Maine Employers' Mutual Insurance Company

Financial Statements (Statutory Basis)

December 31, 2008 and 2007

Maine Employers' Mutual Insurance Company
Index
December 31, 2008 and 2007

Report of Independent Auditors

To the Board of Directors of
Maine Employers' Mutual Insurance Company

We have audited the accompanying statutory basis statements of admitted assets, liabilities and capital and surplus of Maine Employers' Mutual Insurance Company (the "Company") as of December 31, 2008 and 2007, and the related statutory basis statements of income, changes in capital and surplus, and of 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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.

As described in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Maine Bureau of Insurance, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2008 and 2007, or the results of its operations or its cash flows for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplemental Summary Investment Schedule and Investment Risks Interrogatories of the Company as of December 31, 2008 and for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. The effects on the Supplemental Summary Investment Schedule and Investment Risks Interrogatories of the variances between the statutory basis of accounting and accounting principles generally accepted in the Untied States of America, although not reasonably determinable, are presumed to be material. As a consequence, the Supplemental Summary Investment Schedule and Investment Risks Interrogatories do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2008 and for the year then ended. The Supplemental Summary Investment Schedule and Investment Risks Interrogatories have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 13, 2009

Maine Employers' Mutual Insurance Company
Statements of Admitted Assets, Liabilities and Capital and Surplus (Statutory Basis)
December 31, 2008 and 2007

	2008	2007
Admitted Assets		
Invested assets		
Bonds, at carrying value (NAIC fair value: $461,961,573 and $455,722,041 at December 31, 2008 and 2007, respectively)	$ 464,184,517	$ 449,490,816
Common stocks, at NAIC fair value (cost: $34,314,942 and $44,354,846 at December 31, 2008 and 2007, respectively)	40,021,167	66,355,755
Common stocks of affiliates	51,723,499	49,188,684
Preferred stocks, at statement value (cost: $0 and $580,442 at December 31, 2008 and 2007)	-	580,442
Other invested assets	4,729,336	4,617,224
Investment in real estate	4,511,007	-
Cash	19,456,583	14,078,973
Total cash and invested assets	584,626,109	584,311,894
Premium balances receivable	42,560,057	43,886,084
Equities and deposits in pools and associations	23,663	58,125
Investment income due and accrued	5,447,225	5,119,792
EDP equipment (net of accumulated depreciation of $2,272,725 and $1,901,970 in 2008 and 2007, respectively)	617,329	707,106
Reinsurance recoverable on paid loss and loss adjustment expenses	1,019,880	1,629,475
Federal income tax recoverable	-	947,600
Net deferred income taxes	9,887,198	10,599,218
Due from affiliates	176,389	925,468
Total assets	$ 644,357,850	$ 648,184,762
Liabilities		
Loss reserves	$ 300,922,066	$ 300,281,527
Loss adjustment expense reserves	38,855,011	34,554,397
Unearned premium reserves	65,329,632	69,846,978
Reinsurance premiums payable	770,903	879,203
Commissions payable	4,011,977	4,445,578
Advance premium	1,678,383	686,761
Workers' compensation board assessment	1,448,702	1,485,143
Supplemental benefit fund assessment	1,207,426	1,174,721
Other liabilities	11,926,549	14,050,757
Federal income tax payable	1,330,949	-
Total liabilities	427,481,598	427,405,065
Commitments and contingencies (Note 13)		
Capital and Surplus		
Capital contributions	3,222,875	3,220,336
Unassigned surplus	213,653,377	217,559,361
Total capital and surplus	216,876,252	220,779,697
Total liabilities and capital and surplus	$ 644,357,850	$ 648,184,762

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

Maine Employers' Mutual Insurance Company
Statements of Income
(Statutory Basis)
Years Ended December 31, 2008 and 2007

	2008	2007
Underwriting income		
Premiums earned, net	$ 139,884,757	$ 147,286,652
Loss and underwriting expenses		
Losses incurred, net	72,361,371	89,925,577
Loss adjustment expenses incurred, net	15,174,892	12,366,833
Underwriting expenses	28,046,263	30,115,936
Total loss and underwriting expenses	115,582,526	132,408,346
Net underwriting income	24,302,231	14,878,306
Investment income		
Net investment income	21,429,978	20,586,500
Net realized capital losses, net of taxes	(13,447,677)	(448,141)
Total investment income	7,982,301	20,138,359
Other expense		
Bad debt expense	(315,214)	(439,818)
Service fee income	81,280	86,142
Other (expense) income	(15,244)	8,102
Net other expense	(249,178)	(345,574)
Income before dividends and federal income taxes	32,035,354	34,671,091
Dividends to policyholders	15,000,110	14,006,432
Income after dividends, before federal income taxes	17,035,244	20,664,659
Provision for federal income taxes	6,117,052	6,212,185
Net income	$ 10,918,192	$ 14,452,474

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

Maine Employers' Mutual Insurance Company
Statements of Changes in Capital and Surplus
(Statutory Basis)
Years Ended December 31, 2008 and 2007

	2008	2007
Capital and surplus, beginning of year	$ 220,779,697	$ 197,165,437
Capital contributions made (returned)	2,539	(6,372)
Net income	10,918,192	14,452,474
Increase in net deferred income taxes	3,514,590	2,193,261
(Increase) decrease in nonadmitted assets	(10,077,055)	524,798
Increase in provision for reinsurance	-	43,000
Increase in net unrealized appreciation of invested assets (net of deferred taxes of $(5,759,345) and $1,108,972 at December 31, 2008 and 2007, respectively)	(8,261,711)	6,407,099
Change in capital and surplus	(3,903,445)	23,614,260
Capital and surplus, end of year	$ 216,876,252	$ 220,779,697

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

Maine Employers' Mutual Insurance Company
Statements of Cash Flows
(Statutory Basis)
Years Ended December 31, 2008 and 2007

	2008	2007
Cash from operations		
Premiums collected, net	$ 137,305,643	$ 145,945,020
Investment income received, net	23,052,262	21,717,215
Other expense	(249,178)	(345,574)
Cash provided from operations	160,108,727	167,316,661
Benefit and loss related payments	(71,111,237)	(68,673,512)
Commissions and expenses paid	(41,512,495)	(39,357,680)
Dividends paid to policyholders	(15,068,862)	(14,006,432)
Federal income taxes paid	(4,039,756)	(3,346,049)
Cash used in operations	(131,732,350)	(125,383,673)
Net cash provided from operations	28,376,377	41,932,988
Cash from investments		
Proceeds from investments sold, matured or repaid		
Bonds	53,989,230	68,846,237
Common and preferred stocks	800,652	2,194,754
Total investment proceeds	54,789,882	71,040,991
Costs of investments acquired		
Bonds	(73,843,848)	(105,072,130)
Common and preferred stocks	(248,909)	(1,783,491)
Real Estate	(4,665,421)	
Other invested assets	(76,125)	(38,875)
Total cost of investments acquired	(78,834,303)	(106,894,496)
Net cash used in investments	(24,044,421)	(35,853,505)
Cash from financing and miscellaneous sources		
Capital contributions made (returned)	2,539	(6,372)
Other applications	1,043,115	(830,169)
Net cash used in financing and miscellaneous sources	1,045,654	(836,541)
Net change in cash	5,377,610	5,242,942
Cash, beginning of year	14,078,973	8,836,031
Cash, end of year	$ 19,456,583	$ 14,078,973

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

1. Organization

Maine Employers' Mutual Insurance Company (the "Company") was established through a legislative action by the State of Maine on November 13, 1992 and commenced business effective January 1, 1993. The Company was established to replace the State of Maine's Workers' Compensation Residual Market Pool. The Company is a mutual insurance company and is not a state agency or instrument of the State of Maine for any purpose. The Company writes workers' compensation insurance and employers' liability insurance incidental to and written in connection with workers' compensation coverage for employers in four New England states. The Company writes its business primarily through independent agents and brokers. Approximately 99% of premium written during 2008 was for Maine policies.

In 1996, the Company obtained approval from the Maine Bureau of Insurance (the "Insurance Department") and established a wholly-owned subsidiary, MEMIC Services Inc. ("MEMIC Services"), which sells loss control and managed care services to the Company and to other unrelated companies.

In 1998, the Company obtained approval from the Insurance Department to assume business from other insurance carriers. This business could only be assumed when the Company wrote a policy for the insured in Maine. Assumed business related to this contract occurred between the 1998 and 2005 policy years.

In 1999, the Company obtained approval from the Insurance Department of the State of New Hampshire to form a subsidiary, MEMIC Indemnity Company ("MEMIC Indemnity") to write workers' compensation insurance in New Hampshire. MEMIC Indemnity commenced writing business September 1, 2000 and is licensed in 45 states and the District of Columbia with approximately 91% of premium written in the States of Connecticut, Massachusetts, New Hampshire, New York and Vermont.

During 2007, the Company obtained approval from the Insurance Department to write employment practices liability insurance for State of Maine policies only. The Company wrote premium for this new line of business during 2008.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared in conformity with statutory accounting practices of the National Association of Insurance Commissioners ("NAIC") as prescribed or permitted by the Maine Bureau of Insurance.

Statutory accounting practices differ in certain respects from accounting principles generally accepted in the United States of America ("GAAP"). The effects of such differences on the accompanying financial statements, which could be significant, have not been determined. The most significant differences generally include the following:

a. Statutory accounting requires that policy acquisition costs such as commissions, premium taxes and other items be charged to current operations as incurred. Under GAAP, policy acquisition costs would be deferred and then amortized ratably over the periods covered by the policies;

b. The statutory provision for federal income taxes represents estimated amounts currently payable based on taxable income or loss reported in the current accounting period. Deferred income taxes are provided in accordance with SSAP 10, *Income Taxes* ("SSAP 10") and changes in deferred income taxes are recorded through surplus. The realization of any resulting deferred tax asset is limited based on certain criteria in accordance with SSAP 10. The GAAP provision would include a provision for taxes currently payable, as well as deferred taxes, both of which would be recorded in the income statement.

c. Under statutory accounting, certain assets designated as "nonadmitted assets" (principally premiums receivable over 90 days past due, deferred income taxes, prepaid assets, miscellaneous receivables and office furniture and equipment) are charged directly to surplus. GAAP would require the Company to maintain a reserve for doubtful accounts based on amounts deemed to be uncollectible. Office furniture and equipment would be capitalized and depreciated over the estimated useful lives;

d. Statutory results of MEMIC Indemnity are reflected on the statutory equity method. Investment in MEMIC Services is accounted for under GAAP equity adjusted to a statutory basis which resulted in a net liability on the Company's statements of admitted assets, liabilities, capital and surplus. Adjustments include nonadmitted deferred tax assets, receivables over 90 days past due and furniture and equipment. The results of operations of these subsidiaries are recorded directly in surplus. Under GAAP, the subsidiary would be consolidated and such amounts would be reported in the financial statements on a consolidated basis;

e. Under statutory accounting, investments in debt securities are generally carried at amortized cost. Under GAAP, debt securities classified as trading or available-for-sale are valued at fair value, and debt securities classified as held-to-maturity are valued at amortized cost;

f. Reinsurance balances relating to unpaid loss and loss adjustment expenses are presented as offsets to reserves; under GAAP, such amounts would be presented as reinsurance recoverable; moreover, under statutory accounting, a liability is established for recoverable balances from reinsurers which are not authorized and for overdue paid loss recoverables;

g. Under GAAP, the inclusion of a statement of comprehensive income, detailing the income effects of unrealized gains and losses, foreign exchange transactions, and pension liability adjustments is required;

h. For cash flow purposes, included as cash and cash equivalents are short-term investments which mature within one year as opposed to three months;

i. A reconciliation of cash flows to the indirect method is not provided under statutory accounting;

Management Estimates

The preparation of financial statements in conformity with statutory accounting practices 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.

