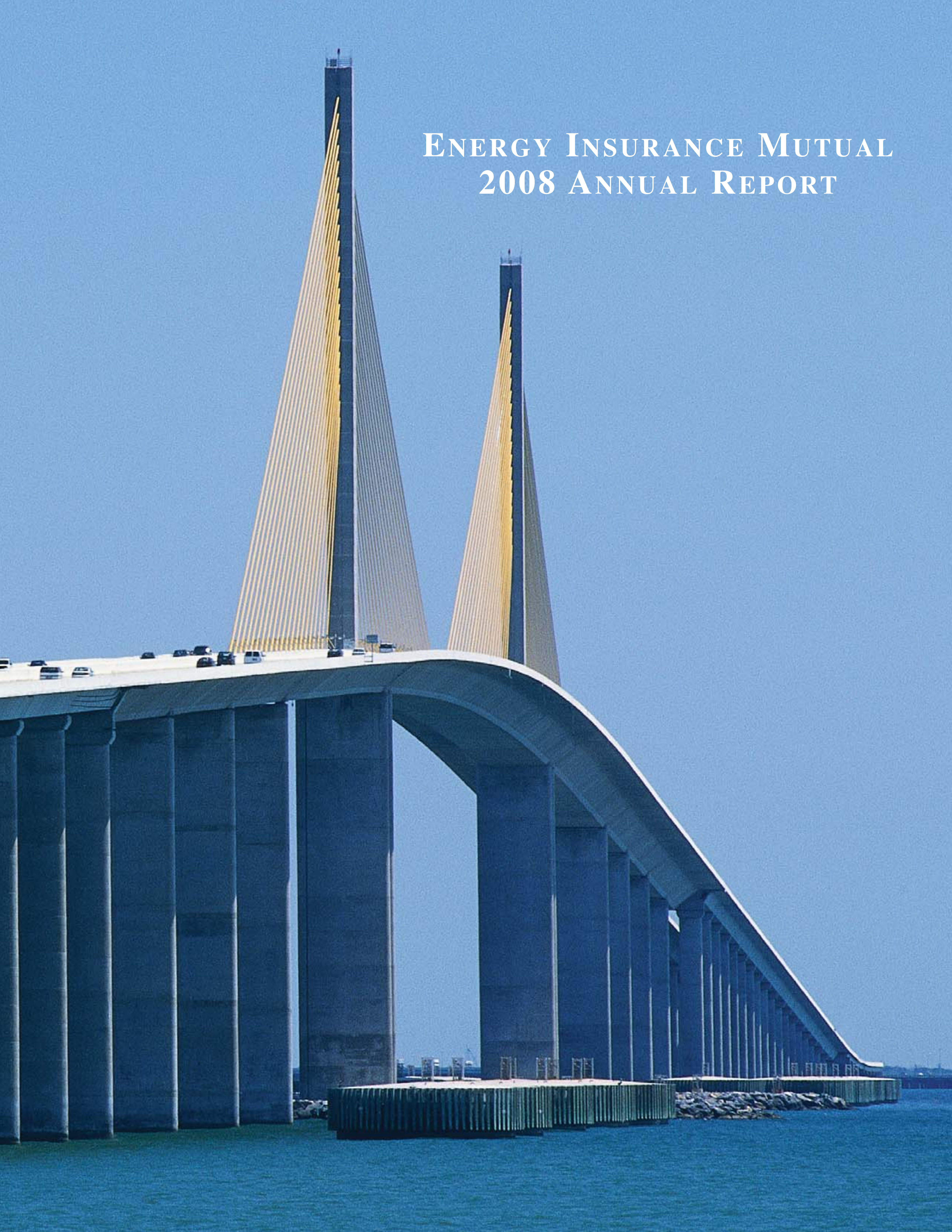
Energy Insurance Mutual
2008 Annual Report

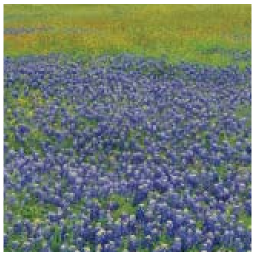


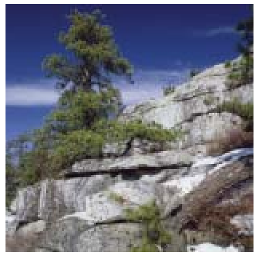
On the cover: *The "Sunshine Skyway Bridge," spanning Florida's Tampa Bay, is the world's longest bridge with a cable-stayed main span: 87,902 feet, or exactly 5.5 miles. The Travel Channel rated the bridge #3 in its special on the "Top 10 Bridges" in the world. The bridge is considered the "flag bridge" of Florida. Bayport Plaza, the home of Energy Insurance Mutual, sits on the east side of Tampa Bay.*

