JOHNSON LAMBERT & CO. LLP
CPAs AND CONSULTANTS

Energy Insurance Mutual Limited

Audited Financial Statements

Years ended December 31, 2007 and 2006
with Report of Independent Auditors

Energy Insurance Mutual Limited

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Year ended December 31, 2007 and 2006

Contents

JOHNSON LAMBERT & CO. LLP
CPAs AND CONSULTANTS

Report of Independent Auditors

Board of Directors
Energy Insurance Mutual Limited

We have audited the accompanying balance sheet of Energy Insurance Mutual Limited ("the Company") as of December 31, 2007 and the related statements of income and comprehensive income, changes in policyholders' surplus and cash flows for the year 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 audit. The 2006 financial statements of Energy Insurance Mutual Limited were audited by other auditors whose report dated February 25, 2007, expressed an unqualified opinion on those financial statements.

We conducted our audit 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. An audit includes 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2007, and the results of its operations and its cash flows for the year then ended.

Johnson Lambert & Co LLP

Jacksonville, Florida
February 12, 2008

Energy Insurance Mutual Limited

Balance Sheets
(*Expressed in Thousands of U.S. Dollars)*

	As of December 31, 2007	2006
Assets		
Investments, available-for-sale	$ 1,184,674	$ 1,187,468
Investment in subsidiary	1,861	1,151
Total investments	1,186,535	1,188,619
Cash and cash equivalents	53,812	56,182
Reinsurance recoverable	404,065	292,373
Prepaid reinsurance premiums	42,734	49,251
Accrued investment income	7,011	6,796
Fixed assets	750	1,030
Premiums receivable	3,849	3,709
Deferred policy acquisition costs	1,138	1,200
Federal income tax receivable	16,531	2,259
Prepaid expenses	537	382
Total assets	$ 1,716,962	$ 1,601,801
Liabilities and policyholders' surplus		
Liabilities:		
Reserve for losses and loss adjustment expenses	$ 844,396	$ 750,098
Unearned premiums	102,369	110,435
Net deferred tax liability	72,540	59,760
Policyholder distribution payable	12,500	10,000
Reinsurance premiums payable	9,777	14,348
Payable for securities purchased	3,192	19,495
Due to subsidiary	2,548	-
Accounts payable and accrued expenses	2,579	1,674
Total liabilities	1,049,901	965,810
Policyholders' surplus:		
Accumulated other comprehensive income	173,584	155,658
Members account balance	493,477	480,333
Total policyholders' surplus	667,061	635,991
Total liabilities and policyholders' surplus	$ 1,716,962	$ 1,601,801

See accompanying notes to the financial statements

Energy Insurance Mutual Limited

Statements of Income and Comprehensive Income
(*Expressed in Thousands of U.S. Dollars)*

	Years ended December 31, 2007	2006
Revenues		
Premiums earned		
Direct written premiums	$ 194,169	$ 201,509
Assumed written premiums	5,439	5,615
Change in unearned premiums	8,066	4,808
Ceded earned premiums	(92,135)	(92,631)
Net premiums earned	115,539	119,301
Other underwriting income	2,718	3,676
	(2,060)	1,473
Net investment income	44,404	38,236
Total revenues	160,601	162,686
Expenses		
Losses and loss adjustment expenses		
Gross losses and loss adjustment expenses incurred	258,084	195,285
Assumed losses and loss adjustment expenses	(85)	(1,820)
Ceded losses and loss adjustment expenses	(133,934)	(94,152)
	124,065	99,313
Other underwriting expenses	1,856	2,093
Administrative expenses	9,961	8,549
Total expenses	135,882	109,955
Income before policyholders' distribution and income taxes	24,719	52,731
Policyholders' distribution	(12,500)	(10,000)
Income before income taxes	12,219	42,731
Federal income tax (benefit) expense		
Current	(4,053)	6,952
Deferred	3,128	2,694
	(925)	9,646
Net income	$ 13,144	$ 33,085

(continued)

See accompanying notes to the financial statements

Energy Insurance Mutual Limited

Statements of Income and Comprehensive Income
(Expressed in Thousands of U.S. Dollars)

