Energy Insurance Mutual 2009 Annual Report

Energy Insurance Mutual Limited, known as EIM, was incorporated June 13, 1986, in Barbados, where it remains domiciled. The Company wrote its initial policies for 17 founding Members on July 1, 1986. Each of the 17 remains among the 168 Member Insureds that EIM served at year-end 2009.

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.

Stability

Strength

Focus

Strategy

2009 Operating Highlights

2009 Operating Highlights

EIM Is Stable

EIM's 2009 A.M. Best rating remains A (Excellent) with the outlook being "stable." The Company's rating agency wrote, "The rating reflects the Company's excellent capitalization, historically strong operating returns, and conservative leverage position."

In 2009, EIM added four new Members, ending the year with a total of 168. Of the total, 115 Members have been with the Company for over 10 years, including the 17 founding Members.

EIM was formed to provide Excess General Liability and Excess Directors and Officers Liability coverage to gas and electric utilities. This past year, these two coverages produced $149.2 million, or 79 percent, in earned premium.

2009 Operating Highlights

EIM Is Strong

Policyholders' surplus grew dramatically in 2009, ending the year at nearly $651.8 million, having increased $184.5 million, or nearly 40 percent, over the previous year's end of $467.3 million.

EIM paid a record $212.6 million in claims in 2009, having paid $131.6 million the previous year. Since inception, the Company has paid claims totaling more than $1.2 billion to our Member Companies.

At December 31, 2009, EIM's invested assets were $1,123.9 million, up $128.3 million over the prior year's ending balance of $995.6 million. The investment portfolio earned an annual return of 19.5 percent in 2009, while the seven-year return performance was 6.1 percent.

2009 Operating Highlights

EIM Is Focused

The results of the 2009 Insurance Advisory Committee Risk Managers Survey, which focuses on Member satisfaction, provided outstanding results with 100 percent of the risk manager respondents agreeing or strongly agreeing that EIM follows reasonable, prudent, and sound underwriting practices. Furthermore, 99 percent agree or strongly agree that EIM meets expectations in breadth of coverage and level of service, and 100 percent agree or strongly agree that EIM meets expectations in value for money.

In 2009, Energy Insurance Services closed the year with $91.1 million in written premiums, up 42 percent, from the previous year's end of $63.7 million. There were 13 active cells writing 23 different coverages. EIS' expanding capabilities and focus offer EIM Members a wide array of customized risk management solutions.

2009 Operating Highlights

EIM Is Strategic

In 2009, EIM concluded a two-year project to expand the Company's existing risk management practices into a fully integrated Enterprise Risk Management, or ERM, program designed to ensure financial stability. Through ERM, the Company employs a risk-based, holistic approach to evaluating corporate risk strategies for all aspects of the Company's operations.

EIM's long-standing investment policy has always emphasized high quality, avoidance of concentration, and adequate liquidity. In 2009, the Board's Investment Committee enhanced the investment policy to incorporate a risk-based allocation of the portfolio that conforms to the overall risk tolerance of the Company.

From the Chairman of the Board

Review of the Year 2009

"We are an organization founded by Members dedicated to the notion that stability comes from shared goals and objectives, sustained by Members who embrace the precepts of long-term stability and growth, and strengthened by the collective contributions of the EIM team, the Board of Directors, and its operating committees."

"EIM's 2009 performance was a true reflection of the Company's resilience and enduring strength."

In 2009, Energy Insurance Mutual delivered exceptional underwriting and investment results while successfully meeting numerous challenges on multiple fronts.

Mark Twain once said, "The secret of getting ahead is getting started. The secret of getting started is breaking your complex overwhelming tasks into small manageable tasks, and then starting on the first one." Whether it involved changes in leadership, the composition of the Company's Board of Directors, or orchestrating a financial turnaround, EIM took each task, broke it into its component parts, and went about successfully dealing with the issues of 2009.

Our leadership issues were occasioned by the year-long illness and passing in December 2009 of EIM President and CEO David Hadler, who also served as a member of the Board of Directors. In August 2009, David took medical leave and Director Barry Mitchell, who had retired earlier in the year from ComEd, Chicago, was elected interim EIM president and CEO. While a national search for a new chief executive officer was underway, Barry's steady counsel and deft management style, coupled with the extraordinary efforts of EIM staff, enabled EIM to stay focused on the key issues. I cannot begin to express adequately my gratitude and appreciation for Barry and the entire staff for their hard work and dedication throughout 2009.