Opposite page: *This distinguishable view of downtown Tampa shows only a portion of the city's expanding skyline. These buildings, which can be seen from I-275, are approximately five miles northeast of Tampa International Airport and Bayport Plaza, where EIM has offices.*

Energy Insurance Mutual Limited, known as EIM, was incorporated June 13, 1986, in Barbados, where it remains domiciled. The Company wrote its initial policies for 17 founding Members on July 1, 1986. Each of the 17 remains among the 173 Member Insureds that EIM served at year-end 2008.

Since early 1988, the Company has had its operating offices in Tampa, Florida. EIM's only subsidiary, Energy Insurance Services, or EIS, operates from Greenville, South Carolina.










Energy Insurance Mutual’s 173 Members make EIM a global company, with the Company’s presence being strongest in North America. The entire United States is represented as are four provinces in Canada. In addition, we have one Member in the United Kingdom as well as one in Germany.

On the next 12 pages, six U.S. Member Companies illustrate the diversity—both operationally and geographically—of the EIM Membership. We go from coast to coast and from our northern borders to the Southeast and Southwest as we present EIM’s 2008 Operating Highlights.

Operating Highlights

Atmos Energy is the largest natural-gas-only distributor in the United States, delivering natural gas to 3.2 million customers in 1,600 communities in 12 states. Atmos Energy has grown dramatically through acquisitions, the most recent being TXU Gas Company.

Bluebonnets blooming in Texas.

In the fall of 2008, A.M. Best, EIM's only rating agency, announced that the Company's 2009 rating would remain A (Excellent) with the outlook being "stable." The agency wrote, "The rating reflects the Company's excellent capitalization, historically strong operating returns, and conservative leverage position."

EIM values highly its A.M. Best rating.

Consolidated Edison, Inc., or ConEd, provides electric service to approximately 3.2 million customers and gas service to approximately 1.1 million customers in New York City and Westchester County.

Minnewaska State Park Preserve in New York State's Catskill Mountains.

For years, the Company has enjoyed high Membership retention rates. In 2008, with total Membership being 173, our retention rate was 97 percent. The rate has never been lower than 96 percent. Membership was at its highest at year-end 2002 with a total of 178.

Thirty EIM Members have been with the Company more than 20 years, including the 17 founding Members. Eighty-seven percent have been EIM Policyholders at least five years.

Tennessee Valley Authority produces electricity and sells it to 158 local distributors that serve 8.8 million people in its seven-state service area in the southeastern United States. TVA also sells power to 59 large industrial customers and federal installations.

Early fall in the southern Appalachian Mountains.

EIM continued in 2008 to achieve scores in the IAC Annual Customer Satisfaction Survey that any company would envy. Ten of the 16 questions scored slightly higher than in 2007, while four were slightly lower, and two were exactly the same.

More specifically, more than 99 percent of the risk manager respondents agree or strongly agree that EIM provides added value in the form of broad coverage, price stability, consistent limits, and financial strength; that 98 percent agree or strongly agree that EIM follows reasonable, prudent, and sound underwriting practices; and 99 percent agree or strongly agree that, overall, EIM meets expectations in level of service.

Operating Highlights

Wisconsin Energy Corporation, formed in 1987 but with predecessor companies that go back to 1896, provides electric and natural gas service to customers across Wisconsin and the Upper Peninsula of Michigan.

Sunflowers in Wisconsin in the summertime.

The Company's invested assets were $994.0 million at year-end 2008, having dropped from the previous year's all-time high of $1,242.3 million. That dramatic drop resulted from a negative return of 22.4 percent. Nevertheless, EIM's long-term investment performance is still 2.5 percent for seven years and 1.5 percent for five years. In the five-year period 2003 through 2007, the annual returns had ranged between a high of 18.0 percent and a low of 6.0 percent.

For many years, EIM has followed an investment policy that emphasizes high quality, avoidance of concentration, and adequate liquidity. In 2008, all allocations were within their respective ranges: U.S. equity, 35 percent; non-U.S. equity, 15 percent; and fixed income, 50 percent.

