JOHNSON LAMBERT & CO. LLP
CPAs AND CONSULTANTS

Energy Insurance Mutual Limited

Audited Financial Statements

Years ended December 31, 2008 and 2007
with Report of Independent Auditors

Energy Insurance Mutual Limited

Audited Financial Statements

Year ended December 31, 2008 and 2007

Contents

Report of Independent Auditors

Board of Directors
Energy Insurance Mutual Limited

We have audited the accompanying balance sheets of Energy Insurance Mutual Limited ("the Company") as of December 31, 2008 and 2007 and the related statements of income and comprehensive income, changes in 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. 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 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, 2008 and 2007, and the results of its operations and its cash flows for the years then ended.

Johnson Lambert & Co LLP

Jacksonville, Florida
February 9, 2009

Energy Insurance Mutual Limited

Balance Sheets

(Expressed in Thousands of U.S. Dollars)

	As of December 31, 2008	As of December 31, 2007
Assets		
Investments, available-for-sale	$ 921,433	$ 1,184,674
Investment in subsidiary	1,682	1,861
Total investments	923,115	1,186,535
Cash and cash equivalents	71,347	53,812
Reinsurance recoverable	448,775	404,065
Prepaid reinsurance premiums	46,714	42,734
Accrued investment income	5,936	7,011
Fixed assets	548	750
Prepaid expenses	518	537
Due from subsidiary	187	-
Premiums receivable	708	3,849
Deferred policy acquisition costs	1,052	1,138
Federal income tax receivable	11,273	16,531
Net deferred tax asset	39,524	-
Total assets	$ 1,549,697	$ 1,716,962
Liabilities and policyholders' surplus		
Liabilities:		
Reserve for losses and loss adjustment expenses	$ 964,061	$ 844,396
Unearned premiums	100,195	102,369
Reinsurance premiums payable	10,612	9,777
Payable for securities purchased	4,761	3,192
Accounts payable and accrued expenses	2,748	2,579
Net deferred tax liability	-	72,540
Policyholder distribution payable	-	12,500
Due to subsidiary	-	2,548
Total liabilities	1,082,377	1,049,901
Policyholders' surplus:		
Accumulated other comprehensive (loss) income	(3,421)	173,584
Members' account balance	470,741	493,477
Total policyholders' surplus	467,320	667,061
Total liabilities and policyholders' surplus	$ 1,549,697	$ 1,716,962

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, 2008	2007
Revenues		
Premiums earned		
Direct written premiums	$ 179,636	$ 194,169
Assumed written premiums	2,386	5,439
Change in unearned premiums	2,174	8,066
Ceded earned premiums	(82,407)	(92,135)
Net premiums earned	101,789	115,539
Other underwriting income	2,120	2,718
Net investment income		
Net realized (loss):		
Realized gain (loss) on investments sold	151	(579)
Realized loss on investments deemed other than temporarily impaired	(40,772)	(1,481)
Net realized (loss)	(40,621)	(2,060)
Net investment income	40,081	44,404
Total revenues	103,369	160,601
Expenses		
Losses and loss adjustment expenses		
Gross losses and loss adjustment expenses incurred	255,309	258,084
Assumed losses and loss adjustment expenses	478	(85)
Ceded losses and loss adjustment expenses	(119,622)	(133,934)
	136,165	124,065
Other underwriting expenses	1,658	1,856
Administrative expenses	9,027	9,961
Total expenses	146,850	135,882
(Loss) income before policyholders' distribution and income taxes	(43,481)	24,719
Policyholders' distribution	-	(12,500)
(Loss) income before income taxes	(43,481)	12,219
Federal income tax benefit (expense)		
Current	3,992	4,053
Deferred	16,753	(3,128)
Total federal income tax benefit	20,745	925
Net (loss) income	$ (22,736)	$ 13,144

(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, 2008	2007
Comprehensive income		
Net (loss) income	$ (22,736)	$ 13,144
Net unrealized (losses) gains on available-for-sale securities, net of income taxes of $81,092 and $(8,931), respectively	(150,601)	16,587
Less: reclassification adjustment for net (losses) gains realized in net income, net of income taxes of $(14,217) and $(721), respectively	(26,404)	1,339
Other comprehensive (loss) income, net of tax	(177,005)	17,926
Comprehensive (loss) income	$ (199,741)	$ 31,070

See accompanying notes to the financial statements

Energy Insurance Mutual Limited

Statement of Changes in Policyholders' Surplus

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

	Accumulated Other Comprehensive Income (Loss)	Members' Account Balance	Total
Balance at December 31, 2006	$ 155,658	$ 480,333	$ 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	173,584	493,477	667,061
Change in net unrealized loss on securities available-for-sale, net of tax	(177,005)	-	(177,005)
Net loss	-	(22,736)	(22,736)
Balance at December 31, 2008	$ (3,421)	$ 470,741	$ 467,320