Fair Value Measurements

Effective January 1, 2008, SFAS No. 157, *Fair Value Measurement* ("SFAS 157"), was issued and must be adopted prospectively for fiscal years beginning after November 15, 2007. The Statement provides a revised definition of fair value and guidance on methods used to measure fair value. The Statement also expands financial statement disclosure requirements for fair value information. The Statement establishes a hierarchy that distinguishes between inputs based on market data from independent sources ("observable inputs") and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable ("unobservable inputs"). The fair value hierarchy in SFAS 157 prioritizes inputs with three levels. Quoted prices in active markets have the highest priority (Level 1) followed by observable inputs other than quoted prices (Level 2) and unobservable inputs having the lowest priority (Level 3). Included in the Company's total cash and invested assets are certain investments carried at fair value on a recurring basis. Therefore, the disclosure principles required by SFAS 157 are included in these statutory basis financial statements. See Note 11 for further disclosure required pursuant to SFAS 157.

Cash and Invested Assets

Invested assets are valued in accordance with the statutory basis of valuation prescribed by the NAIC. Cash includes cash and cash equivalents, which are short-term investments which mature within one year; the carrying value of these investments approximate fair value.

Bonds are generally stated at amortized cost. Bonds with an NAIC rating of "three" or higher are carried at the lower of amortized cost or fair value. The fair values of these securities are based on quoted prices for similar assets in active markets. The Company utilizes the prospective adjustment methodology to value mortgage-back bonds.

Unaffiliated common and preferred stocks are generally stated at the NAIC fair value. The fair values of bonds and common and preferred stocks are based on quoted market prices in active markets. Where declines in the value of marketable securities are deemed other than temporary, the loss is reported as a component of net realized capital losses. The net unrealized gains and losses on these marketable securities, after deductions of applicable deferred income taxes, are credited or charged directly to policyholders' surplus.

Other invested assets consist of actively traded mutual funds and nonmarketable alternative equity investments. The fair values of the mutual funds are based on quoted market prices in active markets. Nonmarketable alternative equity investments consist of venture capital funds that are also included in other invested assets and are carried at fair value based upon the Company's proportionate interest in the underlying fund's net asset value, which is deemed to approximate fair value. These investments are not publicly traded and, accordingly, quoted market prices are not available.

Investments in affiliates at December 31, 2008 and 2007 are stated at the net asset value of the affiliate determined on a statutory basis excluding surplus notes issued (Note 10). Changes in net asset value of affiliates are charged or credited directly to unassigned policyholder surplus.

Real estate and related building improvements are carried at cost less accumulated depreciation and amortization. The Company provides for depreciation and amortization principally on the straight-line method over the estimated useful lives or the applicable lease terms.

Investment income is recorded on an accrual basis. Realized capital gains and loses are reported in operating results based on the specific identification of investments sold. Unrealized capital gains and losses from the valuation of investments at fair value are credited or charged directly to unassigned surplus, net of federal income taxes, unless determined to be other than temporary and included as a component of net realized capital losses.

Premiums and Unearned Premium Reserves
Direct and assumed premiums, net of amounts ceded to other insurance companies, are earned on a monthly pro rata basis over the in-force period. Accordingly, unearned premium reserves are established for the pro rata portion of premiums written which are applicable to the unexpired terms of the policies in force, net of reinsurance. Premium adjustments resulting from retrospective rating plans and/or audit adjustments are immediately recorded as written and earned premiums once such amounts can be reasonably estimated.

Equities and Deposits in Pools
The Company is required to participate in involuntary pools in several states where it writes workers compensation business. The Company participates in underwriting results, including premiums, losses, expenses and other operations of involuntary pools, based on the Company's proportionate share of similar business written in the state. Underwriting results are accounted for on a gross basis whereby the Company's portion of premiums, losses, expenses and other operations of the pool are recorded separately in the financial statements rather than netted against each other.

Loss and Loss Adjustment Expense Reserves
Losses and loss adjustment expenses are recorded as incurred so as to match such costs with premiums over the contract periods. Loss reserves are established for losses and loss adjustment expenses based upon claim evaluations and include an estimated provision for both reported and unreported claims incurred and related expenses. The assumptions used in determining loss and loss adjustment expense reserves have been developed after considering the experience of the Company, industry experience and projections by independent actuaries. The ultimate loss and loss adjustment expense reserves may vary from the amounts reflected in the accompanying financial statements. The methods utilized in estimating and establishing the reserves are continually reviewed and updated and any adjustments are reflected in current operating results. Allowances for subrogation recoveries are included in the Company's estimate of loss reserves. See the summary of reserve development in Note 6.

Nonadmitted Assets
The following nonadmitted assets were excluded from the balance sheet as of December 31, 2008 and 2007:

	2008	2007
Premium balances receivable over 90 days past due	$ 1,548,653	$ 1,276,279
Deferred income taxes	22,919,112	12,933,157
Accrued retrospective premiums	920	7,078
Fixed assets, net of accumulated depreciation	2,269,325	2,324,115
Other assets	656,586	776,912
Total nonadmitted assets	$ 27,394,596	$ 17,317,541

Depreciation expense on nonadmitted fixed assets was $679,691 and $553,273 in 2008 and 2007, respectively.

Federal Income Taxes
The Company files a consolidated tax return with MEMIC Indemnity and MEMIC Services. Under this tax sharing agreement, the provision for federal income taxes is recorded based upon amounts expected to be reported as if the Company filed a separate federal income tax return. Additionally, under this agreement, the Company will be reimbursed for the utilization of tax operating losses, tax credits and capital loss carryforwards to the extent the Companies would have utilized these tax attributes on a separate return basis.

The provision for federal income taxes includes amounts currently payable or recoverable and deferred income taxes, computed under the asset/liability method, which results from temporary differences between the tax basis and the book basis of assets and liabilities.

EDP Equipment
EDP equipment is stated at cost, net of accumulated depreciation. Depreciation is computed principally using the straight-line method based on the estimated useful lives of assets, which is generally three years. Depreciation expense for the years ended December 31, 2008 and 2007 was $389,582 and $363,353, respectively. Expenditures for maintenance and repairs relating to EDP equipment and certain fixed assets which are nonadmitted are charged to expense as incurred. When property is sold or retired, the cost of the property and the related accumulated depreciation are removed from the statement of admitted assets, liabilities and capital and surplus and any gain or loss on the transaction is reflected in current operating results.

3. Capital Contributions

As authorized by specific provisions of Maine state law, the Company was established as a special purpose workers' compensation insurer without any initial capital or surplus. To provide capital, the Company's policyholders were required to make capital contributions based upon a percentage of their final audited premiums for policies with effective dates prior to January 1, 1996. Capital contributions were based on the estimated annual premium and are subsequently adjusted, as necessary, based upon cancellations and premium audits. Cumulative capital contributions as of December 31, 2008 and 2007 amounted to $3,222,875 and $3,220,336, respectively.

The Maine Bureau of Insurance recognizes only statutory accounting practices prescribed or permitted by the State of Maine for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the Maine Insurance Laws. The NAIC Accounting Practices and Procedures Manual ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of Maine. Prescribed Maine Laws can and do deviate from NAIC SAP and, further, the Commissioner of Insurance has the right to permit other specific practices which deviate from prescribed practices.

In 1998, the Company received approval from the Insurance Department to return capital contributions to the extent authorized by the Board of Directors and the Insurance Department. The Company returned $717 and $3,834, of capital contributions in 2008 and 2007, respectively, net of related write-offs.

4. Dividend Restrictions

The Company is subject to regulatory limitations with respect to statutory surplus levels and dividends. Under these regulations, annual dividends cannot exceed the greater of 10% of the insurer's surplus as of the prior year end or the net gain from operations for the twelve month period ended in the prior year. The maximum amount of dividends which can be paid by insurers to policyholders without prior approval of the Superintendent of Insurance during 2008 and 2009 is $22,077,970 and $21,687,625, respectively. Dividends to policyholders amounted to $15,000,110 and $14,006,432 in 2008 and 2007, respectively.

5. Income Taxes

The components of net deferred tax assets as of December 31, 2008 and 2007 was as follows:

	2008	2007
Total of deferred tax assets	$ 35,198,418	$ 31,489,684
Total of deferred tax liabilities	(2,392,108)	(7,957,309)
Net deferred tax asset	32,806,310	23,532,375
Deferred tax assets nonadmitted	(22,919,112)	(12,933,157)
Net admitted deferred tax asset	$ 9,887,198	$ 10,599,218
(Increase) decrease in nonadmitted asset	$ (9,985,955)	$ 502,853

There are no deferred tax liabilities that have not been recognized in the Company's financial statements.