We opened the 2010 Risk Managers Information Meeting in February with a heartfelt tribute to David. As the EIM team noted in its poignant remembrance of David, "He may be gone, but he will never be forgotten." I think it is only fitting that we honor David's legacy through the creation of the David L. Hadler Risk Management Award which, beginning at our 25th annual Risk Managers Information Meeting, will recognize a Member Company risk manager who embodies the professionalism, commitment to excellence, and dedication to the energy industry that were the hallmarks of David's career.

On December 9, the Company's search for a new chief executive ended with the announcement that Scott K. Goodell, then a managing director with Guy Carpenter & Company LLC, would join Energy Insurance Mutual as president and chief executive officer. Scott's election became effective January 11, and he has been working diligently over the past months, listening closely to our Member Companies, learning about the critical risk management issues facing our Membership, and laying the foundation for the design and delivery of responsive risk management solutions.

In addition to David's departure from the Board, two other directors, for personal reasons, left our Board late in 2009. They are EIM Vice Chairman Dudley Reynolds and Holly Koeppel. Then, on March 11, Allen Leverett, a director since 2002, resigned due to time restraints.

Dudley, who joined the EIM Board in January 2002 and was elected the Company's vice chairman in May 2009, continues as president and COO, Alabama Gas Corporation, Birmingham. Dudley tendered his resignation from the EIM Board on December 9. We are most appreciative of Dudley's participation on the Board and thank him for his many contributions.

Holly, who joined the EIM Board in August 2007, had been executive vice president and chief financial officer, American Electric Power, Columbus, OH. She left that position in September of this past year and ended her employment with AEP at the end of 2009. She resigned from the EIM Board November 17. Holly was a valued and respected member of the Board whose insights will be sorely missed.

Allen, who was appointed to the EIM Board in November 2002 and elected to his first three-year term in April 2003, moved from Georgia Power Company, Atlanta, to Wisconsin Electric Corporation, Milwaukee, effective July 1, 2003. There, he is executive vice president and chief financial officer. We are especially grateful to Allen for sharing his financial expertise as a member of our Board's Audit and Investment committees. We certainly will miss his presence and his participation.

In response to these Board changes, we elected Scott Goodell a director at the January 12, 2010, Board meeting, and we have proposed four new Board members for Member Company consideration at the Annual General Meeting this May. They are Don Chappel, senior vice president and chief financial officer of Williams Companies, Tulsa; Marian Durkin, senior vice president, general counsel, and chief compliance officer of Avista, Spokane; Benjamin Fowke, president and chief operating officer of Xcel Energy, Minneapolis; and Darren Olagues, senior vice president and chief financial officer of Cleco Corporation, Pineville, LA. We look forward to welcoming and working together with each of these Director nominees.

We also faced a daunting financial challenge in 2009. Having seen surplus drop by almost 30 percent in 2008, our accomplished and hard-working EIM team, together with the Board of Directors, and the Board's operating committees collaboratively responded to and met the challenge. Various EIM team members picked up additional responsibilities to ensure that key activities moved forward. The Board took a more "hands on approach" to strategic and operational initiatives. And our working committees, particularly the Insurance Advisory Committee and the Strategic Planning and Claims committees were never more active.

The end result—EIM's investment portfolio recovered almost all of the losses suffered in 2008, underwriting results showed marked improvement, and surplus increased almost 40 percent. EIM's 2009 performance was a true reflection of the Company's resilience and strength.

In the face of change, we pulled together to ensure there was one constant—that EIM would continue to operate in accordance with its original mission: To provide long-term, meaningful insurance coverage to its Member Companies. We are an organization founded by Members dedicated to the notion that stability comes from shared goals and objectives, sustained by Members who embrace the precepts of long-term stability and growth, and strengthened by the collective contributions of the EIM team, the Board of Directors, and its operating committees. For these contributions, I am grateful.

