538
Total debt securities	$ 245,311	$ 5,608	$ (13,467)	$ 237,452

Included in the above fair value amounts at December 31, 2010 and 2009 is approximately $79,854 and $87,467, 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, 2010, 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	$ 18,644	$ 18,812
Due after one year through five years	41,682	43,332
Due after five years through ten years	63,270	64,806
Due after ten years	98,886	99,879
Total debt securities	$ 222,482	$ 226,829

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

	December 31, 2010			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$ 15,954	$ 6,404	$ -	$ 22,358

	December 31, 2009			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$ 11,393	$ 3,810	$ -	$ 15,203

At December 31, 2010 and 2009, the net unrealized gain or (losses) on investments in debt and equity securities of $6,988 and $(2,631), respectively, have been reflected in the Consolidated Balance Sheets as a component of accumulated other comprehensive income, net of deferred taxes of $3,763 and $(1,418), 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. 88% of the portfolio is 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, 2010				
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	$ 20,681	$ (398)	$ (721)	$ (1,119)	8
Mortgage-backed	11,541	(91)	(596)	(687)	20
All other corporate bonds	32,358	(606)	(1,645)	(2,251)	45
Total securities	$ 64,580	$ (1,095)	$ (2,962)	$ (4,057)	73

	December 31, 2009				
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	$ 48,434	$ (1,262)	$ (11)	$ (1,273)	12
Mortgage-backed	26,190	(12)	(7,499)	(7,511)	46
All other corporate bonds	38,172	(324)	(4,359)	(4,683)	62
Total securities	$ 112,796	$ (1,598)	$ (11,869)	$ (13,467)	120

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 in the future 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.

As of December 31, 2009 the Company had previously recognized a total of $13,268 of other-than-temporary impairments on available-for-sale debt securities in the consolidated statements of operations. As a result of the revised other-than-temporary impairment guidance adopted in 2009, the Company determined that (a) the portion of the previously recorded losses on debt securities representing credit losses was $10,074 and (b) the amount of the cumulative-effect adjustment to the opening balance of retained earnings and corresponding adjustment to accumulated other comprehensive income representing the amount of previously recorded losses on debt securities which were deemed to be due to interest and all other factors was $2,076, net of tax benefits.

Other-than-temporary impairments included in net realized losses on securities in the consolidated statements of operations were $1,355 and $1,307 in 2010 and 2009, respectively.

Further deterioration in credit quality of the companies backing the securities, further deterioration in the condition of the financial services industry, a continuation of the current imbalance in liquidity that exist in the marketplace, a continuation or worsening of the current economic recession, or additional declines in real estate values may further 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, 2010	$ 92,372	$ 723	$ (4,797)
For the year ended December 31, 2009	$ 65,850	$ 2,043	$ (2,404)

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, 2010	$ 38	$ -	$ -
For the year ended December 31, 2009	$ 1	$ -	$ (68)

Net gains on futures and options activity included in net realized losses on securities in the Consolidated Statements of Operations were $0 and $1,412 for the years ended December 31, 2010 and 2009, respectively.

Net investment income is calculated as follows:

	2010		
	Gross Investment Income	Investment Expenses	Net Investment Income
Debt securities available for sale			
U.S. Government, agencies and authorities securities	$ 1,416	$ (78)	$ 1,338
Mortgage-backed	2,705	(149)	2,556
All other corporate bonds	4,685	(259)	4,426
Equity securities	406	(22)	384
Total	$ 9,212	$ (508)	$ 8,704

	2009		
	Gross Investment Income	Investment Expenses	Net Investment Income
Debt securities available for sale			
U.S. Government, agencies and authorities securities	$ 1,203	$ (58)	$ 1,145
Mortgage-backed	2,186	(105)	2,081
All other corporate bonds	7,470	(360)	7,110
Equity securities	252	(12)	240
Total	$ 11,111	$ (535)	$ 10,576

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: Valuation is based on quoted prices in active markets that are readily available. These securities do not entail a significant degree of judgment. This includes exchange traded mutual funds. Holdings consist of three index mutual funds with a total market value of $22,358.

Pricing Level 2: Valuation is based on quoted prices for similar assets. This would include any bonds priced by IDC, including Treasuries and all other fixed income securities, with the exception of the four securities highlighted below.

Pricing Level 3: Valuation is derived from techniques such as broker quotes, pricing matrices and internal calculations. Holdings consist of four securities with a total market value of $632 .

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, 2010	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment in debt securities	$ 226,829	$ -	$ 226,197	$ 632
Investment in equity securities	22,358	22,358	-	-
Total	$ 249,187	$ 22,358	$ 226,197	$ 632

	December 31, 2009	Quoted Prices (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment in debt securities	$ 237,452	$ -	$ 236,363	$ 1,088
Investment in equity securities	15,203	15,203	-	-
Total	$ 252,655	$ 15,203	$ 236,363	$ 1,088

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, 2010, 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 2010. 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. No securities were sold or transferred out of the Level 3 category in 2010.