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, 2008	2007
Net (loss) income	$ (22,736)	$ 13,144
Cash flows from operating activities:		
Depreciation and amortization	310	310
Net realized investment loss	40,621	2,060
Deferred income taxes	(16,753)	3,128
Equity in loss (gain) of subsidiary	179	(580)
Changes in operating assets and liabilities:		
Reinsurance recoverable	(44,710)	(111,692)
Prepaid reinsurance premiums	(3,980)	6,517
Accrued investment income	1,075	(215)
Premiums receivable	3,141	(140)
Deferred policy acquisition costs	86	62
Federal income tax receivable	5,258	(14,272)
Prepaid expenses	19	(155)
Reserve for losses and loss adjustment expenses	119,665	94,298
Unearned premiums	(2,174)	(8,066)
Reinsurance premiums payable	835	(4,571)
Policyholder distribution payable	(12,500)	2,500
Due from (to) subsidiary	(2,735)	2,548
Accounts payable and other accrued expenses	170	904
Net cash from operations	65,771	(14,220)
Cash flows from investing activities:		
Cost of investments purchased	(372,064)	(522,797)
Proceeds from sales of investments	307,209	527,909
Proceeds from maturities of investments	15,158	23,071
Change in payable from purchase of investments	1,569	(16,303)
Purchase of fixed assets	(108)	(30)
Net cash from investing	(48,236)	11,850
Net change in cash and cash equivalents	17,535	(2,370)
Cash and cash equivalents, beginning of year	53,812	56,182
Cash and cash equivalents, end of year	$ 71,347	$ 53,812
Supplemental disclosure of cash flow information:		
Income taxes received (paid)	$ 9,250	$ (10,140)

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. All members have casualty policies in place, approximately one-third of those members have property policies as well.

Basis of Reporting
The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). 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 MBPs, the insurance risks underwritten by the MBPs are contractually limited to the funds available in the individual cell's account. Likewise, EIS has no right to the capital and accumulated profits of the MBP cells.

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

Note A - Organization and Significant Accounting Policies (Continued)

As of December 31, 2008, EIS has assets (exclusive of assets held in mutual business programs) of approximately $12.5 million, shareholder's equity of $1.7 million and a net loss of approximately $179,000. 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.

The Company and EIS file a consolidated federal income tax return. Income taxes are allocated based on separate return calculations. During 2008 and 2007, EIM provided reinsurance to certain EIS cells. For the years ended December 31, 2008 and 2007, premiums earned includes $247,067 and $97,723 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 net investment income. Declines in value judged to be other than temporary are included as realized losses in the statement of income. The cost of securities sold is based on the 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. The Company maintains certain cash and cash equivalent balances that are not subject to FDIC insurance. Management does not believe these balances represent a significant credit risk to the Company.

Note A - Organization and Significant Accounting Policies (Continued)

Losses and Loss Adjustment Expense Reserves
The reserve for losses and loss adjustment expenses represents the estimated ultimate gross cost of all reported and unreported losses incurred through December 31. Since the Company provides principally high level excess of loss coverage to its members, it is exposed to 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 represent the estimated future payments on reported losses. Case reserves are continually reviewed and updated; however, given the uncertainty regarding the extent of the Company's ultimate liability, a significant additional liability could develop. Supplemental reserves (e.g., IBNR) are recorded based on actuarial projections. Although considerable variability is inherent in these estimates, particularly due to the limited number of claims to date, management believes that the aggregate reserve for losses and loss adjustment expenses is adequate. These estimates are periodically reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

Premiums
Direct and assumed premiums are recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums. The Company pays commissions on assumed business, which is expensed over the life of the policy.

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

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 2007 financial statements have been reclassified to conform to the 2008 presentation.

Note B - Insurance Activity

Premium activity for 2008 and 2007 is summarized as follows *(in thousands)*:

	Direct	Assumed	Ceded	Net
2008				
Premiums written	$ 179,636	$ 2,386	$ (86,387)	$ 95,635
Change in unearned premiums	2,174	-	3,980	6,154
Premiums earned	$ 181,810	$ 2,386	$ (82,407)	$ 101,789

	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

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

	2008	2007
Gross balance, beginning of year	$ 844,396	$ 750,098
Less: reinsurance recoverables on paid and unpaid losses	(404,065)	(292,373)
Net balance, beginning of year	440,331	457,725
Incurred related to:		
Current year	86,208	119,711
Prior years	49,757	1,745
Change in related tail coverage	200	2,609
Total incurred	136,165	124,065
Paid related to:		
Current year	3,420	909
Prior years	57,790	140,550
Total paid	61,210	141,459
Net balance, end of year	515,286	440,331
Plus: reinsurance recoverables on paid and unpaid losses	448,775	404,065
Gross balance, end of year	$ 964,061	$ 844,396

Note B- Insurance Activity (Continued)

During 2008 and 2007, EIM recognized $52.2 million and $1.7 million of incurred losses and LAE related to prior accident years, respectively. The 2008 increase relates primarily to general liability and directors and officers claims from the 2007, 2003 and 2002 accident years, and results from the strengthening of case reserves based on additional information learned about open claims during the current year.