James R. Hatfield

James R. Hatfield
Chairman of the Board

April 5, 2010

Jim Hatfield

From the President and Chief Executive Officer

A Look Going Forward

"Throughout 2009, EIM remained focused on its core underwriting principles, developed and implemented formal enterprise-wide risk management metrics, and continued to explore new risk management solutions."

I welcome this initial opportunity to address the entire EIM Membership, to reflect on the accomplishments of this past year, and to share my perspective on the future of the Company.

First, please know how pleased I am to have joined the team at Energy Insurance Mutual. Since arriving on January 11, 2010, I have been singularly impressed by the professionalism and enthusiasm of my EIM colleagues, the dedication and commitment of the Board of Directors, and the expertise and insights provided by Member Company representatives. Given my relatively short tenure with EIM, I will be commenting almost exclusively on the accomplishments of my colleagues, the Board, and its hard-working, hands-on committee members. Thanks to all of them, I have the luxury, albeit fleeting, of basking in the glow of a shining 2009.

Earlier in this annual report, Chairman Jim Hatfield described EIM's 2009 year as "exceptional." It truly was. We enjoyed success on several fronts: gross written premium grew; incurred claims were down significantly; our net loss ratio was stellar, helped in part by recognition of prior year reserve redundancies; and we achieved an almost 20-percent return on the investment portfolio. This solid performance sets the bar high for 2010.

While these accomplishments are impressive, they reflect only an end result and do not do justice to the 12-month effort that laid the groundwork for these successes. Throughout 2009, EIM remained focused on its core underwriting principles, developed and implemented formal enterprise-wide risk management metrics, and continued to explore new risk management solutions.

On the underwriting front, EIM's general liability portfolio, which represents approximately 57 percent of our annual gross written premium, remained stable, both in terms of Member Company participation and pricing. We continue, however, to see increasing competition in the D&O arena as both U.S. and Bermuda insurers have entered the market with extremely competitive pricing and coverage that are mirroring more closely EIM's traditional, broadly worded terms and conditions.

This soft-market foray will once again test the fabric of our mutual framework. Will we adhere to the tenets that have served us so well over the past 24 years, or succumb to the short-term benefits offered by mercurial commercial markets? EIM is prepared to work with Member Companies to provide responsive coverage, but we are fully cognizant of the overriding need to ensure long-term stability. In those instances where pricing or coverage falls outside our underwriting parameters, it is essential that we remain disciplined.

Equally important to our core GL and D&O underwriting portfolio is the need to constantly assess Member Company emerging needs and develop responsive solutions. Our fiduciary and property portfolios, while relatively small, reflect EIM's ongoing effort to satisfy coverage requirements that might otherwise go unmet. We will continue throughout 2010 to maintain a dialogue with Member Companies to ensure that EIM is positioned not just to respond to emerging exposures, but to anticipate them.

As we considered emerging risks faced by our Membership, we also became more acutely aware of exposures confronting EIM. One valuable lesson learned in 2008 was that EIM's major risks are not just resident in our underwriting portfolio or claims reserves. Broader considerations, including investment performance, succession planning, and long-term strategy were at the forefront of our risk management efforts throughout 2009 and will continue in 2010 and beyond.

The detailed 360-degree enterprise risk management exercise, on which the Company embarked this past year, focused not only on our insurance risks but also on investment, operational, and strategic risks as well. We have already begun the task of refining our enterprise risk management process, looking to identify, measure, and monitor those risks that have the potential to impede progress toward, or undermine our key goals and objectives.

The newly formed Enterprise Risk Management (ERM) Committee that reports to the Board's Audit Committee has adopted an overall risk tolerance statement for EIM. Our ERM goal is to ensure EIM's financial stability and longevity. Through ERM, we identify and manage the Company's key risks. For example, in terms of capital at risk, our corporate risk tolerance targets a less-than-10-percent likelihood of losing 20 percent of EIM's surplus in any fiscal year.

As part of the ERM process, the committee identified 14 key risk drivers that fall into four categories: Asset, Insurance, Operations, and Strategy. These risk elements are aligned to reflect EIM's overall risk appetite and are routinely measured against performance benchmarks designed to provide the greatest likelihood of achieving our risk management goals. It is telling that many of our ERM metrics focus on three-year rolling averages, not month-to-month or even quarter-to-quarter performance.

