ENERGY INSURANCE MUTUAL

1986 20 2006

YEARS

OF REMARKABLE SERVICE

Energy Insurance Mutual 2006 Annual Report

Energy Insurance Mutual Limited, known as EIM, was incorporated June 13, 1986, in Barbados, where it remains domiciled. The Company wrote its initial policies for 17 founding Members on July 1, 1986. Each of the 17 remains among the 174 Member Insureds that EIM served at year-end 2006.

Since early 1988, the Company has had its operating offices in Tampa, Florida.

Celebrating 20 Years of Remarkable Service

Energy Insurance Mutual's 2006 New Year's greeting card and the January issue of *Members Report* announced the Company would celebrate throughout the year 20 years of providing remarkable service to the utilities and energy services industry.

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At the Risk Managers Information Meeting in late February, the 20th Anniversary celebration launch found approximately 300 people gathered at the Omni Orlando Resort at ChampionsGate. The two business sessions featured timely subjects of interest to EIM Risk Manager Representatives.

The Sunday night dinner returned to the 1980s, when EIM was founded. Before dessert, EIM Chairman Mark Dodson and President David Hadler presented the over-sized, five-layer cake and cut the first piece. The featured entertainer was Jimmy Keys.

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Sixty-two people, mostly EIM directors, past and present, and their spouses, along with senior management, continued the Company's 20th Anniversary celebration at Elbow Beach Bermuda in May.

To date, 35 men and women have served or are serving as members of the EIM Board of Directors. Twenty-seven of those were present or represented at the Directors Dinner on Thursday evening, May 11.

Four of the five founding directors accepted the Company's invitation: Harlan Dellsy, Conrad Faulk, Jerry Maloney, and Tom Nunnelly. Prior to the dinner, at an information meeting in which the directors were updated on the progress of the Company since its beginning in June 1986, it was announced that framed photographs of the five founders had been hung in the EIM Boardroom in Tampa. The fifth founding director, Irene Moszer, sent regrets and greetings to those assembled.

At the gala dinner that followed, a 20th Anniversary cake was presented and cut by Chairman Mark Dodson and President David Hadler. The entertainer for the evening was Jimmy Keys, who was so well received at the Risk Managers Information Meeting in February.

Celebrating 20 Years of Remarkable Service





A 2006 OPERATING HIGHLIGHT

The highlight that colored 2006, from beginning to end, was the 20th Anniversary celebration. This, the 2006 annual report not only records an outstanding year for EIM but serves as a record of the festivities that occurred throughout the year and involved several hundred people, mostly EIM Risk Manager Representatives.

Celebrating 20 Years of Remarkable Service






A 2006 OPERATING HIGHLIGHT

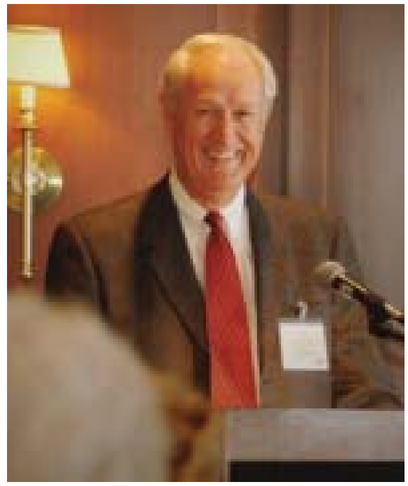
At year's end, total EIM Membership numbered 174, one Member less than at the end of 2005, thereby giving the Company an annual retention rate of 97 percent. Five new Members joined EIM during the year, but the Company lost six—four Members merged with other Members, one Member was acquired by a non-member; and one Member did not renew.

Celebrating 20 Years of Remarkable Service

A 2006 OPERATING HIGHLIGHT

EIM's sole subsidiary, Energy Insurance Bermuda (EIB) changed its name to Energy Insurance Services (EIS) and relocated from Bermuda to Greenville, South Carolina. Rob Schmid, EIS vice president and chief operating officer, is based in Greenville, and USA Risk Group is providing management support.

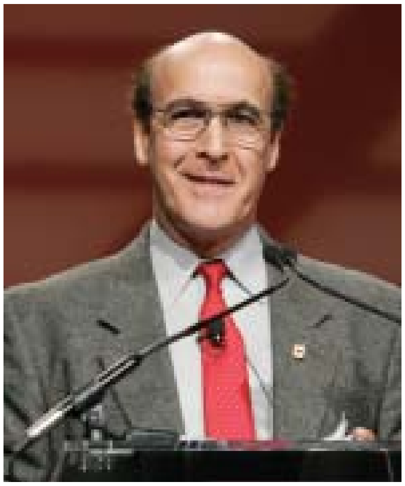
Celebrating 20 Years of Remarkable Service