The Company uses excess of loss reinsurance to protect the Company from severe losses on the directors and officers, general partner, general liability and fiduciary liability book of business. After certain deductible or retentions have been satisfied, the maximum amount that could be recoverable under the 2008 and 2007 reinsurance treaties is $250,000,000 with respect of general liability and $81,100,000 with 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, NEIL and various Loyds syndicates, comprising 29% and 31%, respectively, of the balance at December 31, 2008 and 33% and 25%, respectively, at December 31, 2007. The remaining balance comprises amounts from various reinsurers, each not exceeding 14% and 13%, respectively, of the total.

Note B- Insurance Activity (Continued)

Management periodically reviews the financial condition of its existing reinsurance and concludes as to whether any allowance for uncollectible reinsurance is required. At December 31, 2008 and 2007, no such allowances were deemed necessary.

Note C - Investments

The cost and fair value of investments in fixed-maturity and equity securities, as of December 31, 2008 are summarized as follows *(in thousands)*:

2008	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury & Agencies	$ 120,595	$ 5,150	$ 21	$ 125,724
U.S. state and municipal obligations	347,992	11,330	19,586	339,736
Corporate debt securities	13,894	408	1,031	13,271
Mortgage-backed securities	33,042	5	5,189	27,858
Total fixed-maturity securities	515,523	16,893	25,827	506,589
Equities	411,174	82,187	78,517	414,844
Total investments	$ 926,697	$ 99,080	$ 104,344	$ 921,433

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. Treasury & Agencies	$ 123,572	$ 3,405	$ 45	$ 126,932
U.S. state and municipal obligations	318,261	11,598	3,189	326,670
Corporate debt securities	20,535	507	869	20,173
Mortgage-backed securities	63,618	365	4,469	59,514
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

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, 2008 and 2007, the Company is in compliance with its investment guidelines.

The cost and estimated fair value of fixed-maturity securities at December 31, 2008, 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	Fair Value
Maturity:		
In 2009	$ 8,405	$ 9,080
In 2010-2013	104,314	108,168
In 2014-2018	91,556	91,909
Due after 2018	311,248	297,432
Total fixed-maturity securities	$ 515,523	$ 506,589

Proceeds from maturities of investments were approximately $15,158,000 and $23,071,000 and proceeds from sales of investments were approximately $307,209,000 and $527,909,000, during 2008 and 2007, respectively. Gross gains of approximately $16,069,000 and $19,372,000 and gross losses of $15,918,000 and $19,951,000, respectively, were realized on sales.

The Company regularly reviews its fixed-maturity and equity securities portfolios to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of investments. In evaluating potential impairment, management considers, among other criteria: (i) the current fair value compared to amortized cost or cost, as appropriate; (ii) the length of time the security's fair value has been below amortized cost or cost; (iii) specific credit issues related to the issuer such as changes in credit rating, reduction or elimination of dividends or non-payment of scheduled interest payments; (iv) management's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in value to cost; (v) specific cash flow estimations for certain mortgage-backed securities and (vi) current economic conditions.

Other-than-temporarily impaired ("OTTI") securities are assessed when the decline in fair value is below the amortized cost basis and determined to be other than temporary by management. OTTI losses are recorded in the statement of income with net realized losses on investments and result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process, and different judgments and assumptions could affect the timing of loss realization.

Note C- Investments (Continued)

The following table shows the number and fair value of fixed-maturity and equity securities that the Company determined was OTTI. This resulted in recording impairment write-downs as part of net realized losses on investments for the years ended December 31, 2008 and 2007, and reduced the unrealized loss in other comprehensive (loss) income.

	2008		2007	
	Number	Fair Value	Number	Fair Value
Fixed-maturity securities	45	$ 22,477	1	$ 213
Equity securities	28	18,295	2	1,268
Total	73	$ 40,772	3	$ 1,481

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, 2008 (*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. Treasury & U.S. Government Agency	$ 191	$ 21	$ -	$ -	$ 191	$ 21
U.S. state and municipal obligations	152,782	10,494	81,819	9,092	234,601	19,586
Corporate debt securities	2,994	434	1,807	597	4,801	1,031
Mortgage-backed securities	5,081	3,567	7,597	1,622	12,678	5,189
Equities	142,935	65,996	19,597	12,521	162,532	78,517
Total temporarily impaired securities	$ 303,983	$ 80,512	$ 110,820	$ 23,832	$ 414,803	$ 104,344

None of the 349 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 an 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 aforementioned reasons, unrealized losses arising on equity securities are believed to be temporary. Of the 913 securities with unrealized losses, 650, with losses of $49,543,798, have been experiencing losses for six months or less and are believed to be temporary. Of the remaining 263 securities, nine account for in excess of 77% of the remaining $29,866,343.