The ERM process not only provides a solid foundation upon which to assess down-side risk, but it also enables EIM to identify and anticipate up-side opportunities emanating from changes in the marketplace, the evolving needs of our Member Companies, and the specific goals and objectives established by EIM. The ERM process is dynamic and will shift with the risk management landscape. Our risk management perspective will, however, always be long term, focusing on a stable underwriting, investment, operational, and strategic platform designed to serve our Members for decades to come.

As we considered the holistic view of EIM, we included the Company's only subsidiary, Energy Insurance Services. Great strides have been made in recent months to position EIS as the risk management platform of choice for the energy industry. Whether it is traditional P&C

Scott Goodell

retention programs, wildfire protection, employee benefits, or T&D exposures, EIS offers a broad array of cell captive solutions that enable our Members to more efficiently tailor and cost-effectively implement their risk management strategies.

Feedback from Member Companies highlights EIS as a risk management platform that provides flexibility and greater risk management stability, particularly where a company's diverse operating divisions are doing business in varying regulatory environments. An EIS cell captive solution enables companies to tailor specific coverages for their operating entities, more efficiently share risk between these operations, and maintain better control over risk exposures. By enabling a company to share diverse exposures and attendant losses across operating units, EIS-sponsored captives create a formal and stable risk management platform from which to execute a broader risk management strategy.

"Broader considerations, including investment performance, succession planning, and long-term strategy were at the forefront of our risk management efforts throughout 2009 and will continue in 2010 and beyond."

I attended the EIS breakout session at the Risk Managers Information Meeting in Orlando earlier this year and was impressed by the high level of Member Company interest in EIS cell captive solutions. I also observed a plethora of expertise available from our EIS colleagues, EIS business partners such as USA Risk and Milliman, and EIM Member Companies that already have successfully created single-cell solutions that augment their risk management alternatives.

A common theme quickly emerged in the Orlando breakout session. EIS provides innovative, responsive services to EIM Members, enabling them to effectively manage exposures that would otherwise be cost-prohibitive in the open market or administratively burdensome. As more Member Companies face emerging risk exposures, EIS will be viewed increasingly as offering meaningful alternatives to the more traditional insurance coverages.

As we address emerging risks within our industry, I see our Insurance Advisory Committee, or IAC, continuing to set the tone for EIM. The IAC reflects the pulse of our Member Companies and sets the stage for future initiatives. In addition to the newly created Emerging Risks Task Force, the IAC continues its work on carbon capture and sequestration, cyber liability, and terrorism.

Added to this already crowded agenda, the IAC will continue to solicit feedback on EIM coverage limits, to work on its annual Membership Satisfaction survey, and to help organize the curriculum for the Energy School that EIM cosponsors with NEIL and the OIL Group of Companies. Simply stated, the dedication and insights of IAC members help make EIM a stronger, more responsive organization.

While I did not have the pleasure of working with Bob Semet, I want to add a well-deserved thank you to Bob. This past year, Bob stepped down from the IAC in conjunction with his November 30, 2009, retirement as insurance director at Exelon. Those who worked with Bob during his more than seven-year tenure with the IAC noted his deep appreciation for the mutual concept, an unparalleled depth and breadth of knowledge in the energy field, and his ability to indentify, grasp, and articulate pragmatic solutions to complex issues.

As I mentioned in Orlando, when I first arrived at EIM, I read everything about the Company that I could find. Over and over, in document after document, I observed the corporate traits and attitudes that have served us well for 24 years—and will serve us well for the years to come. They are:

- A commitment to excellence;
- A company that values integrity;
- A culture that embraces stability as it seeks new and better ways of doing business; and
- An organization that is all about serving its Members.

Clearly, much has been accomplished at EIM these past 24 years, and the Membership should be very proud of what they—and especially the Member volunteer leadership, both past and present—have created. EIM is an impressive organization. Despite EIM's great history, however, we plan to stay focused on the future, which is where our continued success will be achieved.

Thank you to my EIM colleagues who welcomed me so graciously to the team; thank you to the Board for their trust and confidence; and thank you to the Member representatives for your support and encouraging words. I look forward to getting to know each of you and to working with you closely as we move forward together.