The change in net deferred income taxes is comprised of the following:

	December 31,		
	2008	2007	Change
Total deferred tax assets	$ 35,198,418	$ 31,489,684	$ 3,708,734
Total deferred tax liabilities	(2,392,108)	(7,957,309)	5,565,201
Net deferred tax asset	$ 32,806,310	$ 23,532,375	9,273,935
Tax effect of change in net unrealized gains and losses			(5,759,345)
Change in net deferred income taxes			$ 3,514,590

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2008 and 2007 are as follows:

	2008	2007
Deferred tax assets		
Discounting on loss and LAE reserves	$ 19,199,112	$ 19,595,629
Unearned premium reserves	4,572,742	4,889,289
Deferred compensation costs	2,071,092	2,843,248
Investment writedowns	6,431,991	1,751,071
Nonadmitted assets	1,654,520	1,451,288
Foreign investment company tax	796,256	666,362
Unrealized losses	193,144	-
Other	279,561	292,797
Total deferred tax assets	35,198,418	31,489,684
Nonadmitted deferred tax assets	(22,919,112)	(12,933,157)
Admitted deferred tax assets	12,279,306	18,556,527
Deferred tax liabilities		
Unrealized investment gains	(2,134,117)	(7,700,318)
Bond market discounts	(225,734)	(193,931)
Other	(32,257)	(63,060)
Total deferred tax liabilities	(2,392,108)	(7,957,309)
Net admitted deferred tax asset	$ 9,887,198	$ 10,599,218

The provision for current income taxes for the years ended December 31, 2008 and 2007 consists of the following components:

	2008	2007
Federal income tax	$ 6,117,052	$ 6,212,185
Capital gains tax	201,254	(241,305)
Current income taxes incurred	$ 6,318,306	$ 5,970,880

The provision for federal income taxes differs from tax expense computed at the prevailing federal tax rate applied to pretax income for the year ended December 31, 2008 for the following reasons:

Tax provision (before capital gains tax) at statutory rate	$ 6,032,773
Dividends received deduction	(243,767)
Tax-exempt interest	(3,105,948)
Change in deferred tax on nonadmitted assets	(31,884)
Nondeductible expense	95,359
Provision to prior year return	44,387
Cumulative adjustment to prior year deferred tax	54,883
Other	(42,087)
	$ 2,803,716
Federal income taxes incurred	$ 6,318,306
Change in deferred income taxes	(3,514,590)
Total statutory income taxes	$ 2,803,716

6. Liabilities for Loss Reserves and Loss Adjustment Expense Reserves

Activity in the liabilities for loss reserves and loss adjustment expense reserves for the years ended December 31, 2008 and 2007 is summarized as follows:

	2008	2007
Balance at January 1	$ 363,649,665	$ 351,665,759
Less reinsurance recoverables	28,813,741	38,797,318
Net balance at January 1	334,835,924	312,868,441
Incurred related to		
Current year	105,464,823	107,839,546
Prior years	(17,928,560)	(5,547,136)
Total incurred	87,536,263	102,292,410
Paid related to		
Current year	23,784,740	22,061,510
Prior years	58,810,370	58,263,417
Total paid	82,595,110	80,324,927
Net balance at December 31	339,777,077	334,835,924
Plus reinsurance recoverables	28,145,013	28,813,741
Balance at December 31	$ 367,922,090	$ 363,649,665

The liabilities for loss and loss adjustment expense reserves are based upon assumptions which consider the experience of the Company, industry experience, and projections by independent actuaries. However, the reserve process is inherently subjective, and the ultimate loss and loss adjustment expense reserves may vary from the amounts recorded in the financial statements.

During 2008, the Company's incurred losses related to prior years decreased by $17,928,560 due to favorable loss development on the 1993 through 2007 accident years.

During 2007, the Company's incurred losses related to prior years decreased by $5,547,136 due to favorable loss development on the 1993 through 2006 accident years.

7. Reinsurance

The Company assumed risks from another insurance company through a quota share reinsurance agreement for workers' compensation which was terminated effective for 2005 policy years. Amounts added loss reserves and loss adjustment expenses for reinsurance assumed were as follows:

	2008	2007
Loss and loss adjustment expenses incurred	$ 102,646	$ 94,954
Loss and loss adjustment expense reserves	2,444,625	2,392,611
Premiums receivable, net of ceding commissions	-	15,611

The Company pledged securities with a fair value in the amount of $2,895,641 and $2,949,210 as collateral for a letter of credit provided to an insurance company for assumed risks as of December 31, 2008 and 2007, respectively.

In 2008, the Company wrote policies in the States of Connecticut, Vermont, New Hampshire and Massachusetts and is required to participate in the National Workers' compensation Reinsurance pool and the Massachusetts Reinsurance Pool (the "Pools") as it relates to those states. Participation requires that the Company share in the losses and expenses of the Pool. Pool results are accounted for on a gross basis whereby the company's portion of premium, losses, expenses and other operations of the Pool are recorded separately in the financial statements. All amounts are recorded as assumed business. Amounts added to premiums, reserves and expense for reinsurance assumed from pools are as follows:

Premiums earned	$ 87,460	$ 34,019
Loss and loss adjustment expenses incurred	23,432	28,125
Unearned premiums	22,376	37,500
Loss and loss adjustment expense reserves	62,370	26,125
Premium receivable	13,869	58,125
Underwriting expenses incurred	20,011	16,375

The Company reinsures portions of risks with other insurance companies through excess of loss reinsurance agreements. Such agreements serve to limit the Company's maximum loss on catastrophes and large losses. To the extent that any reinsurer might be unable to meet its obligations, the Company would be liable for such defaulted amounts.

Under the Company's excess of loss agreement, the Company's net retention for losses is $5,000,000 for 2008 and 2007 with reinsurance coverage up to $50,000,000 in excess of its net retention.

The Company also has aggregate excess of loss coverage for policies effective 1998 to 2002 whereby the Company can recover losses exceeding 71% of direct workers' compensation premiums earned but not exceeding 86% of direct workers' compensation premiums earned.

Amounts deducted from premiums, reserves and expenses for reinsurance ceded to other companies for workers compensation and employers' liability were as follows:

	2008	2007
Premiums earned	$ 2,985,960	$ 2,937,282
Loss and loss adjustment expenses incurred	5,086,754	3,151,037
Loss and loss adjustment expense reserves	29,243,058	28,813,741
Premiums payable	523,120	879,203

The Company cedes risk to another insurance company through a 100% quota share reinsurance agreement for its new line of business, employment practices liability insurance (EPLI). During 2008 the Company wrote $904,480 and earned $342,016 which was 100% ceded, net of commissions to the other insurance company. As a result of the reinsurance contract, on a net basis, there were no outstanding loss, loss adjustment reserves and no loss and loss adjustment expenses incurred during 2008. Premiums payable as of December 31, 2008 were $247,781.

Of the 2008 and 2007 ceded loss and loss adjustment expense reserves above, 100% of the balances are comprised of amounts with five reinsurance carriers.

The Company had unsecured reinsurance recoverables from reinsurers that exceeded 3% of capital and surplus at December 31, 2008 as follows:

General Reinsurance Corp.	$ 27,007,000

The Company has no reinsurance contracts that contain the following features (a) a contract term longer than two years and that is noncancellable by the reporting entity during the contract term; (b) a limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer; (c) aggregate stop loss reinsurance coverage; (d) an unconditional or unilateral right by either party to commute the reinsurance contract, except for such provisions which are only triggered by a decline in the credit status of the other party; (e) a provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or (f) payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. The Company has neither ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which during the period covered by the statement it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards to policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards to policyholders, nor has the Company ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement and accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP"). Additionally, the Company has not ceded any risk under any reinsurance contract where (a) the written premiums ceded to the reinsurer represents 50% or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statements or (b) 25% or more of the written premium ceded to the reinsurer has been retroceded back to the Company. Accordingly, the Company has not included the supplemental schedule of reinsurance disclosures as is required under paragraph 72 of SSAP 62.

8. Premiums Written and Earned

During the years ended December 31, 2008 and 2007, direct, assumed and ceded premiums were as follows:

	2008		2007	
	Written	**Earned**	**Written**	**Earned**
Direct	$ 139,239,641	$ 143,125,273	$ 148,743,670	$ 150,189,915
Assumed	72,336	87,460	71,519	34,019
Ceded	(3,890,440)	(3,327,976)	(2,937,282)	(2,937,282)
Net premiums	$ 135,421,537	$ 139,884,757	$ 145,877,907	$ 147,286,652

9. Statutory Deposits

Various regulatory authorities require that securities be placed on deposit. At December 31, 2008 and 2007, fixed income securities on deposit have a carrying value of $2,889,706 and $1,882,946, respectively.

10. Investments

The cost and NAIC fair value, of investments in equity securities, including investments in affiliates, were as follows:

		Gross Unrealized		NAIC
	Cost	**Gains**	**Losses**	**Fair Value**
At December 31, 2008				
Preferred stocks	$ -	$ -	$ -	$ -
Common stocks	34,314,942	7,090,983	(1,384,758)	40,021,167
Common stocks of affiliates	46,223,529	5,499,970	-	51,723,499
Other invested assets	4,702,131	391,255	(364,050)	4,729,336
At December 31, 2007				
Preferred stocks	$ 580,442	$ -	$ -	$ 580,442
Common stocks	44,354,846	23,051,996	(1,051,088)	66,355,755
Common stocks of affiliates	46,223,529	2,965,155	-	49,188,684
Other invested assets	4,206,740	710,575	(300,091)	4,617,224

The Company owns 100% of the common stock of MEMIC Services at a cost of $223,529. As a result of the guarantee between the Company and MEMIC Services the Company recorded a liability of $1,029,379 and $1,339,763 as of December 31, 2008 and 2007, respectively. Such amounts have been charged directly to unassigned surplus and are included in other liabilities on the balance sheet.

The Company owns 100% of the common stock of MEMIC Indemnity at a cost of $46,000,000 as of December 31, 2008 and 2007, respectively.

During 2004 MEMIC Indemnity issued $6 million of surplus notes that were recorded as an increase to capital and surplus at December 31, 2004. The Company's common stock investment in MEMIC Indemnity recorded in the December 31, 2008 and 2007 statements of admitted assets, liabilities and capital and surplus excludes the $6 million of surplus notes issued by MEMIC Indemnity during 2004.

Summary financial data for MEMIC Indemnity is as follows:

	2008	2007
Admitted assets	$ 146,356,411	$ 135,196,686
Liabilities	88,632,912	80,008,002
Capital and surplus	57,723,499	55,188,684
Statutory net income	2,216,250	4,456,405

The carrying value and NAIC fair values of bonds at December 31, 2008 and 2007 are as follows:

2008	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
U.S. Government and government agencies and authorities	$ 16,487,607	$ 1,540,234	$ -	$ 18,027,841
States, territories and possessions	97,214,093	2,628,190	(1,211,782)	98,630,501
Political subdivisions of states	147,420,945	3,346,313	(1,849,326)	148,917,932
Industrial and miscellaneous	69,254,550	396,549	(1,660,897)	67,990,202
Asset backed securities	133,807,322	3,237,200	(8,649,425)	128,395,097
Total bonds	$ 464,184,517	$ 11,148,486	$ (13,371,430)	$ 461,961,573

2007	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
U.S. Government and government agencies and authorities	$ 13,503,162	$ 330,113	$ (10,852)	$ 13,822,423
States, territories and possessions	95,350,962	2,269,263	(238,816)	97,381,409
Political subdivisions of states	157,020,259	3,823,603	(37,934)	160,805,928
Industrial and miscellaneous	50,125,433	665,988	(447,413)	50,344,008
Asset backed securities	133,491,000	1,032,396	(1,155,122)	133,368,273
Total bonds	$ 449,490,816	$ 8,121,363	$ (1,890,137)	$ 455,722,041

Bonds with a NAIC rating of three or higher have been recorded at the lower of cost or fair value in accordance with statutory accounting.