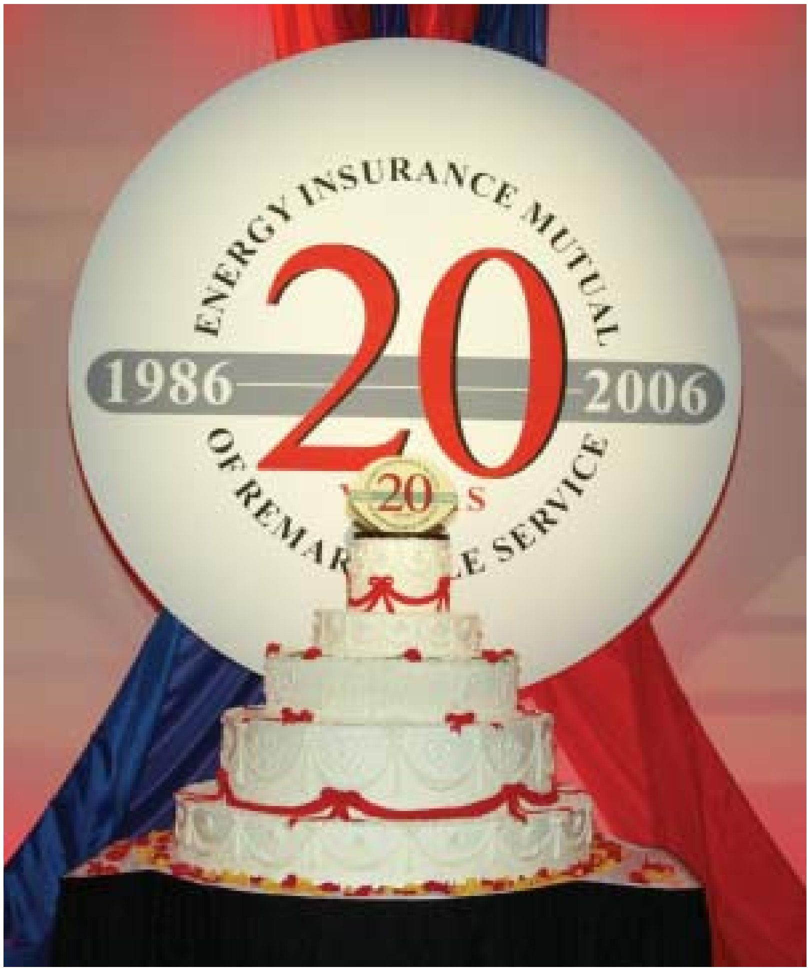


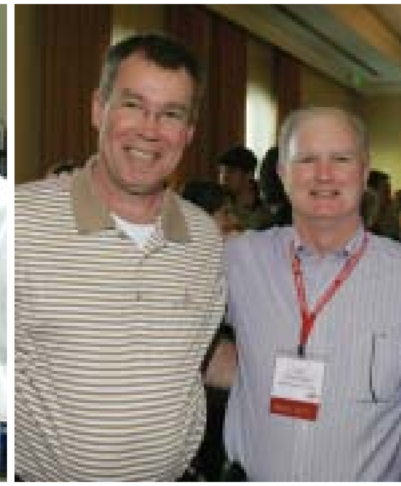
A 2006 OPERATING HIGHLIGHT

Gross premium earned for the year was $212.5 million. The comparative number at the end of 2005 was $215.0 million. The reduction came from the casualty business—almost $177.9 million in 2006 compared to almost $182.4 million in 2005. Property increased—growing from almost $32.6 million in 2005 to more than $34.6 million in 2006.

Celebrating 20 Years of Remarkable Service



A 2006 OPERATING HIGHLIGHT

EIM paid claims totaling $106.4 million in 2006. Thus far in the 21^{st} Century, the Company has paid losses of more than $592 million. Fortunately, in the Company's first $13^{1}/_{2}$ years, total losses were just over $25 million.

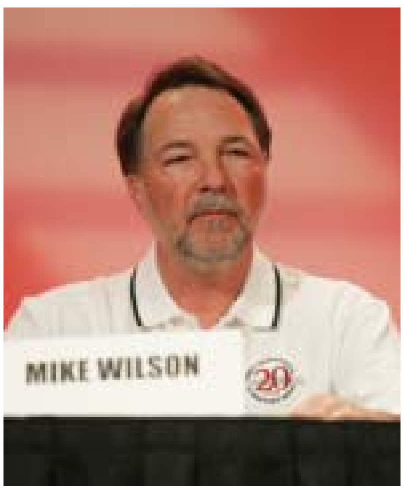
Celebrating 20 Years of Remarkable Service

A 2006 OPERATING HIGHLIGHT

Despite losses for claims paid in recent years, Policyholders' Surplus grew dramatically in 2006. At year's end, Surplus had climbed to almost $636 million, which is almost $88.5 million more, or almost 16 percent more, than the previous year's end.

Celebrating 20 Years of Remarkable Service




A 2006 OPERATING HIGHLIGHT

In December, the EIM Board approved a $10-million Policyholders' Distribution. The 2006 declaration means that the total amount returned to Policyholders since the first Distribution in 1988 is now over $167 million.

Celebrating 20 Years of Remarkable Service

A 2006 OPERATING HIGHLIGHT

At December 31, 2006, the Company had invested assets of $1,250.4 million. The invested assets by class were: U.S. treasuries—$68.0 million; municipals—$318.7 million; corporates—$76.4 million; mortgage backed—$55.7 million; common equities—$629.1 million; preferred stock—$39.5 million; cash and cash equivalents—$56.2 million; and accrued interest—$6.8 million.

Celebrating 20 Years of Remarkable Service





A 2006 OPERATING HIGHLIGHT

The Company's portfolio had a tax adjusted return of 12.6 percent following a 6.0-percent return the previous year. The portfolio's three-year return was 9.2 percent; the five-year return, 7.6 percent; and the seven-year return, 5.5 percent.

Celebrating 20 Years of Remarkable Service






A 2006 OPERATING HIGHLIGHT

In the annual Risk Managers Survey, 100 percent strongly agreed or agreed that EIM follows reasonable, prudent, and sound underwriting practices. Out of 14 measurements, the Company improved in 12 measurements over the previous year's results, remained the same in one, and lost ground in one by .04 percent.

Celebrating 20 Years of Remarkable Service

CEO's Review of the Year 2006

In 2006 we:

- Paid claims of almost $106.4 million
- Established new case reserves of over $182.5 million

Our financials yielded:

- Gross written premiums of $207.6 million
- Net investment income of $38.2 million
- Net income of $33.1 million
- Increase in unrealized appreciation of investments of $85.2 million

all of which resulted in our ending the year with Surplus of over $635.9 million, representing an increase from 2005 of $88.4 million, or slightly over 16 percent. This represented the largest dollar increase in our history.

During 2006 we celebrated our 20th anniversary. The highlight of the year occurred, for me, in May when we invited all present and past directors to a meeting in Bermuda. Having been involved with EIM, in one way or another, since the beginning and having met all the directors over the years—to be able to have most of them present (27 out of 35) and let them know how the Company had fared was a truly marvelous experience. Making a presentation to them and telling them how their foresight and guidance had enabled this initially insignificant little company with 17 Members to become a stabilizing influence in the marketplace was extremely satisfying. Another factor, which I believe gave comfort to those directors who were involved in the very early days, was that the EIM of today has never strayed far from its original client base or its original products.

In my report to the Membership last year, I mentioned, in respect of Energy Insurance Bermuda (EIB), that we were having some issues which required much more of management's time than we would like. The situation continued to deteriorate, and the Board and management concluded that we needed to regain control if the situation was ever going to improve. We believed that:

- Firstly, we needed to find someone whose only responsibility would be EIB and consequently would not be distracted by EIM issues and
- Secondly, if we felt that Bermuda could not provide us with what we wanted, then where should we be going?

Another factor which was becoming increasingly evident was a perception issue about the sending of funds offshore.

In any event we were successful in hiring Robert Schmid as managing director, subsidiary operations who immediately immersed himself in the various problems that EIB was encountering. We anticipated that we would be moving EIB onshore but were a little uncertain as to which state was the right one for us. It was a fairly exhaustive process narrowing down from the many to the final four and then to the final choice which proved to be South Carolina. From everything that we have seen so far, South Carolina will provide the regulation necessary, combined with competitive flexibility. We are looking forward to working with their Department of Insurance. The discontinuance of the Bermuda operations occurred on November 30, 2006, and the commencement of the Greenville, South Carolina, operations occurred on December 1, 2006. At that time Robert Schmid was appointed chief operating officer of Energy Insurance Services—the new name of the company. We are already receiving complements about the greatly improved level of service, and we are optimistic that this will simply continue to improve.