City Utilities (CU) of Springfield is a community-owned utility serving southwest Missouri with electricity, natural gas, water, telecommunications, and transit services. CU has more than 106,000 customers.

Fall in the midwestern United States.

EIM paid claims in 2008 of $131.5 million, having paid $159.6 million the previous year. The highest amount paid to date was $170.9 million in 2005. Since inception, the Company has paid claims totaling $991.8 million.

Operating Highlights

Portland General Electric, Oregon's largest utility, generates power from a diverse mix of resources and delivers electricity to more than 1.5 million people who live within its 4,000-square-mile service territory.

A cauldron on the Oregon coast at sunset.

Policyholders' Surplus, at year-end 2008, was $467.3 million, having dropped almost $200 million from the previous year's end of over $667.1 due to claims losses and a stock market plunge unlike any seen in decades. Nevertheless, the Company goes forward with a healthy surplus.

Chairman's Review of the Year 2008

Energy Insurance Mutual proved its mettle in 2008.

In a year of economic turmoil—a year unlike any experienced previously—EIM remained focused on its Members and meeting their needs. The enviable results of the annual Customer Satisfaction Survey, reported in late summer, bears that out.

Clearly, the economic dislocation in 2008 impacted the Company's operating results. For example:

- Gross premium written was $182.0 million in 2008, compared to $199.6 million the previous year;
- Net income of $13.1 million in 2007 fell to a loss of $22.7 million in 2008; and
- Total assets stood at $1,549.7 million at the end of 2008; a year earlier, total assets had been $1,717.0 million.

Even though we experienced less than anticipated results in 2008, EIM remains strong and resolute in continuing to achieve its mission: providing broad and stable coverages for its Members. We began 2009 with Policyholders' Surplus of $467.3 million and a financial portfolio that was valued at $998.7 million. We also go forward with proven reinsurance partners who have demonstrated loyalty through a number of market cycles.

As a service to its Members, EIM provides Mutual Business Programs through its subsidiary Energy Insurance Services (EIS). You will remember that two years ago we moved the EIS operation from Bermuda to Greenville, South Carolina. At present, EIS maintains 14 MBPs with assets of almost $1.6 billion.

Among the Company's other distinctions is the Company's Insurance Advisory Committee (IAC), which is made up of seasoned risk managers from Member Companies. The IAC chairman participates in our Board meetings to keep us apprised of the progress of various task forces working on such critical subjects as carbon sequestration and cyber liability, as well as issues raised by Member Companies.

In 2008, George Schuitema retired from Integrys Business Support and as a result retired as the chairman of the IAC. We thank George for his long service on this key advisory committee and welcome his replacement as IAC chairman, Debbie Gaffney of

Southern Company. I thank all of the IAC members for their participation.

A third distinction—the Company's Annual Risk Managers Information Meeting—is valued greatly by Management and the Board of Directors. These meetings provide an ideal forum for exchanging information between Member representatives and the Company's management. In February, 2009, I had the privilege of welcoming participants to the 23rd Risk Managers Information Meeting.

Unfortunately, at that meeting, I had to report that the Company's long-time President and CEO David Hadler was in an aggressive fight with cancer and remains under the care of an experienced medical team in Tampa. We recently have received good news on his progress and will keep you informed as we go forward.

Since David's situation first presented itself last year, we continue to be reminded that EIM has a strong management team. They are carrying on with David's full confidence and with the full assurance of the 10 other men and women who serve with David and me on the EIM Board. During this difficult time, the Board has acted to ensure that all governance practices necessary for the smooth operation of the Company are in place.

In closing, I would like to thank my fellow directors—all busy executives of Member utilities who find the time to attend Board meetings and to participate actively on the various committees of the Board. I especially want to thank Bruce Worthington, the retired general counsel of PG&E, San Francisco, for his Board service. Bruce, a past chairman of EIM and the long-time chairman of the Board's Claims Committee, left the EIM Board at the 2008 Annual General Meeting. He had served on our Board since August 1996.

EIM is truly a remarkable organization, made more so by the dedication and professionalism of its staff. For all that they do, I thank them.