	Years ended December 31, 2007	2006
Comprehensive income		
Net income	$ 13,144	$ 33,085
Net unrealized gains on available-for-sale securities, net of income taxes of $8,931 and $30,330, respectively	16,587	56,326
Less: reclassification adjustment for net gains (losses) realized in net income, net of income taxes of $(721) and $516, respectively	1,339	(957)
Other comprehensive income, net of tax	17,926	55,369
Comprehensive income	$ 31,070	$ 88,454

See accompanying notes to the financial statements

Energy Insurance Mutual Limited

Statement of Changes in Policyholders' Surplus
(*Expressed in Thousands of U.S. Dollars)*

	Members Account Balance	Accumulated Ot	Total
Balance at December 31, 2005	$ 447,248	$ 100,289	$ 547,537
Change in net unrealized gain on securities available for sale, net of tax	-	55,369	55,369
Net income	33,085	-	33,085
Balance at December 31, 2006	480,333	155,658	635,991
Change in net unrealized gain on securities available for sale, net of tax	-	17,926	17,926
Net income	13,144	-	13,144
Balance at December 31, 2007	$ 493,477	$ 173,584	$ 667,061

See accompanying notes to the financial statements

Energy Insurance Mutual Limited

Statements of Cash Flows
(Expressed in Thousands of U.S. Dollars)

	Years ended December 31, 2007	2006
Net income	$ 13,144	$ 33,085
Cash flows from operating activities:		
Depreciation and amortization	310	295
Gain from disposals of property and equipment	-	(3)
Net realized investment loss (gain)	2,060	(1,473)
Deferred income taxes	3,128	2,694
Equity in (gain) loss of subsidiary	(710)	83
Changes in operating assets and liabilities:		
Reinsurance recoverable	(111,692)	(58,900)
Prepaid reinsurance premiums	6,517	(1,639)
Accrued investment income	(215)	(1,018)
Premiums receivable	(140)	(2,082)
Deferred policy acquisition costs	62	267
Federal income tax receivable	(14,272)	(2,259)
Prepaid expenses	(155)	(49)
Reserve for losses and loss adjustment expenses	94,298	83,615
Unearned premiums	(8,066)	(4,808)
Reinsurance premiums payable	(4,571)	(16,415)
Policyholder distribution payable	2,500	-
Accounts payable and other accrued expenses	3,452	(587)
Net cash from operations	(14,350)	30,806
Cash flows from investing activities:		
Cost of investments purchased	(522,667)	(395,714)
Proceeds from sales of investments	527,909	322,258
Proceeds from maturities of investments	23,071	9,390
Change in payable from purchase of investments	(16,303)	16,358
Purchase of fixed assets	(30)	(108)
Net cash from investing	11,980	(47,816)
Net change in cash and cash equivalents	(2,370)	(17,010)
Cash and cash equivalents, beginning of year	56,182	73,192
Cash and cash equivalents, end of year	$ 53,812	$ 56,182
Supplemental disclosure of cash flow information		
Income taxes paid	$ 10,140	$ 9,690

See accompanying notes to the financial statements

Note A - Organization and Significant Accounting Policies

Organization
Energy Insurance Mutual Limited (the "Company", or "EIM") was incorporated under the Companies Act of Barbados on June 13, 1986. 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 is available to any utility or member of the energy services industry that meets EIM's underwriting standards. The Company provides excess general liability, excess fiduciary liability and excess directors and officers liability policies written on a claims first made basis. In addition, to a lesser extent, the Company writes property insurance for its members.

Basis of Reporting
The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). Preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment in Subsidiary
The Company is the sponsor and 100% common stockholder of Energy Insurance Services, Inc. (“EIS”), a sponsored cell captive insurance company domiciled in South Carolina. Prior to redomesticating to South Carolina on December 1, 2006, EIS was domiciled as a Bermuda cell insurer, and was known as Energy Insurance Bermuda, Ltd. The redomestication did not result in any significant change in EIS’ operations or financial statements.