We are an industry mutual and believe that we should and do operate a little differently from those publicly traded insurers with whom we occasionally find ourselves competing. As a practical matter, we function in a market that is somewhat predictable in responding to various stimuli. In order to offer the limits that we do, we find it necessary to purchase reinsurance from reinsurers who operate in the commercial marketplace and have a much greater spread of risk and whose view of the world might not be as rosy as ours. This has the effect of moving us into the commercial arena a little more than we would necessarily wish, which prompts me to dwell on exactly what it is that makes an industry mutual, particularly EIM, different. I came up with the following:

- Administrative expenses. The cost to run the Company—in 2006 it was 4.23 percent of written premium—is extremely low, freeing up more funds to pay claims or make Distributions.
- Distributions of Policyholders' Surplus. We have had Distributions in 11 of our 20 years' existence and have returned over $167 million to Members.
- Our Risk Managers Information Meeting. This gives EIM the opportunity to tell the Membership and their brokers how we are doing, and if we also have a little fun doing it, all the better.
- The Risk Managers of our Members can have direct access to EIM as and when necessary.
- The limits that we provide are substantial and in most cases directly excess of your other industry mutual.

I am probably missing some other obvious differences but believe that those listed above are more than enough to differentiate us from the rest.

On a fairly regular basis, I have observed that the insurance industry does not seem to be capable of sustained common sense. As a result we see the cyclical nature of the market where man-made or natural catastrophes occur, markets harden, more capacity enters the marketplace, competition returns, and prices fall. Since 2001 we have had the post-Enron glut of Directors and Officers Liability and Fiduciary Liability claims—a man-made catastrophe and the hurricanes of 2004 and 2005—natural catastrophes. As a result we would view 2006 as a relatively stable year with no great downward pressures on premiums. My only hope is that this state of affairs will continue for some time to come. Absent any further catastrophes, history tells me that my optimism will, in all likelihood, be ill founded.

As you will have seen from my comments at the beginning of this review, we established new case reserves of over $182.5 million. These new reserves are mainly a result of reserve strengthening in respect of Directors and Officers and Fiduciary Liability losses in 2002 and 2003 as well as General Liability and Property losses in 2004, 2005, and 2006.

I was extremely pleased that we were able to declare a $10-million Distribution of Policyholders' Surplus for 2006, and we are as optimistic as we can be that the Distributions in 2005 and 2006 are simply the start of what will become a regular and growing occurrence.

Our Insurance Advisory Committee saw some changes during 2006 and early 2007, when Mike Whelan of TXU Business Services and Jim Hess of Duke Energy retired from their companies and consequently from the committee, and Bill Powell of Salt River Project resigned from the committee. Bill Powell had served on this committee since 1996 and became Chairman in 2004, and he has agreed to continue to serve on our Strategic Planning Committee. I would like to offer my sincere thanks to these individuals for their support and invaluable work over the years. We welcomed Sandi Hart of Northwest Natural Gas Company, Jack Hadsall of the City Utilities of Springfield, and Randy Martin of American Electric Power Services Company. We certainly look forward to working with these new members in the months and years to come. Upon Bill Powell's retirement from the committee, George Schuitema of Integrys Business Support took on the responsibility of chairing this committee, and Debbie Gaffney of Southern Company Services took on the role of vice chair.

There were no changes on our Board in 2006. Having said that, Bruce Worthington retired from PG&E Corporation in late 2006, and it would be customary for him to leave the Board at the next Annual General Meeting on May 14, 2007. At our January Board meeting, it was decided to ask Bruce if he would be prepared to stay on our Board until May 2008, and the situation would be reviewed at that time, and annually thereafter. Bruce has agreed to continue on these terms and will be reimbursed only for expenses in traveling to and from Board and committee meetings. There will be no additional remuneration. That is, of course, exactly the same as those Board members who are currently employed by a Member Company.

I would like to offer my thanks to both the IAC and the Board for their continuing guidance and support.

With a Member retention rate of 97 percent, I would like to thank our Members for their continued loyalty to EIM during 2006.

As always the staff of EIM has risen to the occasion in 2006, a year in which we moved our subsidiary company from Bermuda to South Carolina, have paid claims, had significant case reserves established, continued with our Distributions, and seen our Surplus grow significantly. It doesn't get much better than that.

We look forward to working with you in the months ahead.

David L. Hadler
President and Chief Executive Officer

April 3, 2007

The Products We Provide

General Liability

EIM's Excess General Liability policy is written specifically to cover a Member's liability for bodily injury, property damage, and personal injury to third parties that may arise out of the Member's operations, including:

Premises and Operations Hazards (world-wide)
Automobile
Products and Completed Operations
Failure to Supply
Pollution
Joint Ventures

The EIM Excess General Liability policy is a following form policy that is written on a claims-made basis. In addition to the general coverages outlined above, the EGL policy can be endorsed to cover:

Excess Employment Practices Liability
Excess Professional Liability (subject to a $65-million sub limit)
Excess Worker's Compensation and Employer's Liability coverage

Often, policies underlying EIM place an annual aggregate on their limits. EIM's policy can be endorsed to drop down over eroded or exhausted aggregates in the underlying policies.

EIM offers capacity of up to $100 million excess of at least $35 million in underlying coverage.

D&O

The lack of Excess Directors and Officers Liability capacity was the very reason EIM was formed in mid-1986. There is no lack of capacity in the current market; it is simply a question of form and price.

In today's litigious society, Excess Directors and Officers Liability insurance is a critical coverage. Without such protection, many individual directors and officers would be unwilling to sit on corporate boards.

Up to $50 million in D&O limits can be offered, which places EIM among the top capacity providers of this type of coverage to utilities and the energy services industry.

The policy is written on a claims-made basis. The minimum attachment point EIM will consider is $35 million. The EIM policy is a following form policy, which in the majority of cases follows the AEGIS form. As such, the EIM policy can include an affirmative grant on nuclear coverage, no pollution exclusion, and optional entity coverage that can cover corporate entity securities claims. Excess General Partner Liability policies also are available.

Fiduciary

Fiduciary Liability settlements have continued to increase in number and in size. This trend began several years ago as fiduciary "tag-along" suits were routinely filed in conjunction with securities claims suits. These "tag-along" suits frequently result after an employer's stock, located in a company-sponsored retirement benefit plan, suffers a loss in value resulting in a securities and fiduciary lawsuit. Plaintiff's attorneys now view fiduciary liability suits as an additional avenue to collect additional damages and legal fees. These suits have increased the exposure to plan fiduciaries, as it is still unresolved as to how far the courts and Congress will expand fiduciaries' liabilities under ERISA.