Charles W. Shivery

Charles W. Shivery
Chairman of the Board

April 7, 2009

EIM Products

General Liability

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

- Premises and operations hazards (world-wide)
- Automobile
- Products and completed operations
- Failure to supply
- Pollution
- Joint ventures

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

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

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

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

D&O

The lack of Excess Directors and Officers Liability capacity was the very reason EIM was formed in mid-1986.

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

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

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

Fiduciary

EIM's excess Fiduciary Liability policy offers coverage protection for Members in cases of claims being brought for breaches of fiduciary duty, such as: funding issues in a defined benefit plan, changes in participant's benefits, cash benefit plan conversions, and administrative errors and omissions.

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

Property

EIM's property facility was established in 2001 as a direct response to the requests of Members that where in need of capacity. The Company initially targeted Member's main programs. However, new treaty arrangements now enable EIM to write Builder's Risk coverage of up to 60 months as well. Current capacity is $35 million, up considerably from the original $5 million. Coverage is written on a quota share basis and can be provided on a primary and/or excess basis.

EIM continues to have its greatest success as a result of Members directing their brokers to involve EIM in their placements.

Also, EIM continues to have a healthy and dynamic relationship with Nuclear Electric Insurance Limited (NEIL).

Financials and Notes to the Financials

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

Charles W. Shivery
Chairman of the Board

February 22, 2009

Report of Independent Auditors

Board of Directors
Energy Insurance Mutual Limited

We have audited the accompanying balance sheets of Energy Insurance Mutual Limited ("the Company") as of December 31, 2008 and 2007 and the related statements of income and comprehensive income, changes in policyholders' surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Energy Insurance Mutual Limited at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended.

Johnson Lambert & Co. LLP

Jacksonville, Florida
February 9, 2009

Balance Sheets

ENERGY INSURANCE MUTUAL LIMITED
(Expressed in Thousands of U.S. Dollars)

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

See accompanying notes to the financial statements

Statements of Income and Comprehensive Income

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	Year Ended December 31	
	2008	2007
REVENUES		
Premiums earned		
Direct written premiums	**$ 179,636**	$ 194,169
Assumed written premiums	**2,386**	5,439
Change in unearned premiums	**2,174**	8,066
Ceded earned premiums	**(82,407)**	(92,135)
Net premiums earned	**101,789**	115,539
Other underwriting income	**2,120**	2,718
Net investment income		
Net realized (loss):		
Realized gain (loss) on investments sold	**151**	(579)
Realized loss on investments deemed other than temporarily impaired	**(40,772)**	(1,481)
Net realized (loss)	**(40,621)**	(2,060)
Net investment income	**40,081**	44,404
Total revenues	**103,369**	160,601
EXPENSES		
Losses and loss adjustment expenses		
Gross losses and loss adjustment expenses incurred	**255,309**	258,084
Assumed losses and loss adjustment expenses	**478**	(85)
Ceded losses and loss adjustment expenses	**(119,622)**	(133,934)
	136,165	124,065
Other underwriting expenses	**1,658**	1,856
Administrative expenses	**9,027**	9,961
Total expenses	**146,850**	135,882
(Loss) income before policyholders' distribution and income taxes	**(43,481)**	24,719
Policyholders' distribution	**-**	(12,500)
(Loss) income before income taxes	**(43,481)**	12,219
Federal income tax benefit (expense)		
Current	**3,992**	4,053
Deferred	**16,753**	(3,128)
Total federal income tax benefit	**20,745**	925
NET (LOSS) INCOME	**$ (22,736)**	$ 13,144
COMPREHENSIVE INCOME		
Net (loss) income	**$ (22,736)**	$ 13,144
Net unrealized (losses) gains on available-for-sale securities, net of income taxes of $81,092 and $(8,931), respectively	**(150,601)**	16,587
Less: reclassification adjustment for net (losses) gains realized in net income, net of income taxes of $(14,217) and $(721), respectively	**(26,404)**	1,339
Other comprehensive (loss) income, net of tax	**(177,005)**	17,926
Comprehensive (loss) income	**$ (199,741)**	$ 31,070

See accompanying notes to the financial statements

Statements of Changes in Policyholders' Surplus

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	Accumulated Other Comprehensive Income (Loss)	Members' Account Balance	Total
Balance at December 31, 2006	$ 155,658	$ 480,333	$ 635,991
Change in net unrealized gain on securities available-for-sale, net of tax	17,926	_	17,926
Net income	_	13,144	13,144
Balance at December 31, 2007	173,584	493,477	667,061
Change in net unrealized gain on securities available-for-sale, net of tax	**(177,005)**	_	**(177,005)**
Net loss	_	**(22,736)**	**(22,736)**
Balance at December 31, 2008	**$ (3,421)**	**$ 470,741**	**$ 467,320**