As a sponsored captive, EIS allows EIM members, known as Mutual Business Programs (“MBP”), to insure or reinsure the risks of their sponsoring organizations, including property, general and environmental liability, asbestos, workers’ compensation and retiree medical stop loss. Through Participation Agreements with the MBP’s, the insurance risks underwritten by the MBP’s are contractually limited to the funds available in the individual cell’s account. Likewise, EIS has no right to the capital and accumulated profits of the MBP cells.

The Company accounts for its investment in EIS using the equity method of accounting because EIM is not the primary beneficiary in accordance with FIN 46 (R).

Note A - Organization and Significant Accounting Policies (Continued)

As of December 31, 2007, EIS has assets (exclusive of assets held in mutual business programs) of approximately $2.2 million, shareholder's equity of $1.9 million and a net gain of approximately $580,000. Additionally, EIM contributed additional capital of $130,000 to EIS during 2007. 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.

The Company and EIS file a consolidated federal income tax return. Income taxes are allocated based on separate return calculations. During 2007 and 2006, EIM provided reinsurance to certain EIS cells. For the years ended December 31, 2007 and 2006, premiums earned includes $97,723 and $59,175 of premium assumed from EIS.

Investments

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. For the purpose of presentation in the Company's statements of cash flows, cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near to maturity that they present insignificant risk of changes in value due to changing interest rates. The Company maintains certain cash and cash equivalent balances that are not subject to FDIC insurance. Management does not believe these balances represent a significant credit risk to the Company.

Note A - Organization and Significant Accounting Policies (Continued)

Losses and Loss Adjustment Expense Reserves
The 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 projecting average loss and expected number of claims after reviewing historical known losses and claim counts and understanding how exposures to loss have changed over policy periods. Aggregate expected losses are derived based on these estimates and theoretical size of loss distribution.

Case reserves have been established on the notification of potential loss events for specific insurance policies. Case reserves are continually reviewed and updated. However, given the uncertainty regarding the extent of the Company's ultimate liability, a significant additional liability could develop. 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.

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 expensed. Assumed reinsurance premiums are earned on the same basis as described above.

Reinsurance
In the normal course of business, the Company seeks to reduce the loss that may arise from large claims, catastrophes or other events by reinsuring certain levels of risk in various areas of exposure with other insurance companies. Reinsurance premiums, loss reimbursement and reserves related to reinsurance business are accounted for on a basis consistent with that used in accounting for the original policies or claims.

Reinsurance agreements may provide for the Company to earn a ceding commission on ceded premiums. Ceding commissions represent a recovery of acquisition costs, and are recorded as a reduction to other underwriting expenses as earned.

Note A - Organization and Significant Accounting Policies (Continued)

Deferred Policy Acquisition Costs
Commissions and other costs of acquiring insurance that vary with, and are directly related to, the production of new and renewal business are deferred and amortized over the life of the policy to which they relate. These costs are deferred, net of related ceding commissions, to the extent recoverable, and are amortized over the period during which the related premiums are earned.

Income Taxes
Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Policyholder Distribution
As a mutual insurer, EIM is owned by its policyholders. Policyholder distributions are charged to income when declared by the Board of Directors.

Reclassifications
Certain balances in the 2006 financial statements have been reclassified to conform to the 2007 presentation.

Note B - Insurance Activity

Premium activity for 2007 and 2006 is summarized as follows *(in thousands)*:

	Direct	Assumed	Ceded	Net
2007				
Premiums written	$ 194,169	$ 5,439	$ (86,408)	$ 113,200
Change in unearned premiums	8,066	-	(5,727)	2,339
Premiums earned	$ 202,235	$ 5,439	$ (92,135)	$ 115,539

	Direct	Assumed	Ceded	Net
2006				
Premiums written	$ 201,509	$ 5,615	$ (89,482)	$ 117,642
Change in unearned premiums	4,806	2	(3,149)	1,659
Premiums earned	$ 209,575	$ 5,615	$ (92,631)	$ 119,301