In addition to the "tag-along" suits, EIM's excess Fiduciary Liability policy may offer additional coverage protection for its Members in cases of claims being brought for other breaches of fiduciary duty, such as: funding issues in a defined benefit plan, changes in participant's benefits, cash benefit plan conversions, and administrative errors and omissions.

EIM continues to provide its Members $25 million of Excess Fiduciary coverage capacity, which can attach above a minimum of $35 million underlying coverage.

Property

EIM's property facility was established in 2001 as a direct response to the requests of Members who were in need of capacity. Current capacity is $35 million, up considerably from the original $5 million. Coverage is written on a quota share basis and can be provided on a primary and/or excess basis.

We continue to have our greatest success as a result of our Members directing their brokers to involve EIM in their placements.

Also, EIM continues to have a healthy and dynamic relationship with Nuclear Electric Insurance Limited (NEIL) in terms of fronting for NEIL's non-nuclear property book of business.

As we look to the future, it is the Company's goal to increase existing participation on our Members' programs as well as participation on programs where we currently have no involvement.

Energy Insurance Services (EIS)

Energy Insurance Services, which is called EIS, is available to EIM Members for solving a host of risk management needs.

Formerly known as Energy Insurance Bermuda, or EIB, the EIM subsidiary moved in late 2006 from Bermuda to Greenville, South Carolina. There, Rob Schmid, who is EIS vice president and chief operating officer, maintains an office. Also, in Greenville, USA Risk Group manages the Members' Mutual Business Programs, or MBPs.

At year's end, EIS was in the process of putting all MBP policies, investments, and financials on line.

Contact information is on the inside-back cover of this annual report.

EIM Board of Directors

*From left, **Mark S. Dodson**, president and chief executive officer, Northwest Natural Gas Company, Portland; standing, **Kimberly S. Greene**, senior vice president, finance, and treasurer, Southern Company Services, Inc., Atlanta; and **Dudley C. Reynolds**, president and chief operating officer, Alabama Gas Corporation, Birmingham.*

EIM Board of Directors

*From left, **James R. Hatfield**, senior vice president and chief financial officer, OGE Energy Corp., Oklahoma City; standing, **Charles W. Shivery**, chairman, president, and chief executive officer, Northeast Utilities, Berlin, CT; and **Trevor A. Carmichael**, barrister at law, Chancery Chambers, Bridgetown, Barbados.*

EIM Board of Directors

*From left, **J. Barry Mitchell**, president, ComEd, Chicago; standing, **David L. Hadler**, president and chief executive officer, Energy Insurance Mutual, Tampa; and **Bruce R. Worthington**, PG&E Corporation, retired, San Francisco.*

EIM Board of Directors

*From left, **Richard H. Marsh**, senior vice president and chief financial officer, FirstEnergy Corp., Akron; standing, **Allen L. Leverett**, executive vice president and chief financial officer, Wisconsin Energy Corporation, Milwaukee; and **Michael W. O'Donnell**, executive vice president and chief financial officer, NiSource Inc., Merrillville, IN.*

Board Committees

Audit Committee

James R. Hatfield (chairman)
Charles W. Shivery (vice chairman)
Kimberly S. Greene
Allen L. Leverett
Michael W. O'Donnell
Dudley C. Reynolds

Claims Committee

Bruce R. Worthington (chairman)
Mark S. Dodson (vice chairman)
David L. Hadler
J. Barry Mitchell
Dudley C. Reynolds

Executive Committee

Mark S. Dodson (chairman)
Charles W. Shivery (vice chairman)
David L. Hadler
Bruce R. Worthington

Insurance Advisory Committee

William R. Powell (chairman)
George Schuitema (vice chairman)
Robert W. Dillard
Deborah S. Gaffney
Jack R. Hadsall
Sandra K. Hart
James O. Hess, Jr.
John E. Luley
Robert J. Semet
Michael L. Wilson

Investment Committee

J. Barry Mitchell (chairman)
James R. Hatfield (vice chairman)
Mark S. Dodson
Allen L. Leverett
Richard H. Marsh

Nominating Committee

Charles W. Shivery (chairman)
Kimberly S. Greene
James R. Hatfield
J. Barry Mitchell

Reinsurance Committee

Bruce R. Worthington (chairman)
David L. Hadler
Richard H. Marsh
J. Barry Mitchell

Strategic Planning Committee

Mark S. Dodson (chairman)
David L. Hadler
J. Gary Meggs
Michael W. O'Donnell
William R. Powell
Dudley C. Reynolds
Charles W. Shivery

EIM Officers

Seated, from left, ***David L. Hadler****, president and chief executive officer, and* ***Trevor A. Carmichael****, assistant secretary. Standing, from left,* ***Donna Dunlap****, secretary;* ***Charles W. Shivery****, vice chairman;* ***Mark S. Dodson****, chairman of the board;* ***Jill Dominguez****, vice president-underwriting; and* ***Samuel M. Garvin, Jr.****, vice president and chief financial officer.*

Celebrating 20 Years of Remarkable Service

Insurance Advisory Committee

From left, IAC Vice Chairman ***George Schuitema****, director, insurance and claims, Integrys Business Support, Chicago;* ***Robert W. Dillard****, vice president, risk management and insurance, Kinder Morgan, Inc., Houston; and* ***Michael L. Wilson****, director, risk management, Entergy Services, Inc., New Orleans.*

Insurance Advisory Committee

*From left, **Jack R. Hadsall**, director, risk and security management, City Utilities of Springfield, MO; **Robert J. Semet**, insurance director, Exelon Corporation, Philadelphia; **Sandra K. Hart**, director, risk, environment, and land, Northwest Natural Gas Company, Portland; and **James O. Hess, Jr.**, director, liability and financial insurance, Duke Energy, Charlotte.*

Celebrating 20 Years of Remarkable Service

Insurance Advisory Committee

*From left, **John E. Luley**, manager, corporate insurance, Pepco Holdings, Inc., Washington, D.C.; IAC Chairman **William R. Powell**, manager, risk management, Salt River Project, Phoenix; and **Deborah S. Gaffney**, risk and insurance manager, Southern Company Services, Inc., Atlanta.*

Financials and Notes to the Financials

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

Mark S. Dodson

Mark S. Dodson
Chairman of the Board

February 25, 2007

Report of the Independent Auditors

To the Members of Energy Insurance Mutual Limited

We have audited the accompanying balance sheets of Energy Insurance Mutual Limited (the Company) as of December 31, 2006 and 2005, and the related statements of operations, policyholders' surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Energy Insurance Mutual Limited at December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young