See accompanying notes to the financial statements

Statements of Cash Flows

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	Year Ended December 31	
	2008	2007
OPERATING ACTIVITIES		
Net (loss) income	**$ (22,736)**	$ 13,144
Cash flows from operating activities:		
Depreciation and amortization	**310**	310
Net realized investment loss	**40,621**	2,060
Deferred income taxes	**(16,753)**	3,128
Equity in loss (gain) of subsidiary	**179**	(580)
Changes in operating assets and liabilities:		
Reinsurance recoverable	**(44,710)**	(111,692)
Prepaid reinsurance premiums	**(3,980)**	6,517
Accrued investment income	**1,075**	(215)
Premiums receivable	**3,141**	(140)
Deferred policy acquisition costs	**86**	62
Federal income tax receivable	**5,258**	(14,272)
Prepaid expenses	**19**	(155)
Reserve for losses and loss adjustment expenses	**119,665**	94,298
Unearned premiums	**(2,174)**	(8,066)
Reinsurance premiums payable	**835**	(4,571)
Policyholder distribution payable	**(12,500)**	2,500
Due from (to) subsidiary	**(2,735)**	2,548
Accounts payable and other accrued expenses	**170**	904
NET CASH FROM OPERATIONS	**65,771**	(14,220)
Cash flows from investing activities:		
Cost of investments purchased	**(372,064)**	(522,797)
Proceeds from sales of investments	**307,209**	527,909
Proceeds from maturities of investments	**15,158**	23,071
Change in payable from purchase of investments	**1,569**	(16,303)
Purchases of fixed assets	**(108)**	(30)
NET CASH FROM INVESTING	**(48,236)**	11,850
Net change in cash and cash equivalents	**17,535**	(2,370)
Cash and cash equivalents, beginning of year	**53,812**	56,182
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 71,347**	$ 53,812
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes received (paid)	**$ 9,250**	$ (10,140)

See accompanying notes to the financial statements

Notes to Financial Statements

Note A - Organization and Significant Accounting Policies

Organization

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

The Company is a mutual insurance company, and membership is available to any utility or member of the energy services industry that meets EIM's underwriting standards. The Company provides excess general liability, excess fiduciary liability and excess directors and officers liability policies written on a claims first made basis. In addition, to a lesser extent the Company writes property insurance for its members. All members have casualty policies in place, approximately one third of those members have property policies as well.

Basis of Reporting

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

Investment in Subsidiary

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

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

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

Notes to Financial Statements

As of December 31, 2008, EIS has assets (exclusive of assets held in mutual business programs) of approximately $12.5 million, shareholder's equity of $1.7 million and a net loss of approximately $179,000. As of December 31, 2007, EIS has assets (exclusive of assets held in mutual business programs) of approximately $2.2 million, shareholder's equity of $1.9 million and a net gain of approximately $580,000. Additionally, EIM contributed additional capital of $130,000 to EIS during 2007.

The Company and EIS file a consolidated federal income tax return. Income taxes are allocated based on separate return calculations. During 2008 and 2007, EIM provided reinsurance to certain EIS cells. For the years ended December 31, 2008 and 2007, premiums earned includes $247,067 and $97,723 of premium assumed from EIS.

Investments

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains certain cash and cash equivalent balances that are not subject to FDIC insurance. Management does not believe these balances represent a significant credit risk to the Company.

Losses and Loss Adjustment Expense Reserves

The reserve for losses and loss adjustment expenses represents the estimated ultimate gross cost of all reported and unreported losses incurred through December 31. Since the Company provides principally high level excess of loss coverage to its members, it is exposed to high value but infrequent claims. Therefore, standard actuarial methods, such as paid loss development, are inappropriate to use. Losses are determined based on projecting average loss and expected number of claims after reviewing historical known losses and claim counts and understanding how exposures to loss have changed over policy periods. Aggregate expected losses are derived based on these estimates and theoretical size of loss distribution.