The carrying value and NAIC fair value of bonds by contractual maturity at December 31, 2008 are as follows:

Maturity	Carrying Value	NAIC Fair Value
One year or less	$ 12,287,278	$ 12,321,237
Over one year through five years	100,601,102	101,478,874
Over five years through ten years	103,135,767	105,174,654
Over ten years through twenty years	110,680,302	110,860,566
Over twenty years	3,860,536	3,731,146
Asset backed securities (principally ten through twenty years)	133,619,532	128,395,096
	$ 464,184,517	$ 461,961,573

Bonds subject to early or unscheduled prepayments have been included above based upon their contractual maturity dates. 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.

Proceeds from the sales of investments in debt and equity securities and the gross realized gains and losses on those sales for the years ended December 31, 2008 and 2007, are summarized as follows:

	2008		
	Proceeds From Sales	Gross Realized Gains	Gross Realized Losses
Bonds	$ 24,015,990	$ 450,315	$ (46,544)
Preferred and common stock	576,075	162,352	(200)
	$ 24,592,065	$ 612,667	$ (46,744)

	2007		
	Proceeds From Sales	Gross Realized Gains	Gross Realized Losses
Bonds	$ 44,438,249	$ 107,855	$ (160,904)
Preferred and common stock	1,651,228	484,833	(21)
	$ 46,089,477	$ 592,688	$ (160,925)

At December 31, 2008 and 2007, the Company owned securities that were in an unrealized loss position that management determined was other than temporary and given current market conditions would not recover. The Company recorded other than temporary investment write downs of $13,828,888 and $1,220,860 in 2008 and 2007, respectively, primarily in the banking and finance sector.

The fair value and gross unrealized loss of investment securities and the amount of time the security has been in an unrealized loss position as of December 31, 2008 is as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds (NAIC 1-2)	$ 118,878,754	$ (5,858,295)	$ 37,147,630	$ (7,513,135)	$ 156,026,384	$ (13,371,430)
Bonds (NAIC 3-6)	961,480	(187,791)	-	-	961,480	(187,791)
Common stocks - unaffiliated	7,080,414	(1,253,200)	588,572	(131,559)	7,668,986	(1,384,759)
Common stocks - affiliated	-	-	51,723,499	-	51,723,499	-
	$ 126,920,648	$ (7,299,286)	$ 89,459,701	$ (7,644,694)	$ 216,380,349	$ (14,943,980)

Unrealized losses on investment grade securities (NAIC 1-2) principally relate to changes in interest rates.

As of December 31, 2008 and 2007, there were no gross unrealized losses in preferred stocks.

The major categories of net investment income are summarized as follows:

	2008	2007
Bonds	$ 21,341,956	$ 20,190,481
Common and preferred stocks	1,210,080	1,263,680
Cash and short-term investments	333,062	648,584
Other income	601,399	156,277
Total investment income	23,486,497	22,259,022
Less: Investment expenses	(2,056,520)	(1,672,522)
Net investment income	$ 21,429,978	$ 20,586,500

11. Fair Value of Financial Instruments

As described in Note 2, the Company included disclosure required pursuant to SFAS 157 in these statutory basis financial statements.

Under SFAS 157, the fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Valuation techniques used to derive fair value of investment securities are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent resources such as active markets or nationally recognized pricing services. Unobservable inputs reflect comparable securities or valuations received from various broker or dealer quotes. At December 31, 2008, fair value measurements on a recurring basis for our investment securities were as follows:

	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
Cash and cash equivalents	$ 19,456,583	$ -	$ -	$ 19,456,583
Bonds (industrial and miscellaneous)	-	1,341,480	-	1,341,480
Common stocks	40,021,167	-	-	40,021,167
Other invested assets	4,543,385	-	185,950	4,729,335
	$ 64,021,135	$ 1,341,480	$ 185,950	$ 65,548,565

The following table represents a reconciliation of items categorized as significant unobservable inputs during 2008:

Beginning of year	$ 173,783
Purchases	76,125
sales	-
Total gains and losses (realized and unrealized)	
Included in net income	-
Included in unrealized gains (losses) of policyholders' surplus	(63,958)
Transfers in and out of significant unobservable inputs	-
End of year	$ 185,950

The carrying value and fair value of the Company's financial instruments as of December 31, 2008 and 2007 were as follows:

	2008		2007	
	Admitted Value	Fair Value	Admitted Value	Fair Value
Financial assets				
Cash	$ 19,456,583	$ 19,456,583	$ 14,078,973	$ 14,078,973
Bonds	464,184,517	461,961,573	449,490,816	455,722,041
Common stocks - unaffiliated	40,021,167	40,021,167	66,355,755	66,355,755
Common stocks - affiliated	51,723,499	51,723,499	49,188,684	49,188,684
Preferred stocks	-	-	580,442	580,442

12. Employee Benefit Plans

The Company has a qualified defined contribution pension 401(k) and profit-sharing plan (the "Plan") covering substantially all full-time employees of the Company and its subsidiaries who meet the Plan's eligibility requirements. Pension contributions are determined as 6% of the covered employee's annual compensation plus an additional allocation for employee's earnings in excess of the taxable wage base. Employees become eligible to participate upon completion of three months of service and are fully vested in the Plan after three years of service. The amount expensed for the pension-related portion of the Plan was approximately $628,000 and $576,000 in 2008 and 2007, respectively. The 401(k) and profit-sharing portion of the Plan provides for a tax deferred profit-sharing contribution by the Company and an employee elective contribution with a Company matching provision. In 2008 and 2007 with respect to the 401(k) component of the Plan, the Company contributed an amount equal to 100% of the employee's 401(k) contributions up to 5%.

An employee contribution may not exceed 60% of their annual salary of 2008 and 10% of their annual salary for 2007 or the maximum amount allowed as determined by the Internal Revenue code.

The Company incurred approximately $462,000 and $413,000 of expense related to the 401(k) component of the Plan in 2008 and 2007, respectively. With respect to the profit-sharing component of the Plan, each eligible participant may receive a profit-sharing contribution in an amount to be approved by the Board of Directors. The Company incurred approximately $468,000 and $562,000 of expense related to the profit-sharing component of the Plan in 2008 and 2007, respectively.

The Company sponsors a nonqualified, deferred compensation plan (the "Compensation Plan") and trust for certain key executives providing for payments upon retirement, death or disability. The Compensation Plan permits eligible officers to defer a portion of their compensation. The Compensation Plan provides that, in the event of liquidation of the Company, all assets of the Compensation Plan will be available to meet the obligations of the Company. Included in both other invested assets and other liabilities are amounts of $4,543,385 and $4,443,441, respectively, at December 31, 2008 and 2007, related to the Compensation Plan. In accordance with statutory accounting, the Company records changes in the market value of the invested assets of the compensation plan as compensation (income) expense. The Company incurred approximately $(28,140) and $567,300 of expense related to the Compensation Plan in 2008 and 2007, respectively.

The Company also maintains an Incentive Compensation Plan (the "ICP") for certain members of senior management which awards "surplus shares" at the discretion of the Executive Committee of the Board of Directors. The value of each surplus share is determined based on excess capital and surplus as defined in the ICP. Shares become fully vested over a ten-year period or a shorter period, under certain conditions. At December 31, 2008, a total of 1,480 Class A shares, 3,280 Class B shares, 2,000 Class C shares and 800 Class D shares were awarded and outstanding under the ICP. At December 31, 2007, a total of 2,660 unexpired Class A shares, 3,300 Class B shares, 2,000 Class C shares and 800 Class D shares were awarded and outstanding. During 2008 and 2007, the Company paid $3,321,556 and $2,050,265, respectively, to certain shareholders for shares exercised. The Company has accrued $1,652,938 and $4,004,840 related to the ICP at December 31, 2008 and 2007, respectively.

A new Long Term Incentive Plan ("LTIP") was established by the Compensation Committee of the Board of Directors (the "Committee"), effective January 1, 2007 for certain members of management and highly compensated individuals (participants). Participants are granted a fixed dollar base award (the "Award") contingent upon the anticipated growth of imputed surplus. The final Award is based on the actual growth levels of imputed surplus and is calculated upon imputed surplus as compared to Target, Threshold and Maximum Growth levels for an applicable performance period, generally three years. The actual earned amount of the Award can range from zero to 150% of the fixed dollar base Award. Participants vest in the plan over three years, or a shorter period, under certain established conditions. The Company has incurred approximately $(175,000) and $175,000 of expense related to the LTIP in 2008 and 2007, respectively. The Company has accrued $0 and $175,000 related to the LTIP as of December 31, 2008 and 2007, respectively.

13. Commitments and Contingent Liabilities

The Company leases office space and various office equipment and vehicles under lease arrangements. Future minimum lease payments under operating leases at December 31, 2008 are as follows:

2009	$ 1,024,611
2010	936,749
2011	847,885
2012	728,379
2013	485,586
Thereafter	-
Total future minimum lease payments	$ 4,023,210

Total rent and lease expense was $1,013,631 and $998,378 for the years ended December 31, 2008 and 2007, respectively.

Lessor Leases

The Company purchased a commercial real estate building in 2008 which leases office space to various tenants. The lease periods are between three and five years. The Company is responsible for the payment of property taxes, insurance and maintenance costs (operating and maintenance expenses) related to the leased property. These operating and maintenance expenses are included in the base lease expense to the tenants and are incrementally increased each year as necessary. The Company records expenses related to the building as investment expenses and accrues lease payments due as investment income.

Certain rental commitments have renewal options extending through the year 2013. Future minimum lease payments receivable under noncancelable leasing arrangements as of December 31, 2008 are as follows:

2009	$	83,196
2010		62,293
2011		88,263
2012		40,781
2013		42,004
Total future minimum lease payments receivable	$	316,537

From time to time the Company may purchase annuities to settle claims. Certain types of annuities provide annuitants with recourse against the Company in the event that the insurer fails to pay under the annuities as agreed. Under these arrangements, the Company remains contingently liable to the annuitant.