Barbados
February 25, 2007

Balance Sheets

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	December 31	
	2006	2005
ASSETS		
Investments, available-for-sale	**$ 1,187,468**	$ 1,036,746
Investment in subsidiary	**1,151**	1,234
Cash and cash equivalents	**56,182**	73,192
Reinsurance recoverable on unpaid and paid losses	**292,373**	233,473
Reinsurance premiums paid in advance	**49,251**	47,612
Accrued interest	**6,796**	5,778
Property and equipment, at cost, net of accumulated depreciation	**1,030**	1,214
Insurance balances receivable	**3,709**	1,627
Deferred acquisition costs	**1,200**	1,467
Income taxes recoverable	**2,259**	–
Prepaid expenses	**382**	333
TOTAL ASSETS	**$ 1,601,801**	$ 1,402,676
LIABILITIES AND POLICYHOLDERS' SURPLUS		
LIABILITIES		
Reserve for losses and loss adjustment expense	**$ 750,098**	$ 666,483
Unearned premiums	**110,435**	115,243
Amounts due to reinsurers	**14,348**	30,763
Deferred income taxes, net	**59,760**	27,252
Policyholders' distribution payable	**10,000**	10,000
Payable from purchase of investments	**19,495**	3,137
Accrued expenses	**1,674**	1,782
Income taxes payable	**–**	479
TOTAL LIABILITIES	**965,810**	855,139
POLICYHOLDERS' SURPLUS	**635,991**	547,537
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	**$ 1,601,801**	$ 1,402,676

See accompanying notes.

Statements of Operations

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	Year Ended December 31	
	2006	2005
REVENUE		
Premiums		
Gross premiums written	**$ 202,052**	$ 206,811
Reinsurance premiums assumed	**5,606**	6,671
Decrease in unearned premiums	**4,808**	1,529
Reinsurance premiums ceded	**(92,631)**	(90,128)
Net premiums earned	**119,835**	124,883
Other underwriting income	**3,676**	3,775
Net gains on disposals of investments	**1,473**	198
Investment income, net	**38,236**	28,523
	163,220	157,379
EXPENSES		
Losses and loss adjustment expenses		
Gross losses and loss adjustment expenses incurred	**195,285**	87,226
Assumed losses and loss adjustment expenses	**(1,820)**	12,778
Reinsurance recoveries	**(94,152)**	(25,903)
	99,313	74,101
Other underwriting expenses, net of acquisition costs deferred	**2,627**	3,305
Administrative expenses	**8,549**	7,471
	110,489	84,877
Income before policyholders' distribution and income taxes	**52,731**	72,502
Policyholders' distribution	**(10,000)**	(10,000)
Income before income taxes	**42,731**	62,502
Income tax (expense) benefit:		
Current	**(6,952)**	(14,279)
Deferred	**(2,694)**	(3,498)
	(9,646)	(17,777)
NET INCOME FOR THE YEAR	**$ 33,085**	$ 44,725

See accompanying notes.

Statements of Policyholders' Surplus

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	Accumulated Other Comprehensive Income	Policyholders' Surplus	Total Policyholders' Surplus
Balance at January 1, 2005	$ 85,990	$ 402,522	$ 488,512
Net income for the year	–	44,725	44,725
Change in net unrealized appreciation of investments, net of tax effect of $7,699	14,300	–	14,300
Comprehensive income			59,025
Balance at December 31, 2005	$ 100,290	$ 447,247	$ 547,537
Net income for the year	–	**33,085**	**33,085**
Change in net unrealized appreciation of investments, net of tax effect of $29,814	**55,369**	**–**	**55,369**
Comprehensive income			**88,454**
Balance at December 31, 2006	**$ 155,659**	**$ 480,332**	**$ 635,991**

See accompanying notes.

Statements of Cash Flows

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	Year Ended December 31	
	2006	2005
OPERATING ACTIVITIES		
Net income for the year	**$ 33,085**	$ 44,725
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	**295**	180
Net gain from disposals of property & equipment	**(3)**	–
Net gain from sale of investments	**(1,473)**	(198)
Deferred income taxes	**2,694**	3,498
Equity in losses of subsidiary	**83**	523
Changes in operating assets and liabilities:		
(Decrease) increase in reinsurance recoverable on unpaid and paid	**(58,900)**	85,150
Increase in reinsurance premiums paid in advance	**(1,639)**	(21,239)
Increase in accrued interest	**(1,018)**	(707)
(Decrease) increase in insurance balances receivable	**(2,082)**	278
Decrease in deferred acquisition costs	**267**	520
(Decrease) increase in income taxes recoverable	**(2,259)**	11,607
(Decrease) increase in prepaid expenses	**(49)**	102
Increase (decrease) in reserve for losses and loss adjustment expense	**83,615**	(73,909)
Decrease in unearned premiums	**(4,808)**	(1,529)
(Decrease) increase in amounts due to reinsurers	**(16,415)**	30,041
Increase in policyholders' distribution payable	**–**	10,000
(Decrease) increase in accrued expenses	**(108)**	112
(Decrease) increase in income taxes payable	**(479)**	479
NET CASH PROVIDED BY OPERATING ACTIVITIES	**30,806**	89,633
INVESTING ACTIVITIES		
Cost of investments purchased	**(395,714)**	(477,584)
Proceeds from sales of investments	**322,258**	328,947
Proceeds from maturities of investments	**9,390**	76,570
Increase (decrease) in payable from purchase of investments	**16,358**	(37)
Purchases of property and equipment	**(108)**	(489)
NET CASH USED IN INVESTING ACTIVITIES	**(47,816)**	(72,593)
Net (decrease) increase in cash and cash equivalents	**(17,010)**	17,040
Cash and cash equivalents at beginning of year	**73,192**	56,152
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 56,182**	$ 73,192
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid (received) during the year for income taxes	**$ 9,690**	$ 2,191

See accompanying notes.

Notes to Financial Statements

1. INCORPORATION

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

The Company is a mutual insurance company, and membership in the Company is available to any utility or member of the energy services industry that meets the underwriting standards established by the Company.

The Company provides directors' and officers' liability, general partner liability and general liability insurance, excess of at least $25,000,000, to members. Coverage is written on a "claims first made" basis. In addition, to a lesser extent, the Company writes property insurance, primarily excess all-risk coverage, for its members. The Company does not have any other significant transactions with related parties.

2. ACCOUNTING PRINCIPLES AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements are prepared in accordance with accounting principles generally accepted in the United States.

Use of Estimates

The preparation of financial statements of insurance companies requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Significant accounting policies are as follows:

Cash and Cash Equivalents

Cash and cash equivalents are short-term, highly liquid investments with an original maturity of three months or less.

Investments

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

Reinsurance

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or

Notes to Financial Statements

other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with reinsurance companies. Reinsurance premiums, loss reimbursement and reserves related to reinsurance business are accounted for on a basis consistent with that used in accounting for the original policies issued and the terms of the reinsurance contracts. Reinsurance premiums written during 2006 and 2005 were $94,270,000 and $111,367,000, respectively.