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)

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

	2008	2007
Interest income	$ 27,675	$ 29,420
Dividend income	14,706	16,607
(Loss) gain from subsidiary	(179)	580
Gross investment income	42,202	46,607
Investment management fees	(2,121)	(2,203)
Net investment income	$ 40,081	$ 44,404

On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*. This statement provides guidance for measuring assets and liabilities at fair value. There were no adjustments required to the fair value of investments as a result of adopting SFAS 157. The market approach was the valuation technique used to measure fair value of the investment portfolio. The market approach was used to value EIM's equity and fixed maturity securities except for highly rated mortgage-backed securities. The latter was valued using the income method.

SFAS No. 157 establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy and those investments included in each are as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

Note C- Investments (Continued)

The following table presents the Company's investment securities within the fair value hierarchy, and the related inputs used to measure those securities at December 31, 2008 *(in thousands)*:

	Level 1	Level 2	Level 3
Fixed-maturity	$ 19,206	$ 470,874	$ 16,509
Equities	402,586	12,258	-
Total	$ 421,792	$ 483,132	$ 16,509

The Company's use of Level 3 of "unobservable inputs" included 28 securities that accounted for less than one percent of total investments at December 31, 2008.

The following table summarizes changes in Level 3 assets measured at fair value for the year ended December 31, 2008 *(in thousands)*.

Beginning Balance	$ -
Net transfers into (out of) Level 3	16,509
Ending Balance	$ 16,509

Several of EIM's policyholders are companies represented in the S&P 900. Consequently, at December 31, 2008 EIM holds investments totaling $17.1 million in issuers who are policyholders.

Note D - Federal Income Taxes

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

	2008	2007
Deferred tax assets:		
Discounting of unpaid losses and LAE	$ 20,433	$ 18,528
Unearned premiums	3,667	4,112
AMT carryforward credit	36	36
Unrealized capital loss	16,428	-
Original issue discount	1,394	1,257
Total deferred tax assets	41,958	23,933
Deferred tax liabilities:		
Unrealized capital gains	-	93,468
Premium amortization	1,647	1,538
Other	787	1,467
Total deferred tax liabilities	2,434	96,473
	$ 39,524	$ (72,540)

Note D - Federal Income Taxes (Continued)

The (benefit) provision for federal income taxes differs from expected tax expense in 2008 and 2007 due to the following significant components (*in thousands*):

	2008	2007
Computed tax at current statutory tax rate (35%)	$ (15,218)	$ 4,277
Permanent differences relating to the following items:		
Tax-free investment income	(5,689)	(5,150)
Other	162	(52)
Provision for income taxes	$ (20,745)	$ (925)

The Company is required to establish a "valuation allowance" for any portion of the deferred tax asset that management believes will not be realized. The Company has historically been a taxpayer, and in the opinion of management, will continue to be in the future. 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.

On December 30, 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FIN 48-3, deferring the effective date of FASB Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48), for certain non-public entities for an additional year. The amended effective date for non-public entities is for fiscal years beginning after December 15, 2008. EIM has elected to defer its adoption of FIN 48 in accordance with FSP FIN 48-3. EIM evaluates uncertain tax positions in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*.

IRS Examination

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. The Company has received a Revenue Agent's Report ("RAR") and management, along with its tax advisors have responded by filing a protest with the IRS Appeals division. The Company believes that its positions will ultimately prevail in this matter. At December 31, 2008, management is unable to assess the likelihood of potential outcomes. As such, no provision for additional taxes payable on these years has been made in these financial statements.

Note D -Federal Income Taxes (Continued)

Although management does not agree with the positions taken by the agent in the RAR and believes that the Company will ultimately prevail, the RAR provides for additional taxes due of $3.8 million and $138.8 million for EIM and EIS, respectively, and combined penalties of $28.4 million. Interest has not been assessed at this time.

Note E - Commitments and Contingencies

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

Note F - Trust Funds and Deposits

The Company has established a trust fund with a federally insured depository. This trust fund serves as security for policyholders and third-party claimants to satisfy requirements of being listed as an alien surplus lines insurer by the National Association of Insurance Commissioners. The Company is required to maintain a minimum amount of the lesser of $100,000,000 or $5,400,000 plus 30% for liabilities arising from business on or after January 1, 1998. At December 31, 2008, 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 $467,320,000 at December 31, 2008, that is available for the payment of dividends.