Scott K. Goodell
President and CEO

April 5, 2010

EIM Products

General Liability

EIM's Excess General Liability, or EGL, 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
Joint Ventures

The Pollution coverage mirrors that of the underlying AEGIS policy, where EIM's policy follows AEGIS and is the broadest in the commercial marketplace.

The EIM Excess General Liability policy is a following form policy that is written on a claims-first-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, or D&O, 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-first-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 participants' 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, 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 a dynamic relationship with Nuclear Electric Insurance Limited (NEIL) in connection with this property facility.

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 Limited.

James R. Hatfield

James R. Hatfield
Chairman of the Board

February 21, 2010

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, 2009 and 2008 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, 2009 and 2008, and the results of its operations and its cash flows for the years then ended.

Johnson Lambert & Co. LLP

Jacksonville, Florida
February 9, 2010

Balance Sheets

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	As of December 31, 2009	As of December 31, 2008
ASSETS		
Investments, available-for-sale	**$ 1,042,896**	$ 921,433
Investment in subsidiary	**1,577**	1,682
Total investments	**1,044,473**	923,115
Cash and cash equivalents	**99,602**	71,347
Reinsurance recoverable	**356,218**	448,775
Prepaid reinsurance premiums	**48,533**	46,714
Accrued investment income	**5,431**	5,936
Fixed assets	**184**	548
Prepaid expenses	**342**	518
Due from subsidiary	**145**	187
Premiums receivable	**905**	708
Deferred policy acquisition costs	**1,025**	1,052
Federal income tax receivable	**-**	11,273
Net deferred tax asset	**-**	39,524
TOTAL ASSETS	**$ 1,556,858**	$ 1,549,697
LIABILITIES AND POLICYHOLDERS' SURPLUS		
LIABILITIES:		
Reserve for losses and loss adjustment expenses	**$ 725,778**	$ 964,061
Unearned premiums	**102,735**	100,195
Reinsurance premiums payable	**10,630**	10,612
Payable for securities purchased	**25,570**	4,761
Accounts payable and accrued expenses	**2,233**	2,748
Net deferred tax liability	**9,585**	-
Income taxes payable	**28,539**	-
TOTAL LIABILITIES	**905,070**	1,082,377
POLICYHOLDERS' SURPLUS		
Accumulated other comprehensive income (loss)	**83,340**	(3,421)
Members' account balance	**568,448**	470,741
TOTAL POLICYHOLDERS' SURPLUS	**651,788**	467,320
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	**$ 1,556,858**	$ 1,549,697

See accompanying Notes to Financial Statements

Statements of Income and Comprehensive Income

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	Years Ended December 31	
	2009	2008
REVENUES		
Premiums earned		
Direct written premiums	**$ 182,718**	$ 179,636
Assumed written premiums	**2,119**	2,386
Change in unearned premiums	**(2,540)**	2,174
Ceded earned premiums	**(87,350)**	(82,407)
Net premiums earned	**94,947**	101,789
Other underwriting income	**2,118**	2,120
Net investment income		
Net realized (loss):		
Realized gain on investments sold	**14,057**	151
Total other-than-temporarily losses	**(21,697)**	(40,772)
Net realized (loss)	**(7,640)**	(40,621)
Net investment income	**36,419**	40,081
Total revenues	**125,844**	103,369
EXPENSES		
Losses and loss adjustment expenses		
Gross losses and loss adjustment expenses incurred	**(16,357)**	255,309
Assumed losses and loss adjustment expenses	**(4,689)**	478
Ceded losses and loss adjustment expenses	**(3,696)**	(119,622)
	(24,742)	136,165
Other underwriting expenses	**1,604**	1,658
Administrative expenses	**9,866**	9,027
Total expenses	**(13,272)**	146,850
Income (loss) before policyholders' distribution and income taxes	**139,116**	(43,481)
Policyholders' distribution	**-**	-
Income (loss) before income taxes	**139,116**	(43,481)
Federal income tax (expense) benefit		
Current	**(39,018)**	3,992
Deferred	**(2,391)**	16,753
Total federal income tax (expense) benefit	**(41,409)**	20,745
NET INCOME (LOSS)	**$ 97,707**	$ (22,736)
COMPREHENSIVE INCOME		
Net income (loss)	**$ 97,707**	$ (22,736)
Net unrealized gains (losses) on available-for-sale securities, net of income taxes of ($49,391) and $81,092, respectively	**91,727**	(150,601)
Less: reclassification adjustment for net losses realized in net income, net of income taxes of $(2,674) and $(14,217), respectively	**(4,966)**	(26,404)
Other comprehensive income (loss), net of tax	**86,761**	(177,005)
Comprehensive income (loss)	**$ 184,468**	$ (199,741)