The Company may receive a ceding commission in connection with ceded reinsurance, which is earned in a manner consistent with the premium and, to the extent that it represents a recovery of the reinsurer's share of the acquisition costs, is recorded in the statement of operations as a reduction in other underwriting expenses. Ceding commission, which does not represent a recovery of acquisition costs, is recorded as other underwriting income.

Deferred Acquisition Costs

Commissions and other costs of acquiring insurance which vary with, and are primarily related to, the production of new and renewal business are deferred and amortized over the life of the policy to which they relate. Ceding commissions received reduce acquisition costs incurred such that net acquisition costs are capitalized and charged to income in proportion to net revenue recognized. Amortization in 2006 and 2005 was $2,627,000 and $3,305,000, respectively, and is recorded as other underwriting expenses in the statement of operations.

Premiums

Premiums are generally recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums. In addition, the Company may assume reinsurance premiums from ceding companies from whom a ceding commission or fee may be earned. Assumed reinsurance premiums and ceding commissions, recorded as other underwriting income in the statement of operations, are earned on the same basis as described above.

Investment in Subsidiary

As of December 1, 2006 the Company's wholly owned subsidiary, Energy Insurance Bermuda, Ltd. (EIB), originally formed in the early 1990's, received regulatory approval to discontinue their Bermuda insurance license and operations and continue operations and licensure in South Carolina as Energy Insurance Services, Inc. (EIS). The move to a new domicile did not result in any reorganization of EIS. EIS continues to provide its members the vehicle to write specific risks that an individual utility might desire covered. As a result, EIS is able to write policies for its constituency through mutual business programs. As of December 31, 2006, EIS has assets (exclusive of assets held in mutual business programs) of approximately $1.7 million, shareholder's equity of $1.2 million and a net loss of approximately $83,000.

Reserve for Losses and Loss Adjustment Expenses

The losses and loss adjustment expenses reserve represents the estimated ultimate gross cost of all reported and unreported losses incurred through December 31. Since the Company provides principally high level excess of loss coverage to its members, it is exposed to high value but infrequent claims. Therefore, standard actuarial methods, such as paid loss development, are inappropriate to use. Losses are determined based on project-

Notes to Financial Statements

ing average loss and expected number of claims after reviewing historical known losses and claim counts and understanding how exposures to loss have changed over policy periods. Aggregate expected losses are derived based on these estimates and a theoretical size of loss distribution.

Case reserves have been established on the notification of potential loss events for specific insurance policies. Case reserves are reviewed and updated continually. However, given the uncertainty regarding the extent of the Company's ultimate liability, a significant additional liability could develop. Although considerable variability is inherent in such estimates, particularly due to the limited number of claims to date, management believes that the reserve for losses and loss adjustment expenses is adequate.

These estimates are periodically reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Income Taxes

The Company utilizes the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax reporting bases of assets and liabilities. The differences are measured using the enacted tax rates and laws that are currently in effect for those periods when the differences are expected to reverse.

3. INSURANCE OPERATIONS

The following table provides a reconciliation of the beginning and ending reserve balances for losses and loss adjustment expenses (LAE), net of reinsurance recoveries, for 2006 and 2005:

	Year Ended December 31	
	2006	2005
	(In Thousands)	
Reserve for losses and loss adjustment expense, net of reinsurance recoverables, at beginning of year	**$ 433,010**	$ 421,769
Add provision for claims, net of reinsurance:		
Provision for unpaid losses and loss adjustment expense for claims occurring in the current period, net of reinsurance	**72,808**	82,090
Increase (decrease) in estimated losses and loss adjustment expense for claims occurring in prior periods, net of reinsurance	**28,512**	(12,064)
(Decrease) increase in related tail coverage	**(2,007)**	4,075
	99,313	74,101
Less payments for losses and loss adjustment expenses relating to claims occurring in:		
the current period, net of reinsurance	**639**	892
prior periods, net of reinsurance	**73,959**	61,968
	74,598	62,860
Reserve for losses and loss adjustment expense, net of reinsurance recoverables, at end of year	**$ 457,725**	$ 433,010

Notes to Financial Statements

The foregoing reconciliation shows that an increase of approximately $28,512,000 in the December 31, 2005 reserve and a decrease of approximately $12,064,000 in the December 31, 2004 reserve emerged during 2006 and 2005, respectively.

The 2006 increase in incurred losses resulted principally from developments related to claims for which case reserves were increased to reflect new information or events that came to light in that year. The increase arose principally in respect of the 2002 underwriting year in which certain claims reserves were adjusted to levels, which in some cases were beyond the reinsurance cover available. In both years, the level of incurred but not reported reserves was reduced principally as a result of the maturing, without further notification of losses, of many underwriting years and a less severe notification of new losses than had transpired in the prior financial year.

Additionally, a decrease in tail coverage of approximately $2,007,000 and an increase of approximately $4,075,000 emerged during 2006 and 2005, respectively. The decrease in 2006 is due to positive development related to unreported loss reserves as a result of a reduction in the actuary's assessment of the projected severity for contracts subject to tail coverage. The projected severity assumption increased in 2005.

The Company has carried reinsurance since 1986. In 2006, the Company purchased Excess of Loss coverage, which protects the Company from adverse frequency of losses, on the directors and officers, general partner, general liability and fiduciary liability book of business. After certain deductible or retentions have been satisfied, the maximum amount that could be recoverable under the reinsurance treaty is $250,000,000 in respect of general liability and $81,100,000 in respect of directors and officers, general partner and fiduciary liability.

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

The property book of business is primarily reinsured by Endurance Specialty Insurance Ltd., and/or NEIL. In addition, the Company also has an arrangement with NEIL whereby their non-nuclear property book of business can be fronted by EIM.

Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured, to the extent that the reinsurer does not meet the obligations assumed under the reinsurance agreement. The reinsurance recoverable on paid and unpaid losses is substantially due from 2 reinsurers comprising 43% and 26%, respectively, of the balance at December 31, 2006 and 46% and 21%, respectively, at December 31, 2005. The remaining balance comprises amounts from various reinsurers, each not exceeding 8% (2005 – 6%) of the total.

During 2004, certain reinsurers disputed their assumed obligations of approximately $52.7 million, which was included in reinsurance recoverable on unpaid and paid losses in the accompanying balance sheet. In 2005, the Company commuted the agreements in order to settle the dispute, and accepted an amount of approximately $30.6 million as full settlement under the agreements and recognized a loss of $22.1 million on the settlement. The loss is reflected as a reduction in loss recoveries in the statement of operations for the year ended December 31, 2005.