The Company is involved in litigation with respect to claims arising with regard to insurance, which is taken into account in establishing loss and loss adjustment expense reserves. The Company periodically reviews its overall loss and loss adjustment expense reserve position as well as its provision for reinsurance. The Company's management believes the resolution of such litigation is not expected to have a material adverse effect on the financial position or the operating results of the Company.

The Company is subject to guaranty fund and other assessments in New Hampshire and Massachusetts and Vermont. The Company accrued a liability for guaranty fund and other assessments of approximately $91,207 in 2008 and $38,185 in 2007. This represents management's best estimate based on information received from these three states where the Company writes business and may change due to factors including the Company's share of the ultimate cost of insolvencies.

14. Workers' Compensation Board Assessments

The State of Maine Workers' Compensation Board (the "Board") assesses insurance companies, associations, and self-insured employers amounts based upon their written premium levels. At December 31, 2008 and 2007, the assessment was 2.10% and 2.11%, respectively, of written premium. To fund this amount, the Company is required to assess its policyholders these amounts and submit amounts collected to the Board on a quarterly basis. The balance of $1,440,769 and $1,483,255 represents amounts due to the Board as of December 31, 2008 and 2007, respectively.

15. Supplemental Benefits Fund Assessments

In 2002, the State of Maine created the Supplemental Benefits Fund for the purpose of reimbursing insurance companies and self-insurers for supplemental indemnity benefits not originally provided for in rates covering prior years' premiums. Insurance companies are assessed based upon their written premium levels. To fund these amounts, the Company is required to assess its policyholders and submit amounts collected to the Supplemental Benefits Oversight Committee on a quarterly basis. At January 1, 2008 and 2007, the assessment rate was .81% and .79%, respectively, of standard policy premium. The balance of $1,207,426 and $1,174,721 represents amounts due to the Fund for amounts billed but uncollected as of December 31, 2008 and 2007, respectively.

16. Related Party Transactions

The Company is charged by MEMIC Services for loss control and managed care services. In turn, the Company charges MEMIC Services for certain administrative and overhead expenses. The net of these charges amounted to $5,276,276 and $5,348,048 for 2008 and 2007, respectively. As of December 31, 2008 and 2007, the Company recorded a (payable to)/receivable from MEMIC Services of $(336,833) and $143,821, respectively.

In accordance with a management agreement, the Company charges MEMIC Indemnity Company for certain administrative and overhead expenses incurred on its behalf. These charges amounted to $2,509,135 and $2,383,556 for 2008 and 2007, respectively. In addition, the Company pays certain operating expenses on behalf of MEMIC Indemnity and in turn charges MEMIC Indemnity for reimbursement. MEMIC Indemnity also charges MEMIC for certain claims and premium audit services and other services. These charges amounted to $79,567 and $211,270 during 2008 and 2007, respectively. The Company recorded a receivable from MEMIC Indemnity of $513,222 and $781,647 at December 31, 2008 and 2007, respectively.

17. Subprime Mortgage Related Risk Exposure

The Company considers its exposure to subprime mortgage risk based on the likelihood of future cash flows, unrealized losses, potential write-downs and the likelihood that an impairment is other than temporary. The Company regularly reviews the ratings of all subprime mortgage risk securities. Differentiation between changes in asset values due to unrealized losses or changes in asset values due to less than anticipated future cash flows are not necessary since the subprime holdings are not material to the overall portfolio. The Company does not rely on investing in subprime mortgages in its overall investment strategy. The Company mitigates its overall exposure with a predominantly fixed income portfolio in other than subprime mortgage based securities.

The Company has the following exposure related to other investments with subprime exposure:

	Actual Cost	Book/ Adj Carrying Value	Fair Value	Other than Temporary Impairment to Date
Residential mortgage-backed securities	$ 3,239,511	$ 3,244,167	$ 1,972,530	$ -
Commercial mortgage backed securities	3,651,640	3,435,098	2,949,217	-
	$ 6,891,151	$ 6,679,265	$ 4,921,747	$ -

As of December 31, 2008 none of the subprime mortgage holdings have been written down. The Company has investments in subprime mortgages that comprise approximately 1% of the companies invested assets.

The Company does not have any investments in collateralized debt obligations, structured securities, equity investments in subsidiary, controlled or affiliated entities with significant subprime mortgage related risk exposure, and subprime mortgage loans. Also, the Company does not provide mortgage guaranty or financial guaranty insurance coverage.

MEMIC Indemnity Company

Financial Statements (Statutory Basis)
December 31, 2008 and 2007

MEMIC Indemnity Company
Index
December 31, 2008 and 2007

Report of Independent Auditors

To the Board of Directors of
MEMIC Indemnity Company

We have audited the accompanying statutory basis statements of admitted assets, liabilities and capital and surplus of MEMIC Indemnity Company (the "Company") as of December 31, 2008 and 2007, and the related statutory basis statements of income and changes in capital and surplus, and of 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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.

As described in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the New Hampshire Insurance Department, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2008 and 2007, or the results of its operations or its cash flows for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended on the basis of accounting described in Note 2.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplemental Summary Investment Schedule and Investment Risks Interrogatories of the Company as of December 31, 2008 and for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. The effects on the Supplemental Summary Investment Schedule and Investment Risks Interrogatories of the variances between the statutory basis of accounting and accounting principles generally accepted in the Untied States of America, although not reasonably determinable, are presumed to be material. As a consequence, the Supplemental Summary Investment Schedule and Investment Risks Interrogatories do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2008 and for the year then ended. The Supplemental Summary Investment Schedule and Investment Risks Interrogatories have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 13, 2009

MEMIC Indemnity Company
Statements of Admitted Assets, Liabilities and Capital and Surplus (Statutory Basis)
December 31, 2008 and 2007

	2008	2007
Admitted Assets		
Invested assets		
Bonds, at carrying value (NAIC fair value: $118,205,750 and $110,718,944 at December 31, 2008 and 2007, respectively)	$ 117,133,174	$ 109,502,284
Common stocks, at NAIC fair value (cost: $2,680,119 and $4,232,452 at December 31, 2008 and 2007, respectively)	2,681,085	3,947,320
Preferred stock, at statement value (cost: $883,438 and $694,641 at December 31, 2008 and 2007, respectively)	605,492	682,861
Other invested assets	75,400	100,747
Cash	6,669,002	4,602,044
Total cash and invested assets	127,164,153	118,835,256
Premium balances receivable	13,735,117	11,846,129
Equities and deposits in pools and associations	543,635	608,350
Investment income due and accrued	1,135,353	1,211,061
EDP equipment (net of accumulated depreciation of $126,356 and $88,367 at December 31, 2008 and 2007, respectively)	85,495	77,939
Reinsurance recoverable on paid loss and loss adjustment expenses	348,397	38,719
Net deferred income taxes	3,344,261	2,579,232
Total assets	$ 146,356,411	$ 135,196,686
Liabilities		
Loss reserves	$ 49,699,310	$ 46,938,644
Loss adjustment expense reserves	8,046,054	7,164,536
Unearned premium reserves	22,310,959	18,783,292
Reinsurance premiums payable	66,357	340,951
Other liabilities	4,760,999	2,761,041
Commissions payable	1,236,306	1,134,899
Due to parent	513,222	781,647
Federal income tax payable	1,999,705	2,102,992
Total liabilities	88,632,912	80,008,002
Commitments and contingencies (Note 14)		
Capital and Surplus		
Surplus notes (Note 16)	6,000,000	6,000,000
Common stock, 100,000 shares issued, 100,000 shares outstanding, $20.00 par value	2,000,000	2,000,000
Gross paid-in and contributed surplus	44,000,000	44,000,000
Unassigned surplus	5,723,499	3,188,684
Total capital and surplus	57,723,499	55,188,684
Total liabilities and capital and surplus	$ 146,356,411	$ 135,196,686

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

MEMIC Indemnity Company
Statements of Income
(Statutory Basis)
Years Ended December 31, 2008 and 2007

	2008	2007
Underwriting income		
Premiums earned, net	$ 41,642,047	$ 35,716,522
Loss and underwriting expenses		
Losses incurred, net	22,332,751	17,825,429
Loss adjustment expenses incurred, net	4,811,385	4,763,807
Underwriting expenses	13,302,069	11,056,818
Total loss and underwriting expenses	40,446,205	33,646,054
Net underwriting income	1,195,842	2,070,468
Investment income		
Net investment income	4,572,739	4,188,095
Net realized capital (losses) gains, net of taxes	(1,636,209)	195,466
Total investment income	2,936,530	4,383,561
Other expenses		
Bad debt (expense)	(77,688)	(18,227)
Other income (expense)	1,271	(92)
Net other expense	(76,417)	(18,319)
Income before federal income taxes	4,055,955	6,435,710
Federal income tax expense	1,839,705	1,979,305
Net income	$ 2,216,250	$ 4,456,405

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

MEMIC Indemnity Company
Statements of Changes in Capital and Surplus
(Statutory Basis)
Years Ended December 31, 2008 and 2007

	2008	2007
Capital and surplus, beginning year	$ 55,188,684	$ 51,057,505
Net income	2,216,250	4,456,405
Increase in net deferred income taxes	1,377,008	398,699
Decrease in nonadmitted assets	(878,873)	(526,172)
Change in net unrealized appreciation of invested assets (net of deferred taxes of $102,864 as of December 31, 2008 and $(106,482) as of December 31, 2007)	(179,570)	(197,753)
Change in capital and surplus	2,534,815	4,131,179
Capital and surplus, end of year	$ 57,723,499	$ 55,188,684

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

MEMIC Indemnity Company
Statements of Cash Flows (Statutory Basis)
Years Ended December 31, 2008 and 2007

	2008	2007
Cash from operations		
Premiums collected, net	$ 42,868,625	$ 36,815,165
Investment income received, net	5,091,981	4,586,010
Other expense	(76,417)	(18,319)
Cash provided from operations	47,884,189	41,382,856
Benefit and loss related payments	19,881,763	13,136,095
Commissions and expenses paid	16,290,002	14,224,851
Federal income taxes paid	2,055,235	1,691,608
Cash used in operations	38,227,000	29,052,554
Net cash provided from operations	9,657,189	12,330,302
Cash from investing activities		
Cash provided by investments		
Proceeds from bonds sold, matured or repaid	80,359,543	50,573,130
Proceeds from stocks sold	97,122	-
Cost of bonds acquired	(87,399,644)	(61,254,196)
Cost of stocks acquired	(483,229)	(4,515,352)
Net cash used in investing activities	(7,426,208)	(15,196,418)
Cash from financing and miscellaneous sources		
Other cash (applied)		
Other (applications)	(164,023)	(705,598)
Net cash (used in) provided from financing and miscellaneous sources	(164,023)	(705,598)
Net change in cash	2,066,958	(3,571,714)
Cash, beginning of year	4,602,044	8,173,758
Cash, end of year	$ 6,669,002	$ 4,602,044

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

1. Organization

MEMIC Indemnity Company (the "Company"), a wholly-owned subsidiary of Maine Employers' Mutual Insurance Company ("MEMIC"), was incorporated on February 24, 2000. MEMIC has contributed $46,000,000 to capitalize and fund operations of the Company. The Company is licensed to write workers' compensation insurance in 45 states and the District of Columbia with approximately 91% of premium written in the States of Connecticut, New Hampshire, Massachusetts and Vermont. The Company writes its business primarily through independent agents and brokers in the State of New Hampshire.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Company are prepared in conformity with statutory accounting practices of the National Association of Insurance Commissioners ("NAIC") as prescribed or permitted by the New Hampshire Insurance Department ("statutory accounting").