See accompanying Notes to 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, 2007	$ 173,584	$ 493,477	$ 667,061
Change in net unrealized loss on securities available-for-sale, net of tax	(177,005)	_	(177,005)
Net loss	_	(22,736)	(22,736)
Balance at December 31, 2008	(3,421)	470,741	467,320
Change in net unrealized gain on securities available-for-sale, net of tax	**86,761**	_	**86,761**
Net income	_	**97,707**	**97,707**
Balance at December 31, 2009	**$ 83,340**	**$ 568,448**	**$ 651,788**

See accompanying Notes to Financial Statements

Statements of Cash Flows

ENERGY INSURANCE MUTUAL LIMITED

(Expressed in Thousands of U.S. Dollars)

	Years Ended December 31	
	2009	2008
OPERATING ACTIVITIES		
Net income (loss)	**$ 97,707**	$ (22,736)
Cash flows from operating activities:		
Depreciation and amortization	**307**	310
Net realized investment loss	**7,640**	40,621
Deferred income taxes	**2,391**	(16,753)
Equity in loss of subsidiary	**105**	179
Changes in operating assets and liabilities:		
Reinsurance recoverable	**92,557**	(44,710)
Prepaid reinsurance premiums	**(1,819)**	(3,980)
Accrued investment income	**505**	1,075
Premiums receivable	**(197)**	3,141
Deferred policy acquisition costs	**27**	86
Federal income tax receivable	**39,812**	5,258
Prepaid expenses	**176**	19
Reserve for losses and loss adjustment expenses	**(238,283)**	119,665
Unearned premiums	**2,540**	(2,174)
Reinsurance premiums payable	**18**	835
Policyholder distribution payable	**-**	(12,500)
Due from (to) subsidiary	**42**	(2,735)
Accounts payable and other accrued expenses	**(516)**	170
NET CASH FROM OPERATIONS	**3,012**	65,771
Cash flows from investing activities:		
Cost of investments purchased	**(373,760)**	(372,064)
Proceeds from sales of investments	**353,590**	307,209
Proceeds from maturities of investments	**24,547**	15,158
Change in payable from purchase of investments	**20,809**	1,569
Purchases of fixed assets	**57**	(108)
NET CASH FROM INVESTING	**25,243**	(48,236)
Net change in cash and cash equivalents	**28,255**	17,535
Cash and cash equivalents, beginning of year	**71,347**	53,812
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 99,602**	$ 71,347
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes received	**$ 794**	$ 9,250

See accompanying Notes to 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") promulgated by the Financial Accounting Standards Board Accounting Standards Codification ("ASC" or "the guidance"). 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.

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 the accounting guidance for Consolidations.

As of December 31, 2009, EIS has assets (exclusive of assets held in mutual business programs) of approximately $10.5 million, shareholder's equity of $1.6 million and a net loss of approximately $156,000.

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 income of approximately $10,000.

The Company and EIS file a consolidated federal income tax return. Income taxes are allocated based on separate return calculations. During 2009 and 2008, EIM provided reinsurance to certain EIS cells. For the years ended December 31, 2009 and 2008, premiums earned includes $156,103 and $247,067 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 represented by these estimates and theoretical size of loss distribution based upon an actuarial analysis prepared by a consulting actuary.

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 over the policy period.

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. No policyholder distributions were made for the years ended December 31, 2009 and 2008.

Subsequent Events

The Company has evaluated subsequent events for disclosure and recognition through February 9, 2010, the date on which these financial statements were available to be issued.