Notes to Financial Statements

4. INVESTMENTS

The cost and estimated fair value of investments, all of which are classified as available-for-sale, are as follows:

	2006			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In Thousands)		
U.S. Treasury securities and obligations of U.S. Government Agencies	**$ 68,212**	**$ 117**	**$ 300**	**$ 68,029**
U.S. state and municipal obligations	**309,638**	**11,787**	**2,717**	**318,708**
Corporate debt securities	**77,095**	**614**	**1,243**	**76,466**
Mortgage-backed securities	**55,804**	**491**	**615**	**55,680**
Total debt securities	**510,749**	**13,009**	**4,875**	**518,883**
Equities	**437,244**	**232,829**	**1,488**	**668,585**
Total investments	**$ 947,993**	**$ 245,838**	**$ 6,363**	**$1,187,468**

	2005			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In Thousands)		
U.S. Treasury securities and obligations of U.S. Government Agencies	$ 24,176	$ 37	$ 234	$ 23,979
U.S. state and municipal obligations	292,507	14,528	2,525	304,510
Corporate debt securities	67,601	743	1,758	66,586
Mortgage-backed securities	77,625	696	258	78,063
Total debt securities	461,909	16,004	4,775	473,138
Equities	420,545	150,782	7,719	563,608
Total investments	$ 882,454	$ 166,786	$ 12,494	$1,036,746

These investments are in the custody of the Company’s investment managers and custodial trustees.

The minimum requirement of the Company’s investment guidelines is that no more than 5% of all debt securities may have a below investment-grade bond rating by at least one nationally recognized credit rating agency or the equivalent to the extent possible to determine. As of December 31, 2006 and 2005, the Company is in compliance with its investment guidelines.

The cost and estimated fair value of debt securities at December 31, 2006, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities have been aged by their respective maturity dates.

	Cost	**Estimated Fair Value**
	(In Thousands)	
Due in one year or less	$ 28,545	$ 28,200
Due after one year through five years	77,020	79,685
Due after five years through ten years	157,645	160,678
Due after ten years	247,539	250,320
	$ 510,749	$ 518,883

Proceeds from maturities of investments were approximately $9,390,000 and $76,570,000, and proceeds from sales of investments were approximately $322,258,000 and $328,947,000, during 2006 and 2005, respectively. Gross gains of approximately $15,345,000 and $11,516,000 and gross losses of $13,872,000 and $11,318,000 for 2006 and 2005, respectively, were realized on sales.

The composition of investment income is disclosed below:

	Year Ended December 31	
	2006	2005
	(In Thousands)	
Interest income	**$ 26,588**	$ 19,859
Dividend income	**13,908**	11,047
Loss from subsidiary	**(83)**	(523)
Other	**10**	50
Investment management fees	**(2,187)**	(1,910)
	$ 38,236	$ 28,523

Notes to Financial Statements

The following tables show gross unrealized losses and fair values of investments, aggregated by investment category, and the length of time that individual investments have been in a continuous unrealized loss position, at December 31, 2006 and 2005 (in thousands):

2006

	Less than one year		One year or more		Total	
Description of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury & U.S. Government Agency	**$ 25,347**	**$ 206**	**$ 13,067**	**$ 94**	**$ 38,414**	**$ 300**
U.S. state and municipal obligations	**52,886**	**321**	**68,039**	**2,396**	**120,925**	**2,717**
Corporate debt securities	**22,710**	**282**	**17,833**	**961**	**40,543**	**1.243**
Mortgage-backed securities	**8,830**	**83**	**35,759**	**532**	**44,589**	**615**
Equities	**13,724**	**328**	**12,187**	**1,160**	**25,911**	**1,488**
Total temporarily impaired securities	**$ 123,497**	**$ 1,220**	**$ 146,885**	**$ 5,143**	**$ 270,382**	**$ 6,363**

2005

	Less than one year		One year or more		Total	
Description of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury & U.S. Government Agency	$ 19,618	$ 234	$ –	$ –	$ 19,618	$ 234
U.S. state and municipal obligations	100,395	1,327	27,932	1,198	128,327	2,525
Corporate debt securities	17,751	441	29,804	1,317	47,555	1,758
Mortgage-backed securities	47,781	251	16	7	47,797	258
Equities	30,048	2,451	26,798	5,268	56,846	7,719
Total temporarily impaired securities	$ 215,593	$ 4,704	$ 84,550	$ 7,790	$ 300,143	$ 12,494

Notes to Financial Statements

None of the 392 debt securities with unrealized losses have ever missed or been delinquent on a scheduled principle or interest payment. In addition, in excess of 88% of the balance of unrealized losses related to individual securities with losses representing 5% of cost, or less and in excess of 70% with losses representing 2% of cost, or less.

Management is therefore of the belief that the unrealized losses are due to recent changes in interest rates and do not represent a significant impairment in the value of these securities that is other than temporary.

The Company's investment guidelines require it to invest in securities which would emulate the returns of the S & P 900. For this, and other reasons described below, unrealized losses arising on equity securities are believed to be temporary. Of the 85 securities with unrealized losses, 72, with losses of $300,000, have been experiencing losses for 6 months or less and are believed to be temporary. Of the remaining 13 securities, three account for in excess of 96% of the remaining $1.2 million. The Company holds preferred stock in a mortgage financing company with an unrealized loss of $1.1 million. The value of the stock has been increasing over the past year and has continued its recovery following a change in management.

Based on an analysis of the individual securities, management is of the opinion that any impairment losses, which are other than temporary, are likely to be insignificant.

In determining whether or not an unrealized loss is other than temporary, the Company reviews factors such as:

- historical operating trends,
- business prospects,
- quality of management,
- analysts ratings on the issuer and sector,
- size of the unrealized loss,
- the length of time that the security has been in an unrealized loss position and
- status of industry in which the company operates.

5. UNSETTLED INVESTMENT CONTRACTS

Unsettled investment contracts are purchases of securitized mortgage-backed securities for which the underlying investment has not been securitized, yet the price and settlement date are fixed. At December 31, 2006, unsettled investment contracts included open purchases of $19,495,000. While the Company does not require any collateral relating to these contracts, all open sales are to the same brokers with whom the Company has an open purchase, yet at a lesser amount. Therefore, there is limited credit risk to the Company.

Notes to Financial Statements

6. INCOME TAXES

A reconciliation between income taxes computed at the U.S. federal statutory rate and the provision for income taxes is as follows:

	December 31	
	2006	2005
	(In Thousands)	
Computed tax at current statutory rate	**$ 14,956**	$ 21,876
Permanent differences relating to the following items:		
Tax-free investment income	**(4,982)**	(4,431)
Other	**(328)**	332
Provision for income taxes	**$ 9,646**	$ 17,777

At December 31, 2006, total deferred tax assets and deferred tax liabilities amounted to $26,680,000 and $86,440,000 respectively. At December 31, 2005, total deferred tax assets and deferred tax liabilities amounted to $28,817,000 and $56,069,000, respectively. Deferred taxes are provided on temporary differences in reporting income and expense for income tax and financial statement purposes.