Statutory accounting practices differ in certain respects from accounting principles generally accepted in the United States of America ("GAAP"). The effects of such differences on the accompanying financial statements, which could be significant, have not been determined. The most significant differences generally include the following:

(a) Statutory accounting requires that policy acquisition costs such as commissions, premium taxes and other items be charged to current operations as incurred. Under GAAP, policy acquisition costs would be deferred and then amortized ratably over the periods covered by the policies;

(b) The statutory provision for federal income taxes represents estimated amounts currently payable based on taxable income or loss reported in the current accounting period. Deferred income taxes are provided in accordance with SSAP 10, *Income Taxes* ("SSAP 10") and changes in deferred income taxes are recorded through surplus. The realization of any resulting deferred tax asset is limited based on certain criteria in accordance with SSAP 10. The GAAP provision would include a provision for taxes currently payable, as well as deferred taxes, both of which would be recorded in the income statement;

(c) Under statutory accounting, certain assets designated as "nonadmitted assets" (principally premiums receivable over 90 days past due, deferred income taxes, prepaid assets, and office furniture and equipment) are charged directly to surplus. GAAP would require the Company to maintain a reserve for doubtful accounts based on amounts deemed to be uncollectible. Office furniture and equipment would be capitalized and depreciated over the estimated useful lives;

(d) Under statutory accounting, investments in debt securities are generally carried at amortized cost. Under GAAP, debt securities classified as trading or available-for-sale are valued at fair value, and debt securities classified as held-to-maturity are valued at amortized cost;

(e) Reinsurance balances relating to unpaid loss and loss adjustment expenses are presented as offsets to reserves; under GAAP, such amounts would be presented as reinsurance recoverable; moreover, under statutory accounting, a liability is established for recoverable balances from reinsurers which are not authorized and for overdue paid loss recoverables;

(f) Under GAAP, the inclusion of a statement of comprehensive income, detailing the income effects of unrealized gains and losses, foreign exchange transactions, and pension liability adjustments is required;

(g) For cash flow purposes, included as cash and cash equivalents are short-term investments which mature within one year as opposed to three months; and

(h) A reconciliation of cash flows to the indirect method is not provided under statutory accounting.

Management Estimates
The preparation of financial statements in conformity with statutory accounting practices 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.

Fair Value Measurements
Effective January 1, 2008, SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), was issued and must be adopted prospectively for fiscal years beginning after November 15, 2007. The Statement provides a revised definition of fair value and guidance on methods used to measure fair value. The Statement also expands financial statement disclosure requirements for fair value information. The Statement establishes a hierarchy that distinguishes between inputs based on market data from independent sources ("observable inputs"). The fair value hierarchy in SFAS 157 prioritizes inputs with three levels. Quoted prices in active markets have the highest priority (Level 1) followed by observable inputs other than quoted prices (Level 2) and unobservable inputs having the lowest priority (Level 3). Included in the Company's total cash and invested assets are certain investments carried at fair value on a recurring basis. Therefore, the disclosure principles required by SFAS 157 are included in these statutory basis financial statements. See Note 11 for further disclosure required pursuant to SFAS 157.

Cash and Invested Assets
Invested assets are valued in accordance with the statutory basis of valuation prescribed by the NAIC. Cash includes cash and cash equivalents, which are short-term investments which mature within one year; the carrying value of these investments approximates fair value.

Bonds are generally stated at amortized cost. Bonds with an NAIC rating of "three" or higher are carried at the lower of amortized cost or fair value. The fair values of these securities are based on quoted prices for similar assets in active markets. The Company utilizes the prospective adjustment methodology to value mortgage-backed bonds.

Common and preferred stocks are generally stated at the NAIC fair value. The fair values of bonds and common and preferred stocks are based on quoted market prices in active markets. Where declines in the value of marketable securities are deemed other than temporary, the loss is reported as a component of net realized capital (losses) gains. The net unrealized gains and losses on these marketable securities, after deductions of applicable deferred income taxes, are credited or charged directly to policyholders' surplus.

Other invested assets consist of an investment in a surplus note. These investments are carried pursuant to the valuation method prescribed by the NAIC in SSAP No. 41, *Surplus Notes.*

Investment income is recorded on an accrual basis. Realized capital gains and losses are reported in operating results based on the specific identification of investments sold. Unrealized capital gains and losses from the valuation of investments at fair value are credited or charged directly to unassigned surplus, net of federal income taxes, unless determined to be other than temporary and included as a component of net realized capital (losses) gains.

Premiums and Unearned Premium Reserves
Direct and assumed premiums, net of amounts ceded to other insurance companies, are earned on a monthly pro rata basis over the in-force period. Accordingly, unearned premium reserves are established for the pro rata portion of premiums written which are applicable to the unexpired terms of the policies in force, net of reinsurance. Premium adjustments resulting from retrospective rating plans and/or audits are immediately recorded as written and earned premiums once such amounts can be reasonably estimated.

Equities and Deposits in Pools
The Company is required to participate in involuntary pools in several states where it writes workers compensation business. The Company participates in underwriting results, including premiums, losses, expenses and other operations of involuntary pools, based on the Company's proportionate share of similar business written in the state. Underwriting results are accounted for on a gross basis whereby the Company's portion of premiums, losses, expenses and other operations of the pool are recorded separately in the financial statements rather than netted against each other.

Loss and Loss Adjustment Expense Reserves
Losses and loss adjustment expenses are recorded as incurred so as to match such costs and premiums over the contract periods. Loss reserves are established for losses and loss adjustment expenses based upon claim evaluations and include an estimated provision for both reported and unreported claims incurred and related expenses. The assumptions used in determining loss and loss adjustment expense reserves have been developed after considering the experience of the Company, industry experience and projections by independent actuaries. The ultimate loss and loss adjustment expense reserves may vary from the amounts reflected in the accompanying financial statements. The method utilized in estimating and establishing the reserves are continually reviewed and updated and any adjustments resulting therefrom are reflected in current operating results. The immaturity of the Company's book of business may result in an increased level of variability within the historical loss data. Allowances for subrogation recoveries are included in the Company's estimate of loss reserves. See the summary of reserve development in Note 7.

Nonadmitted Assets
The following nonadmitted assets were excluded from the balance sheet as of December 31, 2008 and 2007:

	2008	2007
Premium balances receivable over 90 days past due	$ 340,956	$ 301,116
Deferred income taxes	3,227,813	2,512,970
Fixed assets, net of accumulated depreciation	420,999	391,141
Other assets	132,023	37,691
Total nonadmitted assets	$ 4,121,791	$ 3,242,918

Depreciation expense on nonadmitted fixed assets was $97,182 and $61,223 in 2008 and 2007, respectively.

Federal Income Taxes

The Company is a party to a tax-sharing agreement with MEMIC and an affiliate, MEMIC Services, Inc. Under this tax-sharing agreement, the provision for federal income taxes is recorded based upon amounts expected to be reported as if the Company filed a separate federal income tax return. Additionally, under this agreement, the Company will be reimbursed for the utilization of tax operating losses, tax credits and capital loss carryforwards, to the extent the Company would have utilized these tax attributes on a separate return basis.

The provision for federal income taxes includes amounts currently payable or recoverable and deferred income taxes, computed under the asset/liability method, which results from temporary differences between the tax basis and book basis of assets and liabilities.

EDP Equipment

EDP equipment is stated at cost, net of accumulated depreciation. Depreciation is computed principally by use of the straight-line method based on the estimated useful lives of assets, which is generally three years. Depreciation expense for the years ended December 31, 2008 and 2007 was $38,326 and $17,890, respectively. Expenditures for maintenance and repairs relating to EDP equipment and certain fixed assets which are nonadmitted are charged to expense as incurred. When property is sold or retired, the cost of the property and the related accumulated depreciation are removed from the statement of admitted assets, liabilities and capital and surplus and any gains or loss on the transaction is reflected in current operating results.

3. Insurance Department Conditions

In connection with obtaining a license to write business in the State of New Hampshire, the New Hampshire Insurance Department (“Insurance Department”) placed certain conditions on the Company as follows:

- Premiums written will not exceed a ratio of 1 to 1 (writings-to-surplus);
- Reinsurance retention will be $3,000,000 per occurrence;
- The Insurance Department will be notified, in writing and in advance of all classes of risk excluded from treaty reinsurance;
- All reinsurance must be admitted and reinsurers must be noted “A” or better by A.M. Best;
- All contracts and agreements for services and management fees shall be approved before hand by the New Hampshire Insurance Commissioner; and
- The Company shall provide $500,000 as a special deposit to be held by the insurance department.
- The Company cannot pay dividends or transfer funds to MEMIC without prior approval of the insurance department if the dividend or fund transfer aggregate $100,000 during the preceding twelve months.

4. Capital and Surplus

Total contributions from MEMIC were $46,000,000 as of December 31, 2008 and 2007.

The Company has 1,000,000 shares of stock authorized; 100,000 shares issued and outstanding as of December 31, 2008 and 2007. The stock had a $20 par value per share as of December 31, 2008 and 2007.

5. Dividend Restrictions

The Company may declare a dividend without insurance department approval so long as such dividend is not considered extraordinary. In the case of extraordinary dividends, prior approval is required. An extraordinary dividend or distribution includes any dividend or distribution of cash or other property, whose fair market value together with that of other dividends or distributions made within the preceding 12 months exceeds 10% of such insurer's capital and surplus as of December 31, limited to the prior year-end's unassigned surplus.