The changes in the carrying value of Level 3 assets for the twelve months ended December 31, 2010 are summarized as follows:

	Balance at 1/1/2010	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 12/31/2010
ABS	$ 640	$ (117)	$ 222	$ (637)	$ -	$ 108
CMO	142	26	(10)	(37)	-	121
RMBS	-	-	-	-	-	-
CMBS	306	-	214	(117)	-	403
Corporate bonds	-	-	-	-	-	-
Preferred stocks	-	-	-	-	-	-
	$ 1,088	$ (91)	$ 426	$ (791)	$ -	$ 632

	Balance at 1/1/2009	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 12/31/2009
ABS	$ 682	$ (1)	$ 189	$ (74)	$ (156)	$ 640
CMO	807	(27)	57	(46)	(649)	142
RMBS	-	-	-	-	-	-
CMBS	-	-	(151)	(74)	531	306
Corporate bonds	746	(555)	-	(76)	(115)	-
Preferred stocks	49	(68)	20	(1)	-	-
	$ 2,284	$ (651)	$ 115	$ (271)	$ (389)	$ 1,088

4. Deferred Policy Acquisition Costs

The deferred policy acquisition costs at December 31, 2010 and 2009 are comprised of the following:

	2010	2009
Beginning balance	$ 4,201	$ 2,735
Additional costs capitalized		
Underwriting expenses	4,012	3,769
Royalty fees (Note 8)	899	942
Premium taxes	2,250	2,356
	7,161	7,067
Less current year amortization		
Underwriting expenses	3,940	3,655
Royalty expense (Note 8)	941	876
Premium taxes	2,353	1,070
	7,234	5,601
Ending balance	$ 4,128	$ 4,201

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, if membership was applied for before July 31, 1987, or 125% of initial annual premium if membership was applied for after that date. 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. 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.

At December 31, 2010 and 2009, $3,300 and $3,446, respectively, related to reserve premiums for terminated policies which were included in contributed surplus. Of the premiums written, 32.5% and 20.8% were attributable to Non-Participating Members during the years ended December 31, 2010 and 2009, respectively.

6. Commitments (Mutual only)

Prior to December 31, 2009, Participating Members were required to commit to pay Mutual additional amounts, which were based on the annual premiums paid by the Participating Member, if, when, and to the extent required by the Board of Directors to provide for unanticipated expenses or losses of the Company. Participating Members were able to secure their commitment by providing Letters of Credit ("LOCs") or by depositing cash with the Company.

In recognition of the strong capital position of the company, the Board of Directors voted in December 2009 to release all remaining LOCs effective January 8, 2010 subject to the approval of BISHCA. Such approval was received and all LOCs were cancelled and returned to their respective issuing banks, and the cash in lieu of LOCs was returned to the appropriate participating members, as of January 8, 2010.

As of December 31, 2010 and 2009, Mutual had available $0 and $17,892 respectively, in secured LOCs, none of which had been drawn against to date, and $0 and $798 cash in lieu of LOCs at December 31, 2010 and 2009.

7. Provision for Income Taxes

The provision for income taxes consists of the following:

	2010	2009
Current provision	$ 6,060	$ 6,760
Deferred provision	(1,818)	563
Provision for income taxes	$ 4,242	$ 7,323

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

	2010	2009
Expected tax provision at 35%	$ 4,470	$ 7,627
Tax exempt income from municipal bonds	(401)	(312)
State income taxes	158	118
Dividend received deduction	-	(52)
Provision to return adjustments	27	(24)
All other, net	(12)	(34)
Actual provision for income taxes	$ 4,242	$ 7,323

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 $5,000 and $8,900 in 2010 and 2009, respectively.

The deferred income tax amounts reflected in the consolidated balance sheets at December 31, 2010 and 2009 are comprised of the following items:

	2010	2009
Net unearned premiums	$ 919	$ 924
Discounting of loss reserves	2,509	2,996
Deferred policy acquisition costs	(1,492)	(1,514)
Net unrealized losses (gains) on investments	(3,763)	299
Post-retirement employee benefits	975	994
Bond discount accretion	(1,859)	(1,672)
Other than temporarily impaired securities	2,866	4,301
Nondeductible portion of policyholder dividend	1,645	-
Nondeductible capital loss carry forward	1,000	-
Other	1,032	545
	$ 3,832	$ 6,873

The Company believes that as of December 31, 2010, there were no material uncertain tax positions that would require disclosure under GAAP. As of December 31, 2010, the Company's 2009, 2008, and 2007 tax years were open under current Internal Revenue Service regulations and as such, potentially subject to examination.