Notes to Financial Statements

Note B - Insurance Activity

Premium activity for 2009 and 2008 is summarized as follows *(in thousands)*:

2009	**Direct**	**Assumed**	**Ceded**	**Net**
Premiums written	**$ 182,718**	**$ 2,119**	**$ (89,169)**	**$ 95,668**
Change in unearned premiums	**(2,544)**	**4**	**1,819**	**(721)**
Premiums earned	**$ 180,174**	**$ 2,123**	**$ (87,350)**	**$ 94,947**

2008	Direct	Assumed	Ceded	Net
Premiums written	$ 179,636	$ 2,386	$ (81,785)	$ 100,237
Change in unearned premiums	2,174	-	(622)	1,552
Premiums earned	$ 181,810	$ 2,386	$ (82,407)	$ 101,789

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

	2009	2008
Gross balance, beginning of year	**$ 964,061**	$ 844,396
Less: reinsurance recoverables on paid and unpaid losses	**(448,775)**	(404,065)
Net balance, beginning of year	**515,286**	440,331
Incurred related to:		
Current year	**88,556**	86,208
Prior years	**(107,980)**	49,757
Change in related tail coverage	**(5,318)**	200
Total incurred	**(24,742)**	136,165
Paid related to:		
Current year	**1,140**	3,420
Prior years	**119,844**	57,790
Total paid	**120,984**	61,210
Net balance, end of year	**369,560**	515,286
Plus: reinsurance recoverables on paid and unpaid losses	**356,218**	448,775
Gross balance, end of year	**$ 725,778**	$ 964,061

Notes to Financial Statements

Incurred losses attributable to events of prior years decreased $107.9 million for the year ended December 31, 2009 primarily due to general liability and directors and officers coverages from the 2002, 2003, 2004, 2006, and 2008 accident years. The decreases were due to a revision in the emergence patterns based on a review of actual EIM experience and adjustments made to reflect the underlying member retained deductibles.

For the year ended December 31, 2008, incurred losses attributable to events of prior years increased $49.8 million. The 2008 increase relates primarily to general liability and directors and officers claims from the 2002, 2003 and 2007 accident years, and results from the strengthening of case reserves based on additional information learned about open claims during the 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 2009 and 2008 reinsurance treaties is $250,000,000 with respect of general liability and $75,000,000 and $81,100,000 with respect to directors and officers, general partner and fiduciary liability, respectively.

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 NEIL. In addition, the Company also has an arrangement with NEIL whereby its non-nuclear property book of business is fronted by EIM.

During the year, EIM entered into a Reinsurance Treaty Trust Account Agreement (“Trust”) with NEIL to collateralize the losses and loss adjustment expenses due EIM. EIM has been listed as the beneficiary of the Trust. As of December 31, 2009, the total fair value of the assets held in the Trust was $678,507,158, which collateralized $95,160,049 in reinsurance recoverables on losses and loss adjustment expenses.

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 Lloyds syndicates, comprising 27% and 34%, respectively, of the balance at December 31, 2009 and 29% and 31%, respectively, at December 31, 2008. The remaining balance comprises amounts from various reinsurers, each not exceeding 12% and 14% of the total for 2009 and 2008, respectively.

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, 2009 and 2008, no such allowances were deemed necessary.

Notes to Financial Statements

Note C - Investments

As of December 31, 2009, the cost, gross unrealized gains, gross unrealized losses, other-than- temporarily impaired and fair value of our fixed-maturity and equity securities are summarized as follows *(in thousands):*

2009	Cost	Other-than-temporary Impaired	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury & Agencies	**$ 205,638**	**$ -**	**$ 3,107**	**$ 1,689**	**$ 207,056**
U.S. state and municipal obligations	**242,024**	**-**	**11,671**	**3,597**	**250,098**
Corporate debt securities	**68,407**	**-**	**2,263**	**657**	**70,013**
Mortgage-backed securities	**46,028**	**22,269**	**841**	**2,984**	**21,616**
Total fixed-maturity securities	**562,097**	**22,269**	**17,882**	**8,927**	**548,783**
Equities	**408,180**	**33,327**	**145,021**	**25,761**	**494,113**
Total investments	**$ 970,277**	**$ 55,596**	**$ 162,903**	**$ 34,688**	**$ 1,042,896**