However, as previously mentioned in Note 3, the Company cannot pay dividends to MEMIC without prior approval of the Insurance Department if the dividend would aggregate in excess of $100,000 during the preceding twelve months.

6. Federal Income Taxes

The components of net deferred tax assets as of December 31, 2008 and 2007 was as follows:

	2008	2007
Total of deferred tax assets	$ 6,604,128	$ 5,215,266
Total of deferred tax liabilities	(32,054)	(123,064)
Net deferred tax asset	6,572,074	5,092,202
Deferred tax assets nonadmitted	(3,227,813)	(2,512,970)
Net admitted deferred tax asset	$ 3,344,261	$ 2,579,232
(Increase) decrease in nonadmitted asset	$ (714,843)	$ 85,906

The change in net deferred income taxes is comprised of the following:

	December 31, 2008	December 31, 2007	Change
Total deferred tax assets	$ 6,604,128	$ 5,215,266	$ 1,388,862
Total deferred tax liabilities	(32,054)	(123,064)	91,010
Net deferred tax asset	$ 6,572,074	$ 5,092,202	1,479,872
Tax effect of change in net unrealized gain and losses			(102,864)
Change in net deferred income taxes			$ 1,377,008

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2008 and 2007 are as follows:

	2008	**2007**
Deferred tax assets		
Discounting on loss and LAE reserves	$ 3,082,867	$ 2,989,856
Unearned premium reserves	1,557,028	1,314,830
Investment writedowns	645,631	-
Guaranty fund and second injury assessments	769,725	414,099
Unrealized losses	206,810	-
Nonadmitted assets	287,678	255,482
Other	54,389	240,999
Total deferred tax assets	6,604,128	5,215,266
Nonadmitted deferred tax assets	(3,227,813)	(2,512,970)
Admitted deferred tax assets	3,376,315	2,702,296
Deferred tax liabilities		
Bond market discounts	(24,526)	(18,743)
Unrealized gains	(338)	(103,609)
Other	(7,190)	(712)
Total deferred tax liabilities	(32,054)	(123,064)
Net admitted deferred tax asset	$ 3,344,261	$ 2,579,232

The expense for current income taxes for the years ended December 31, 2008 and 2007 consists of the following components:

	2008	**2007**
Current income tax expense	$ 1,839,705	$ 1,979,305
Capital gains tax	112,243	105,251
	$ 1,951,948	$ 2,084,556

The expense for federal income taxes differs from tax expense computed at the prevailing federal tax rate applied to pretax income for the year ended December 31, 2008 for the following reasons:

Tax provision before capital gains tax at statutory rate	$ 1,458,870
Tax-exempt interest	(640,714)
Dividend received deduction	(52,567)
Nondeductible expenses	5,680
Provision to prior year return	110
Change in deferred tax on nonadmitted asset	(57,410)
Cumulative adjustment to prior year deferred taxes	(73,647)
Other	(65,382)
	$ 574,940
Federal income tax expense	$ 1,951,948
Change in deferred income taxes	(1,377,008)
Total statutory income taxes	$ 574,940

7. Liabilities for Loss Reserves and Loss Adjustment Expense Reserves

Activity in the liabilities for loss reserves and loss adjustment expense reserves for the years ended December 31, 2008 and 2007 is summarized as follows:

	2008	2007
Opening balance	$ 58,054,700	$ 51,705,435
Less reinsurance recoverable	3,951,520	3,374,084
Net balance	54,103,180	48,331,351
Incurred related to		
Current year	34,219,744	28,127,628
Prior year	(7,075,608)	(5,538,392)
	27,144,136	22,589,236
Paid related to		
Current year	9,951,995	6,925,453
Prior year	13,549,957	9,891,954
	23,501,952	16,817,407
Net balance at December 31	57,745,364	54,103,180
Plus reinsurance recoverable	4,053,062	3,951,520
Balance at December 31	$ 61,798,426	$ 58,054,700

The liabilities for loss and loss adjustment expense reserves are based upon assumptions which consider the experience of the Company, industry experience, and projections by independent actuaries. However, the reserve process is inherently subjective, and the ultimate loss and loss adjustment expense reserves may vary from the amounts recorded in the financial statements.

During 2008, the Company’s incurred losses related to prior years decreased by $7.0 million as a result of favorable loss development principally in the 2002 through 2007 accident years.

During 2007, the Company’s incurred losses related to prior years decreased by $5.5 million as a result of favorable loss development principally in the 2002 through 2006 accident years.

8. Reinsurance

The Company assumed risks from another insurance company through a 100% quota share reinsurance agreement which was terminated effective for 2005 policy years. Amounts added to premiums, loss reserves and loss adjustment expenses for reinsurance assumed from the other company was as follows:

	2008	2007
Premiums earned	$ -	$ 604
Loss and loss adjustment expenses incurred	34,434	61,812
Loss and loss adjustment expense reserves	597,535	827,334
Premiums payable, net of ceding commissions	-	-

The Company pledged securities with a fair value in the amount of $513,939 and $524,995 as collateral for a letter of credit provided to an insurance company for assumed risks as of December 31, 2008 and 2007, respectively.

As a condition of writing policies in several states, the Company is required to participate in the National Workers' Compensation Reinsurance Pool and the Massachusetts Reinsurance Pool (the "Pools") as it relates to those states. Participation requires that the Company share in the losses and expenses of the Pool. Pool results are accounted for on a gross basis whereby the Company's portion of premiums, losses, expenses and other operations of the Pool are recorded separately in the financial statements. All amounts are recorded as assumed business. Amounts added to premiums, reserves and expenses for reinsurance assumed from pools are as follows:

	2008	2007
Premiums earned	$ 2,701,096	$ 2,596,797
Loss and loss adjustment expenses incurred	1,430,470	658,098
Unearned premiums	959,067	919,826
Loss and loss adjustment expense reserves	6,346,432	6,779,843
Premiums receivable	543,635	608,350
Underwriting expenses incurred	1,017,905	830,605

The Company reinsures portions of risks with another insurance company through excess of loss reinsurance agreements. Such agreements serve to limit the Company's maximum loss on catastrophes and large losses. To the extent that the reinsurer might be unable to meet its obligations, the Company would be liable for such defaulted amounts.

Under the Company's excess of loss agreement, the Company's net retention for losses is $3,000,000 for 2008, $2,000,000 for 2007, $1,000,000 for 2006 and $500,000 for 2005 and 2004 with reinsurance coverage up to $50,000,000 in excess of its net retention. For losses incurred prior to 2003, the net retention for losses is $100,000 with coverage up to $50,000,000 in excess of its retention.

Amounts deducted from premiums, reserves and expenses for reinsurance ceded were as follows:

	2008	2007
Premiums earned	$ 1,001,693	$ 1,642,505
Loss and loss adjustment expenses incurred	515,000	775,000
Loss and loss adjustment expense reserves	4,053,062	3,951,521
Premiums payable	66,357	340,981

The 2008 and 2007 ceded loss and loss adjustment expense reserves above are comprised of amounts with one reinsurance carrier.

The Company has unsecured reinsurance recoverables from a reinsurer that exceeded 3% of capital and surplus at December 31, 2008 as follows:

General Reinsurance Corp.	$ 4,401,000

The Company's reinsurance program was implemented in accordance with the New Hampshire Insurance Department's Consent Agreement dated March 8, 2000.

The Company has no reinsurance contracts that contain the following features (a) a contract term longer than two years and that is noncancelable by the reporting entity during the contract term; (b) a limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer; (c) aggregate stop loss reinsurance coverage; (d) an unconditional or unilateral right by either party to commute the reinsurance contract, except for such provisions which are only triggered by a decline in the credit status of the other party; (e) a provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or (f) payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. The Company has neither ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards to policyholders or it report calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year end surplus as regards to policyholders nor has the Company ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement and accounted for that contract as reinsurance (either prospective or retroactive) under statutory account principles ("SAP"). Additionally, the Company has not ceded any risk under any reinsurance contract where (a) the written premiums ceded to the reinsurer represents 50% or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statements or (b) 25% or more of the written premium ceded to the reinsurer has been retroceded back to the Company. Accordingly, the Company has not included the supplemental schedule of reinsurance disclosures as required under paragraph 72 of SSAP 62.

9. Premiums Written and Earned

During the years ended December 31, 2008 and 2007, direct, assumed and ceded premiums were as follows:

	2008 Written	2008 Earned	2007 Written	2007 Earned
Direct	$ 43,406,610	$ 39,942,644	$ 36,016,901	$ 34,762,230
Assumed	2,740,337	2,701,096	2,323,278	2,596,797
Ceded	(1,001,693)	(1,001,693)	(1,642,505)	(1,642,505)
Net premiums	$ 45,145,254	$ 41,642,047	$ 36,697,674	$ 35,716,522

10. Statutory Deposits

Various regulatory authorities require that securities be placed on deposit. At December 31, 2008 and 2007 fixed income securities on deposit have a carrying value of $10,050,655 and $15,718,813, respectively.

11. Investments

The carrying value and NAIC fair values of bonds at December 31, 2008 and 2007 are as follows:

2008	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
U.S. Government and government agencies and authorities	$ 16,977,902	$ 2,196,926	$ (43,304)	$ 19,131,524
States, territories and possessions	15,448,762	378,350	(172,305)	15,654,807
Political subdivisions of states	41,082,893	731,135	(592,009)	41,222,019
Industrial and miscellaneous	7,074,999	167,082	(229,677)	7,012,404
Asset backed securities	36,548,618	764,697	(2,128,319)	35,184,996
Total bonds	$ 117,133,174	$ 4,238,190	$ (3,165,614)	$ 118,205,750
Other invested assets	$ 75,400	$ -	$ (14,017)	$ 61,383

2007	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
U.S. Government and government agencies and authorities	$ 21,641,991	$ 591,185	$ (32,410)	$ 22,200,767
States, territories and possessions	16,097,059	182,661	(41,476)	16,238,244
Political subdivisions of states	34,623,527	513,373	(35,815)	35,101,085
Industrial and miscellaneous	8,569,562	87,172	(207,235)	8,449,499
Asset backed securities	28,570,145	294,479	(135,275)	28,729,349
Total bonds	$ 109,502,284	$ 1,668,870	$ (452,211)	$ 110,718,944
Other invested assets	$ 109,022	$ -	$ (8,275)	$ 100,747

The cost and NAIC fair value of equity securities were as follows:

2008	Cost	Gross Gains	Unrealized Losses	NAIC Fair Value
Preferred stock	$ 883,438	$ -	$ (277,946)	$ 605,492
Common stocks	$ 2,680,119	$ 985	$ -	$ 2,681,085

2007	Cost	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
Preferred stocks	$ 694,641	$ 819	$ (19,561)	$ 675,899
Common stocks	$ 4,232,452	$ -	$ (285,132)	$ 3,947,320

Bonds with an NAIC rating of three or higher have been recorded at the lower of cost or fair value in accordance with statutory accounting.