8. 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 2010 and 2009 were $898 and $942, 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 $714 and $853 for 2010 and 2009, respectively.

Amounts payable at December 31, 2010 and 2009 under these agreements were approximately $169 and $222, respectively.

9. 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:

	2010	2009
Reserve for losses and loss adjustment expenses	$ 288,260	$ 185,086
Unearned premiums	$ 38,754	$ 42,771

At December 31, 2010 and 2009, reinsurance recoverable was concentrated with two third party reinsurance groups, Travelers Insurance Companies (approximately 27% and 26% respectively) and Lloyds of London (approximately 14% and 23% 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 by the Company in 2010 and 2009 have been adjusted as follows as a result of voluntary reinsurance:

	2010		2009	
Premiums	**Written**	**Earned**	**Written**	**Earned**
Direct and assumed	$ 89,997	$ 94,138	$ 94,242	$ 97,100
Ceded (net of ceding commission income)	(59,054)	(63,064)	(63,314)	(65,912)
Net	$ 30,943	$ 31,074	$ 30,928	$ 31,188

Losses and loss adjustment expenses	**2010**	**2009**
Direct	$ 129,276	$ 54,204
Ceded	(125,923)	(46,453)
Net	$ 3,353	$ 7,751

10. 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:

	2010	2009
Balance at January 1	$ 261,989	$ 233,850
Less reinsurance recoverable, unpaid losses	(185,086)	(153,980)
Net balance at January 1	76,903	79,870
Incurred related to		
Current year	25,198	30,090
Prior years	(21,845)	(22,339)
Total incurred	3,353	7,751
Paid related to		
Current year	3,356	5,125
Prior years	4,807	5,593
Total paid	8,163	10,718
Net balance at December 31	72,093	76,903
Plus reinsurance recoverable, unpaid losses	288,260	185,086
Balance at December 31	$ 360,353	$ 261,989

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 $21,845 and $22,339, in 2010 and 2009 respectively, primarily as a result of favorable developments on certain claims that arose in the 2003, 2005 and 2006 calendar years. As additional historical loss experience information is obtained, the Company will update its estimate of the reserve for losses and loss adjustment expenses.

11. 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, 2010.

12. 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 adopted a formula that resulted in a dividend of $3.25 million being declared in 2009.

Given the strong financial results of 2009 coupled with strong 2010 interim results, the Board elected to pay a supplemental dividend of $3 million to participating members of record on June 30, 2010. Based on the projected results and surplus level for the entire year of 2010, the Board elected to declare an additional dividend to participating members of record on December 31, 2010 in the amount of $4.7 million.

The additional 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, 2010, before payment of the dividend, and the proportion of 2010 gross earned premium of the Company attributable to each participating member. Effective with the payment of this dividend, the Board voted to change the by-laws of the Company to require that this and future dividends only be paid to those eligible participating members that renew a participating policy in the year after the dividend declaration.

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.

13. 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 31 measurement date for the Plan. Plan assets consist of mutual funds, including various debt and equity issues.

The Plan uses 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, 2010 and 2009:

	2010	2009
Discount rate for benefit obligation	5.71%	6.25%
Discount rate for pension cost	6.25%	6.50%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	4.50%	4.50%

Plan amounts recognized in the Consolidated Balance Sheet consist of:

	2010	2009
Noncurrent assets	$ 1,098	$ 1,043
Current liabilities	-	-
Noncurrent liabilities	-	-
Total	$ 1,098	$ 1,043

Plan amounts recognized in accumulated other comprehensive income consist of:

	2010	2009
Net loss	$ 592	$ 294

Other components of the Plan for the years ended December 31, 2010 and 2009, were as follows:

	2010	2009
Benefit obligation	$ 5,359	$ 4,180
Fair value of plan assets	6,457	5,223
Funded status of the plan	$ 1,098	$ 1,043
Employer contributions	$ 811	$ 1,077
Benefits paid	$ 314	$ 73

The Plan's accumulated benefit obligation is $3,673 as of December 31, 2010 and was $2,934 as of December 31, 2009. Pension expense for the Plan equaled $298 and $394 for the years ended December 31, 2010 and 2009, 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:

	2010	2009
Asset Category:		
Equities	60.0%	60.0%
Fixed income securities	40.0%	40.0%
Total	100.0%	100.0%

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	9.0%	60.0%	5.4%
Fixed income securities	5.0%	40.0%	2.0%
Total		100.0%	7.4%

	Guideline Allocation	Permissible Range
Asset Category:		
Equities	60.0%	60.0%
Fixed income securities	40.0%	40.0%

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 $811 and $1,077 to the Plan for the years ended December 31, 2010 and 2009, respectively, which were in excess of the minimum required ERISA contributions. The Company's funding policy is to contribute 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
2011	$ 500
2012	$ 300
2013	$ 112
2014	$ 107
2015	$ 97
2016-2019	$ 4,819