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

	2007	2006
Gross balance, beginning of year	$ 750,098	$ 666,483
Less: reinsurance recoverables on paid and unpaid losses	(292,373)	(233,473)
Net balance, beginning of year	457,725	433,010
Incurred related to:		
Current year	119,711	72,808
Prior years	1,745	28,512
Change in related tail coverage	2,609	(2,007)
Total incurred	124,065	99,313
Paid related to:		
Current year	909	639
Prior years	140,550	73,959
Total paid	141,459	74,598
Net balance, end of year	440,331	457,725
Plus: reinsurance recoverables on paid and unpaid losses	404,065	292,373
Gross balance, end of year	$ 844,396	$ 750,098

Note B- Insurance Activity (Continued)

The foregoing reconciliation shows that an increase of approximately $1,745,000 in the accident year 2006 reserve and prior and an increase of approximately $28,512,000 in accident year 2005 and prior reserve emerged during 2007 and 2006, respectively. Reserve development results 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 and 2003 accident years in which certain claim 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, an increase in tail coverage of approximately $2,609,000 and a decrease of approximately $2,007,000 emerged during 2007 and 2006, 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 2006.

The Company has carried reinsurance since 1986. In 2007 and 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 Underwriters at Lloyd's, Endurance Specialty Insurance Ltd., and/or NEIL. In addition, the Company also has an arrangement with NEIL whereby its non-nuclear property book of business is 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 two reinsurers comprising 33% and 25%, respectively, of the balance at December 31, 2007 and 43% and 26%, respectively, at December 31, 2006. The remaining balance comprises amounts from various reinsurers, each not exceeding 13% (2006 - 8%) of the total.

Note B- Insurance Activity (Continued)

Management periodically reviews the financial condition of its existing reinsurance and conclude as to whether any allowance for uncollectible reinsurance is required. At December 31, 2007 and 2006, no such allowances was deemed necessary.

Note C - Investments

The cost and fair value of investments in fixed-maturity and equity securities, as of December 31, 2007 are summarized as follows *(in thousands)*:

2007	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. state and municipal obligations	$ 318,261	$ 11,599	$ 3,188	$ 326,672
Corporate debt securities	97,641	1,799	5,339	94,101
Mortgage-backed securities	110,084	2,477	45	112,516
Total fixed-maturity securities	525,986	15,875	8,572	533,289
Equities	391,636	265,143	5,394	651,385
Total investments	$ 917,622	$ 281,018	$ 13,966	$ 1,184,674

The amortized cost and fair value of investments in fixed-maturity and equity securities, as of December 31, 2006 are summarized as follows *(in thousands)*:

2006	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury & U.S. 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 fixed-maturity 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

All investments are in the custody of the Company's investment managers and custodial trustees.

Note C- Investments (Continued)

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, 2007 and 2006, the Company is in compliance with its investment guidelines.

The cost and estimated fair value of fixed-maturity securities at December 31, 2007, by contractual maturity, are summarized below *(in thousands)*. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities have been aged by their respective maturity dates.

	Cost	Estimated Fair Value
Maturity:		
In 2008	$ 6,476	$ 7,065
In 2009-2012	85,155	89,068
In 2013-2017	109,248	111,858
Due after 2017	325,107	325,298
Total fixed-maturity securities	$ 525,986	$ 533,289

Proceeds from maturities of investments were approximately $23,071,000 and $9,390,000 and proceeds from sales of investments were approximately $527,909,000 and $322,258,000, during 2007 and 2006, respectively. Gross gains of approximately $19,372,000 and $15,345,000 and gross losses of $19,951,000 and $13,872,000, respectively, were realized on sales.

At December 31, 2007, management identified three securities for which it considered the unrealized loss to be other than temporary. As such, a charge of $1,480,000 was included in the statement of income as a realized loss.