The carrying value and NAIC fair value of bonds at December 31, 2008 by contractual maturity are as follows:

Maturity	Carrying Value	NAIC Fair Value
One year or less	$ 1,831,707	$ 1,834,596
Over one year through five years	30,920,419	31,548,909
Over five years through ten years	29,920,884	31,001,139
Over ten years through twenty years	15,049,280	15,656,125
Over twenty years	2,862,268	2,979,985
Asset backed securities (principally ten through twenty years)	36,548,616	35,184,996
	$ 117,133,174	$ 118,205,750

Bonds subject to early or unscheduled prepayments have been included above based upon their contractual maturity dates. 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.

Proceeds from sales of investments on debt securities and the gross realized gains and losses on those sales for the years ended December 31, 2008 and 2007 are summarized as follows:

	2008		
	Proceeds From Sales	Gross Realized Gains	Gross Realized Losses
Bonds	$ 71,668,585	$ 852,730	$ (515,275)
Stocks	97,122	-	(12,949)
	$ 71,765,707	$ 852,730	$ (528,224)

	2007		
	Proceeds From Sales	Gross Realized Gains	Gross Realized Losses
Bonds	$ 46,159,103	$ 482,498	$ (198,993)
Stocks	-	-	-
	$ 46,159,103	$ 482,498	$ (198,993)

At December 31, 2008, the Company owned securities that were in an unrealized loss position that management determined was other than temporary and given current market conditions would not recover. The Company recorded other than temporary investment write-downs of $1,844,661 in 2008 primarily in the banking and finance sector.

The fair value and gross unrealized loss of investment securities and the amount of time the security has been in an unrealized loss position as of December 31, 2008 is as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds (NAIC 1-2)	$ 28,116,516	$ (2,560,287)	$ 4,640,311	$ (605,327)	$ 32,756,827	$ (3,165,614)
Bonds (NAIC 3-6)			266,752	(312,939)	266,752	(312,939)
Common stocks					-	-
Preferred stocks	405,766	(126,972)	199,726	(150,974)	605,492	(277,946)
	$ 28,522,282	$ (2,687,259)	$ 5,106,789	$ (1,069,240)	$ 33,629,071	$ (3,756,499)

Unrealized losses on investment grade securities (NAIC 1-2) principally relate to changes in interest rates.

12. Fair Value of Financial Instruments

As described in Note 2, the Company included disclosure required pursuant to SFAS 157 in these statutory basis financial statements.

Under SFAS 157, the fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Valuation techniques used to derive fair value of investment securities are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent resources such as active markets or nationally recognized pricing services. Unobservable inputs reflect comparable securities or valuations received from various broker or dealer quotes. At December 31, 2008, fair value measurements on a recurring basis for our investment securities were as follows:

	Quoted Prices in in Active Markets	Significant Other Observable Inputs	Significant Un-Observable Inputs	Total
Cash and cash equivalents	$ 6,669,002	$ -	$ -	$ 6,669,002
Bonds (industrial and miscellaneous)	-	313,811	-	313,811
Preferred stocks	605,492	-	-	605,492
Common stocks	2,681,085	-	-	2,681,085
Total fair value	$ 9,955,579	$ 313,811	$ -	$ 10,269,390

The carrying value and fair value of the Company's financial instruments as of December 31, 2008 and 2007 were as follows:

	2008		2007	
	Admitted Value	Fair Value	Admitted Value	Fair Value
Financial assets				
Cash	$ 6,669,002	$ 6,669,002	$ 4,602,044	$ 4,602,044
Bonds	117,133,174	118,205,750	109,502,284	110,718,944
Common stocks	2,681,085	2,681,085	3,947,320	3,947,320
Preferred stocks	605,492	605,492	682,861	675,899

The major categories of net investment income for the years ended December 31, 2008 and 2007 are summarized as follows:

	2008	2007
Bonds	$ 4,935,783	$ 4,653,029
Preferred stock and common	252,182	260,281
Cash and short-term investments	121,264	127,338
Total investment income	5,309,229	5,040,648
Less: Investment expenses	(736,490)	(852,553)
Net investment income	$ 4,572,739	$ 4,188,095

13. Employee Benefit Plans

The Company's parent, MEMIC, has a qualified defined contribution pension 401(k) and profit sharing plan (the "Plan") covering substantially all full-time employees who meet the Plan's eligibility requirements. Pension contributions are determined as 6% of the employee's annual compensation plus an additional allocation for employee's earnings in excess of the taxable wage base. Employees become eligible to participate upon completion of three months of service and are fully vested in the Plan after three years of service. Expenses incurred for the Plan were approximately $91,200 and $64,800 in 2008 and 2007, respectively. The 401(k) and profit sharing portion of the Plan provides for a tax deferred profit-sharing contribution by the Company and an employee elective contribution with a Company matching provision. In 2008 and 2007 with respect to the 401(k) component of the Plan, the Company contributed an amount equal to 100% of the employee's 401(k) contributions up to 5%. An employee's contribution may not exceed 60% of their annual salary for 2008 and 10% of their annual salary for 2007 or the maximum amount allowed as determined by the Internal Revenue Code. The Company incurred approximately $63,200 and $48,300 of expense related to the 401(k) component of the Plan in 2008 and 2007, respectively. With respect to the profit-sharing component of the Plan, each eligible participant may receive a profit-sharing contribution in an amount to be approved by the Board of Directors. The Company incurred approximately $82,200 and $62,800 of expense related to the profit-sharing component of the Plan in 2008 and 2007, respectively.

The Company's parent sponsors a nonqualified, deferred compensation plan (the "Compensation Plan") and trust for certain key executives providing for payments upon retirement, death or disability. The Compensation Plan permits eligible officers to defer portion of their compensation. The Compensation Plan provides that, in the event of liquidation of the Company, all assets of the Compensation Plan will be available to meet the obligations of the Company. The Company did not incur any direct expense related to the Compensation Plan in 2008 or 2007.

14. Commitment and Contingent Liabilities

The Company leases office space and various office equipment and vehicles under lease arrangements. Future minimum lease payments under operating leases at December 31, 2008 are as follows:

2009	$ 369,015
2010	371,313
2011	372,390
2012	360,093
2013	58,497
Thereafter	4,875
Total future minimum lease payments	$ 1,536,183

Total rent and lease expense was $333,943 and $271,440 for the years ended December 31, 2008 and 2007, respectively.

The Company is involved in litigation with respect to claims arising with regard to insurance, which is taken in account in establishing loss and loss adjustment expense reserves. The Company's management believes that the resolution of such litigation is not expected to have a material adverse effect of the financial position or the operating results of the Company.

The Company is subject to guaranty fund and other assessments by the states in which the Company writes business. The Company accrued a liability for guaranty fund and other assessments of approximately $2,199,214 and $1,393,560 as of December 31, 2008 and 2007, respectively. This represents management's best estimate based on information received from the states in which the Company writes business and may change due to factors including the Company's share of the ultimate cost of insolvencies.

15. Related Party Transactions

The Company is charged by an affiliate, MEMIC Services Inc. for loss control and managed care services provided. These charges amounted to $2,176,836 and $1,879,120 for 2008 and 2007, respectively.

In accordance with a management agreement, the Company is charged by MEMIC for certain administrative and overhead expenses incurred on its behalf. These charges amounted to $2,509,135 and $2,383,556 in 2008 and 2007, respectively. In addition, MEMIC pays certain operating expenses on behalf of the Company and in turn charges the Company for reimbursement. The Company also charges MEMIC for certain claims and premium audit services and other services. These charges amounted to $79,567 and $211,270 during 2008 and 2007, respectively. The Company recorded a payable to MEMIC of $513,222 and $781,647 at December 31, 2008 and 2007, respectively.

16. Surplus Notes

Date Issued	Interest Rate	Par Value (Face Amount of Notes)	Carrying Value of Note	Principal and/or Interest Paid Current Year	Total Principal and/or Interest Paid	Unapproved Principal and/or Interest	Date of Maturity
4/30/04	LIBOR + 4%	$ 6,000,000	$ 6,000,000	$ 448,656	$ 2,265,328	$ 48,516	4/29/2034

The surplus note of $6,000,000 in the table above was issued pursuant to Rule 144A under the Securities Act of 1933, underwritten by Dekania Capital Management II, and administered by JP Morgan/Chase as trustee.

Interest accrues at a floating rate of 3 month LIBOR plus 4%. Interest payments are due quarterly in arrears on February 15, May 15, August 15 and November 15. Each payment of interest on and principal of the surplus note may be made only with the prior approval of the Commissioner of Insurance of the State of New Hampshire and only to the extent the Company has sufficient surplus earnings to make such payment.

The Company may, at its option, on or after April 29, 2009 redeem the note in whole at any time or in part from time to time at a redemption price of 100%.

The surplus note is subordinated to all senior obligations, including all existing and future debt and guarantees, and any expense or policy claims. The note will rank equally with any future surplus note or similar obligation of the Company.

17. Subprime Mortgage Related Risk Exposure

The Company considers its exposure to subprime mortgage risk based on the likelihood of future cash flows, unrealized losses, potential write-downs and the likelihood that an impairment is other than temporary. The Company regularly reviews the ratings of all subprime mortgage risk securities. Differentiation between changes in asset values due to unrealized losses or changes in asset values due to less than anticipated future cash flows are not necessary since the subprime holdings are not material to the overall portfolio. The Company does not rely on investing in subprime mortgages in its overall investment strategy. The Company mitigates its overall exposure with a predominately fixed income portfolio in other than subprime mortgage based securities.

The Company has the following exposure related to other investments with subprime exposure:

	Actual Cost	Book/Adjusted Fair Value	Fair Value	Other than Temporary Impairment to Date
Residential Mortgage Backed Securities	$ 247,059	$ 247,059	$ 118,559	$ 109,099
Commercial Mortgage Backed Securities	344,738	344,738	221,788	-
	$ 591,797	$ 591,797	$ 340,347	$ 109,099

As of December 31, 2008 all subprime mortgage related securities were AAA rated except for two GMAC Mortgage Corp Loan Trust securities which are rated as BAA and have other than temporary impairment write-downs of $109,099.

The Company does not have any underwriting exposure to subprime mortgage risk through Mortgage Guaranty or Financial Insurance Guaranty coverage.