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 $16.5. The Company contributed approximately $144 and $112 to this plan in 2010 and 2009, 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:

SERP amounts recognized in the consolidated balance sheet consist of:

	2010	2009
Noncurrent assets	$ -	$ -
Current liabilities	-	-
Noncurrent liabilities	(1,338)	(804)
Total	$ (1,338)	$ (804)

SERP amounts recognized in accumulated other comprehensive income consist of:

	2010	2009
Net loss (gain)	$ 183	$ (42)

Other components of the SERP for the years ended December 31, 2010 and 2009 were as follows:

	2010	2009
Benefit obligation	$ 1,338	$ 804
Fair value of plan assets	-	-
Funded status of the plan	$ (1,338)	$ (804)
Employer contributions	$ -	$ -
Benefits paid	$ -	$ -

The SERP's accumulated benefit obligation is $796 as of December 31, 2010 and was $562 as of December 31, 2009. Included in "Underwriting, general and administrative expenses" in the accompanying consolidated statements of operations at December 31, 2010 and 2009, are amounts attributable to this plan of approximately $187 and $131. The Company anticipates contributing amounts equal to the benefits payable during future plan years.

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 $4 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
2011	$ -
2012	$ -
2013	$ -
2014	$ -
2015	$ -
2016-2019	$ 3,020

Defined Contribution Component:

The accrued liability included in the consolidated balance sheet for the defined contribution component of the SERP was $130 at December 31, 2010 and $103 at December 31, 2009. Amounts recognized in the consolidated statement of operations for the defined contribution component of the SERP were $27 at December 31, 2010 and $26 at December 31, 2009.

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 "Act") would be outweighed by the costs involved in applying for benefits under the Act. Consequently, the Company has not applied for benefits under the 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 Act on the Company's postretirement medical benefit plan.

Plan amounts recognized in the Consolidated Balance Sheet consist of:

	2010	2009
Noncurrent assets	$ -	$ -
Current liabilities	(31)	(25)
Noncurrent liabilities	(1,315)	(1,116)
Total	$ (1,346)	$ (1,141)

Plan amounts recognized in accumulated other comprehensive income consist of:

	2010	2009
Net loss	$ 319	$ 247

Other components of the plan for the years ended December 31, 2010 and 2009, were as follows:

	2010	2009
Benefit obligation	$ 1,346	$ 1,141
Fair value of plan assets	-	-
Funded status of the plan	$ (1,346)	$ (1,141)
Employer contributions	$ 31	$ 29
Benefits paid	$ 32	$ 29

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

	2010	2009
Retirees	$ (496)	$ (421)
Other active participants	(850)	(720)
Accumulated postretirment benefit obligation	$ (1,346)	$ (1,141)
Weighted average assumed discount rate to determine:		
The benefit obligation	5.91%	6.25%
The net benefit cost	6.25%	6.25%

Included in "Underwriting, general and administrative expenses" in the accompanying consolidated statements of operations at December 31, 2010 and 2009, are amounts attributable to this plan of approximately $124 and $116, 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 2011 is $31.

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 $16 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
2011	$ 31
2012	$ 32
2013	$ 39
2014	$ 49
2015	$ 58
2016-2019	$ 345

For measurement purposes, a 8.5% increase in healthcare costs was assumed for fiscal year 2010, trending down to 5.0% in 2019 and thereafter.

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, 2010 is $312 attributable to this plan.

14. Other Comprehensive Income

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

For the Year Ended December 31, 2010	Pretax Amount	Tax Expense or Benefit	Net of Tax Amount
Net unrealized gains on investments			
Net unrealized gains arising during the period	$ 9,371	$ 3,280	$ 6,091
Reclassification adjustment for losses realized in net income	5,429	1,900	3,529
Net unrealized losses on employee benefit plans	(918)	(322)	(596)
Other comprehensive income	$ 13,882	$ 4,858	$ 9,024

For the Year Ended December 31, 2009	Pretax Amount	Tax Expense or Benefit	Net of Tax Amount
Net unrealized gains on investments			
Net unrealized gains arising during the period	$ 17,732	$ 6,206	$ 11,526
Reclassification adjustment for losses realized in net income	324	113	211
Net unrealized gains on employee benefit plans	589	206	383
Other comprehensive income	$ 18,645	$ 6,525	$ 12,120

ICI Mutual | *an uncommon value*

Aligned Interests:
owned by, governed by and operated for mutual funds and their advisers, directors and officers

Mutual Fund Knowledge and Expertise:
tailored, innovative coverage combined with expert claims handling

Availability, Stability and Financial Strength in All Markets:
consistent coverage and strong capital

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