The primary temporary differences result from discounting unpaid loss reserves for income tax purposes ($20,988,000 and $22,020,000 for 2006 and 2005, respectively), recognition of premium income for income tax purposes ($4,283,000 and $4,734,000 for 2006 and 2005, respectively), and net unrealized appreciation or depreciation of available-for-sale investments ($83,816,000 and $54,002,000 for 2006 and 2005, respectively).

The Company is in the tax jurisdiction of the United States and the state of Florida and therefore files both a United States and state of Florida corporate tax return.

Since the Company is licensed as a Qualifying Insurance Company under the Insurance Act 1992-2, it is liable for tax on its taxable income at a rate of 25%. As the Company's income is exclusively earned from foreign insurance business, it is eligible for a tax credit of 93%, the maximum allowable under section 12H of Barbados Income Tax Act Cap. 73, resulting in an effective tax rate of 1.75%. However, during 2003, the Company applied for, and was granted an exemption from tax by the Minster of Finance under the Duties, Taxes and Other Payment (Exemption) Act.

7. TRUST FUNDS AND DEPOSITS

The Company has established a trust fund with a federally insured depository. This trust fund serves as security for United States policyholders and third-party claimants to satisfy requirements of being listed as an alien surplus lines insurer by the National Association of Insurance Commissioners. The Company is required to maintain a minimum amount of the lesser of: $60,000,000 or $5,400,000, plus 30% for liabilities arising from business on or after January 1, 1998. At December 31, 2005, the required balance was $60,000,000. In addition, the state of Florida has required the Company to deposit $300,000 as security for the Company's policyholders or the Company's policyholders and creditors. The trust funds and deposit balances have been included in the accompanying balance sheets as available-for-sale investments, including both fixed income securities and equities.

8. AMOUNTS DUE TO REINSURERS

At December 31, 2005, amounts due to reinsurers include an amount of $17,661,000 which represents the reinsurers' share of subrogation recoveries on losses paid which have been collected by the Company and returned to the reinsurers in January of this year except for approximately $2,572,000 that will be held as funds retained to offset the remaining obligation to fund the claim.

9. POLICYHOLDERS' SURPLUS

Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income*, establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. For the years ended December 31, 2006 and 2005, other comprehensive income consists of the following:

	2006		
	Before-Tax Amount	**Tax Expense**	**Net-of-Tax Amount**
		(In Thousands)	
Unrealized gains on securities:			
Net unrealized gains on available-for-sale securities	**$ 86,656**	**$ 30,330**	**$ 56,326**
Less: reclassification adjustment for net gains realized in net income	**1,473**	**516**	**957**
Other comprehensive loss	**$ 85,183**	**$ 29,814**	**$ 55,369**

	2005		
	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
		(In Thousands)	
Unrealized gains on securities:			
Net unrealized gains on available-for-sale securities	$ 22,197	$ 7,768	$ 14,429
Plus: reclassification adjustment for net losses realized in net income	198	69	129
Other comprehensive income	$ 21,999	$ 7,699	$ 14,300

Notes to Financial Statements

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practical to estimate a value are as follows:

Cash and cash equivalents: The carrying value of these assets is a reasonable estimate of their fair value because of the short maturity of these instruments.

Available-for-sale investments: Fair values are based on quoted market or dealer quotes.

Other financial assets and liabilities: The carrying value of these assets and liabilities is a reasonable estimate of their fair value. Other financial assets include reinsurance recoverable on paid losses, accrued interest and insurance balances receivable. Other financial liabilities include amounts due to reinsurers, payable from purchase of investments and accrued expenses.

11. COMMITMENTS AND CONTINGENCIES

It is management's position that the Company is not currently affected by any significant contingent liabilities, nor has it obligated itself in respect of any significant commitments as at December 31, 2006.

12. MARGIN OF SOLVENCY

In order to meet the requirements of the Qualifying Insurance Company under the Insurance Act 1992-2 of Barbados, the Company must have contributed reserves of approximately $12,484,000. The policyholders' surplus provided an excess margin of solvency of approximately $623,507,000 at December 31, 2006, that is available for the payment of dividends.

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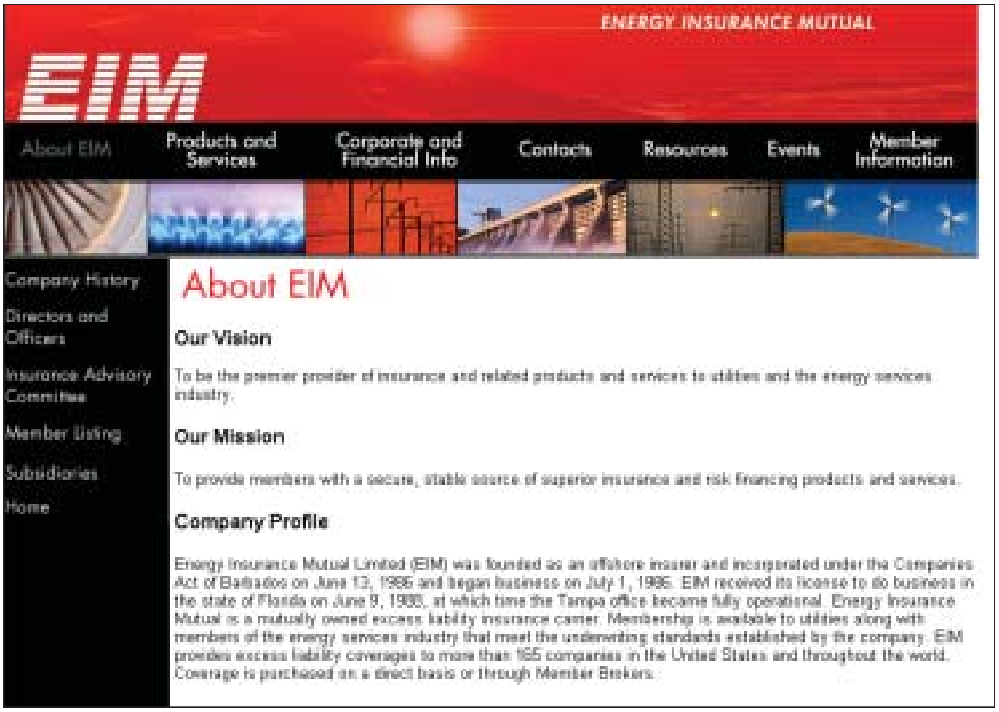

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