Note C- Investments (Continued)

The following tables show gross unrealized losses and fair values of investments, aggregated by investment category, and the length of time that individual investments have been in a continuous unrealized loss position, at December 31, 2007 (*in thousands)*:

	Less than one year		One year or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. state and municipal obligations	$ 71,844	$ 921	$ 72,154	$ 2,267	$ 143,998	$ 3,188
Corporate debt securities	39,417	3,606	15,138	1,733	54,555	5,339
Mortgage-backed securities	13,778	6	9,697	39	23,475	45
Equities	50,441	5,059	2,073	335	52,514	5,394
Total temporarily impaired securities	$ 175,480	$ 9,592	$ 99,062	$ 4,374	$ 274,542	$ 13,966

None of the 380 debt securities with unrealized losses have ever missed or been delinquent on a scheduled principle or interest payment. 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 251 securities with unrealized losses, 222, with losses of $6,137,000, have been experiencing losses for six months or less and are believed to be temporary. Of the remaining 29 securities, two account for in excess of 83% of the remaining $743,000, one being a pharmaceutical company and the other an international bank.

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.

Note C- Investments (Continued)

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.

The composition of net investment income is summarized below *(in thousands)*:

	2007	2006
Interest income	$ 29,420	$ 26,588
Dividend income	16,607	13,908
Gain (loss) from subsidiary	580	(83)
Other	-	10
Gross investment income	46,607	40,423
Investment management fees	(2,203)	(2,187)
Net investment income	$ 44,404	$ 38,236

Note D - Federal Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities tax liabilities at December 31 are as follows *(in thousands)*:

	2007	2006
Deferred tax assets:		
Discounting of unpaid losses and LAE	$ 18,528	$ 20,988
Unearned premiums	4,112	4,283
AMT carryforward credit	36	-
Original issue discount	1,257	1,409
Total deferred tax assets	23,933	26,680
Deferred tax liabilities:		
Unrealized capital gains	$ 93,468	$ 83,816
Premium amortization	1,538	1,552
Other	1,467	1,072
Total deferred tax liabilities	96,473	86,440
	$ (72,540)	$ (59,760)

Note D - Federal Income Taxes (Continued)

The provision for federal income taxes differs from expected tax expense in 2007 and 2006 due to the following significant components (*in thousands*):

	2007	2006
Computed tax at current statutory tax rate (35%)	$ 4,277	$ 14,956
Permanent differences relating to the following items:		
Tax-free investment income	(5,150)	(4,982)
Other	(52)	(328)
Provision for income taxes	$ (925)	$ 9,646

The Company is required to establish a "valuation allowance" for any portion of the deferred tax asset that management believes will not be realized. The Company has historically been a taxpayer, and in the opinion of management, will continue to be subject to income taxes. Because management believes that it is more likely than not that the Company will realize the benefit of the deferred tax asset, no valuation allowance has been established.

During 2003, the Company applied for, and was granted an exemption from Barbados income tax by the Minister of Finance under the Duties, Taxes and Other Payment (Exemption) Act.

The Company is currently undergoing an IRS examination of its consolidated income tax returns for 2003 and 2004. Management believes that the issues raised related to EIM's filings are timing issues and will be resolved with no significant effect on EIM's overall financial position. The Service raised additional issues related to EIS, particularly on the treatment of MBP cells as insurance companies. Management is in the process of evaluating the Services' proposed findings, and developing a strategy to respond. At December 31, 2007, management is unable to assess the likelihood of potential outcomes nor can it quantify the exposure. As such, no provision for additional taxes payable on these years has been made in these financial statements.

Note E - Commitments and Contingencies

The Company is named as defendant in various legal actions arising in the normal course of business from claims made under insurance policies and contracts. These actions are considered by the Company in estimating the loss and loss adjustment expense reserves. The Company's management believes that the resolution of these actions will not have a material adverse effect on the Company's financial position or results of operations.

Note F - Trust Funds and Deposits

The Company has established a trust fund with a federally insured depository. This trust fund serves as security for 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 $100,000,000 or $5,400,000 plus 30% for liabilities arising from business on or after January 1, 1998. At December 31, 2007, the required balance was $100,000,000. In addition, the state of Florida has required the Company to deposit $300,000 as security for the Company's policyholders and creditors. The trust funds and deposit balances have been included in the accompanying balance sheets as available-for-sale investments, including both fixed-maturity securities and equities.

Note G - 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 $12,054,000. The policyholders' surplus provided an excess margin of solvency of approximately $655,007,000 at December 31, 2007, that is available for the payment of dividends.