Case reserves represent the estimated future payments on reported losses. Case reserves are continually reviewed and updated; however, given the uncertainty regarding the extent of the Company's ultimate liability, a significant additional liability could develop. Supplemental reserves (e.g., IBNR) are recorded based on actuarial projections. Although considerable variability is inherent in these estimates, particularly due to the limited number of claims to date, management believes that the aggregate reserve for losses and loss adjustment expenses is adequate. These estimates are periodically reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

Notes to Financial Statements

Premiums

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

Reinsurance

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

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

Deferred Policy Acquisition Costs

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

Income Taxes

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

Policyholder Distribution

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

Reclassifications

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

Notes to Financial Statements

Note B - Insurance Activity

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

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

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

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

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

Notes to Financial Statements

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

The Company uses excess of loss reinsurance to protect the Company from severe losses on the directors and officers, general partner, general liability and fiduciary liability book of business. After certain deductible or retentions have been satisfied, the maximum amount that could be recoverable under the 2008 and 2007 reinsurance treaties is $250,000,000 with respect of general liability and $81,100,000 with respect of directors and officers, general partner and fiduciary liability.

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

The property book of business is primarily reinsured by Underwriters at Lloyd's, Endurance Specialty Insurance Ltd., and/or NEIL. In addition, the Company also has an arrangement with NEIL whereby its non nuclear property book of business is fronted by EIM.

Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured, to the extent that the reinsurer does not meet the obligations assumed under the reinsurance agreement. The reinsurance recoverable on paid and unpaid losses is substantially due from two reinsurers, NEIL and various Loyds syndicates, comprising 29% and 31%, respectively, of the balance at December 31, 2008 and 33% and 25%, respectively, at December 31, 2007. The remaining balance comprises amounts from various reinsurers, each not exceeding 14% and 13%, respectively, of the total.

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

Notes to Financial Statements

Note C - Investments

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

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

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

2007	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury & Agencies	$ 123,572	$ 3,405	$ 45	$ 126,932
U.S. state and municipal obligations	318,261	11,598	3,189	326,670
Corporate debt securities	20,535	507	869	20,173
Mortgage-backed securities	63,618	365	4,469	59,514
Total fixed-maturity securities	525,986	15,875	8,572	533,289
Equities	391,636	265,143	5,394	651,385
Total investments	$ 917,622	$ 281,018	$ 13,966	$ 1,184,674

The minimum requirement of the Company's investment guidelines is that no more than 5% of all debt securities may have a below investment-grade bond rating by at least one nationally recognized credit rating agency or the equivalent to the extent possible to determine. As of December 31, 2008 and 2007, the Company is in compliance with its investment guidelines.

Notes to Financial Statements

The cost and estimated fair value of fixed-maturity securities at December 31, 2008, by contractual maturity, are summarized below *(in thousands)*. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities have been aged by their respective maturity dates.

	Cost	Fair Value
Maturity:		
In 2009	$ 8,405	$ 9,080
In 2010–2013	104,314	108,168
In 2014–2018	91,556	91,909
Due after 2018	311,248	297,432
Total fixed-maturity securities	$ 515,523	$ 506,589

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

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

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

Notes to Financial Statements

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

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

The following tables show gross unrealized losses and fair values of investments, aggregated by investment category, and the length of time that individual investments have been in a continuous unrealized loss position, at December 31, 2008 *(in thousands)*:

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

None of the 349 debt securities with unrealized losses have ever missed or been delinquent on a scheduled principle or interest payment. Management is therefore of the belief that the unrealized losses are due to recent changes in interest rates and do not represent an impairment in the value of these securities that is other than temporary.

The Company's investment guidelines require it to invest in securities which would emulate the returns of the S&P 900. For this, and other aforementioned reasons, unrealized losses arising on equity securities are believed to be temporary. Of the 913 securities with unrealized losses, 650, with losses of $49,543,798, have been experiencing losses for six months or less and are believed to be temporary. Of the remaining 263 securities, nine account for in excess of 77% of the remaining $29,866,343.

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

Notes to Financial Statements

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

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

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

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

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

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

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

Notes to Financial Statements

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

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

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

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

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

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

Note D - Federal Income Taxes

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

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

Notes to Financial Statements

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

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

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

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

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

IRS Examination

The Company is currently undergoing an IRS examination of its consolidated income tax returns for 2003 and 2004. Management believes that the issues raised related to EIM's filings are timing issues and will be resolved with no significant effect on EIM's overall financial position. The Service raised additional issues related to EIS, particularly on the treatment of MBP cells as insurance companies. The Company has received a Revenue Agent's Report ("RAR") and management, along with its tax advisors have responded by filing a protest with the IRS Appeals division. The Company believes that its positions will ultimately prevail in this matter. At December 31, 2008, management is unable to assess the likelihood of potential outcomes. As such, no provision for additional taxes payable on these years has been made in these financial statements.

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

Note E - Commitments and Contingencies

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

Note F - Trust Funds and Deposits

The Company has established a trust fund with a federally insured depository. This trust fund serves as security for policyholders and third-party claimants to satisfy requirements of being listed as an alien surplus lines insurer by the National Association of Insurance Commissioners. The Company is required to maintain a minimum amount of the lesser of $100,000,000 or $5,400,000 plus 30% for liabilities arising from business on or after January 1, 1998. At December 31, 2008, the required balance was $100,000,000. In addition, the state of Florida has required the Company to deposit $300,000 as security for the Company's policyholders and creditors. The trust funds and deposit balances have been included in the accompanying balance sheets as available-for-sale investments, including both fixed-maturity securities and equities.

Note G - Margin of Solvency

In order to meet the requirements of the Qualifying Insurance Company under the Insurance Act 1992-2 of Barbados, the Company must have contributed reserves of approximately $12,054,000. The policyholders' surplus provided an excess margin of solvency of approximately $467,320,000 at December 31, 2008, that is available for the payment of dividends.

:

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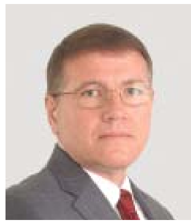
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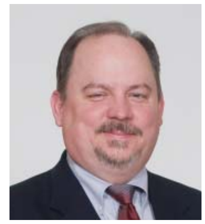
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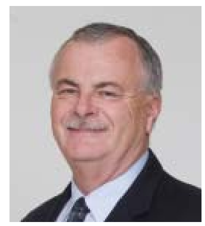
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Independent Electricity System Operator

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InterGen NV

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Iroquois Gas Transmission System, LP

ISO New England Inc.

ITC Holdings Corporation

JEA and Florida Power & Light d/b/a St. Johns River Power Park

Knight, Inc.

Laclede Group, Inc.

Long Island Power Authority

Los Angeles Department of Water and Power

Massachusetts Water Resources Authority

MDU Resources Group, Inc.

Metropolitan Water District of Southern California

MGE Energy, Inc.

MidAmerican Energy Holdings Company

Midwest Independent Transmission System Operator, Inc.

Mirant Corporation

Modesto Irrigation District

Mountaineer Gas Company

National Fuel Gas Company

National Grid plc

National Grid USA

New Jersey Resources Corporation

New York Independent System Operator, Inc.

New York Power Authority

Nicor Inc.

NiSource Inc.

Northeast Utilities

Northwest Natural Gas Company

NorthWestern Corporation

Noverco Inc.

NRG Energy, Inc.

NSTAR

NV Energy, Inc.

OGE Energy Corp.

Ohio Valley Electric Corporation

ONEOK, Inc.

Ontario Power Generation Inc.

Optim Energy, LLC

Orlando Utilities Commission

Otter Tail Corporation

Pepco Holdings, Inc.

PG&E Corporation

Philadelphia Gas Works

Piedmont Natural Gas Company, Inc.

Pinnacle West Capital Corporation

PJM Interconnection, LLC

PNM Resources, Inc.

Portland General Electric Company

PowerSouth Energy Cooperative

PPL Corporation

Progress Energy, Inc.

Public Service Enterprise Group Incorporated

Public Utility District No. 2 of Grant County, Washington

Public Utility Risk Management Services Joint Self-Insurance Fund

Puget Energy, Inc.

Questar Corporation

RC Cape May Holdings, LLC

Reliant Energy, Inc.

RGC Resources, Inc.

Sacramento Municipal Utility District

Salt River Project Agricultural Improvement and Power District

SCANA Corporation

Seminole Electric Cooperative, Inc.

Sempra Energy

South Mississippi Electric Power Association

Southern Company

Southern Union Company

Southwest Gas Corporation

Spectra Energy Corp.

Suburban Propane Partners, LP

T. W. Phillips Gas and Oil Co.

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TECO Energy, Inc.

Tennessee Valley Authority

Toronto Hydro Corporation

TransCanada Corporation

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Westar Energy, Inc.

Western Electricity Coordinating Council

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