As of December 31, 2008, the cost, gross unrealized gains (losses) and fair value of our fixed-maturity and equity securities are summarized as follows *(in thousands):*

2008	Cost	Other-than-temporary Impaired	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	14,481	587	408	1,031	13,271
Mortgage-backed securities	54,932	21,890	5	5,189	27,858
Total fixed-maturity securities	538,000	22,477	16,893	25,827	506,589
Equities	430,369	19,195	82,187	78,517	414,844
Total investments	$ 968,369	$ 41,672	$ 99,080	$ 104,344	$ 921,433

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, 2009 and 2008, the Company is in compliance with its investment guidelines other than the securities deemed to be other-than-temporarily impaired (“OTTI”).

Notes to Financial Statements

The cost and estimated fair value of fixed-maturity securities at December 31, 2009, 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 2010	$ 6,570	$ 6,441
In 2011–2014	133,791	137,743
In 2015–2019	126,384	128,591
Due after 2019	295,352	276,008
Total fixed-maturity securities	$ 562,097	$ 548,783

Proceeds from maturities of investments were approximately $24,547,000 and $15,158,000 and proceeds from sales of investments were approximately $353,590,000 and $307,209,000, during 2009 and 2008, respectively. Gross gains of approximately $25,035,000 and $16,069,000 and gross losses of $18,751,000 and $15,918,000, 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. 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.

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, 2009 and 2008, and reduced the unrealized loss in other comprehensive income (loss).

	2009		2008	
	Number	**Impairment Recognized**	Number	Impairment Recognized
Fixed-maturity securities	**20**	**$ 4,184**	45	$ 22,477
Equity securities	**35**	**17,513**	28	18,295
Total	**55**	**$ 21,697**	73	$ 40,772

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, 2009 (*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 & Agencies	**$ 134,018**	**$ 1,689**	**$ -**	**$ -**	**$ 134,018**	**$ 1,689**
U.S. state and municipal obligations	**37,922**	**646**	**57,720**	**2,951**	**95,642**	**3,597**
Corporate debt securities	**30,046**	**373**	**1,375**	**284**	**31,421**	**657**
Mortgage-backed securities	**2,252**	**511**	**11,485**	**2,473**	**13,737**	**2,984**
Equities	**15,736**	**1,595**	**77,608**	**24,166**	**93,344**	**25,761**
Total temporarily impaired securities	**$ 219,974**	**$ 4,814**	**$ 148,188**	**$ 29,874**	**$ 368,162**	**$ 34,688**

Of the 300 fixed-maturity securities with unrealized losses, six with losses of $424,925 were 20% or greater than the cost at December 31, 2009. The Company has evaluated these fixed-maturity securities and believes the unrealized losses are due primarily to temporary market and sector-related factors rather than to issuer specific-factors. Management does not intend to sell, and it is more likely than not that EIM will not be required to sell the securities before recovery. The Company does not consider these securities to be other-than-temporarily impaired.

The Company's investment objective is to emulate the returns of the S&P 900 and the MSCI EAFE index for their domestic and international equity securities, respectively. Of the 566 equity securities with unrealized losses, 309, with losses of $19,869,455, were 20% or greater than the cost and have been in a continuous loss position for longer than a year at December 31, 2009. The Company has evaluated these securities based on past earnings trends, analysts' reports and analysts' earnings expectations. Management does not intend to sell, and it is more likely than not that EIM will not be required to sell the securities before recovery. The Company does not consider these securities to be other-than-temporarily impaired.

The Company did not recognize any portion of the decline in fair value below cost on OTTI debt securities within other comprehensive income as of December 31, 2009.

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

	2009	2008
Interest income	**$ 26,647**	$ 27,675
Dividend income	**11,866**	14,706
Loss from subsidiary	**(105)**	(179)
Gross investment income	**38,408**	42,202
Investment management fees	**(1,989)**	(2,121)
Net investment income	**$ 36,419**	$ 40,081

On January 1, 2008, the Company adopted the accounting guidance for Fair Value Measurements and Disclosures. 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 the Fair Value Measurements and Disclosures accounting guidance. 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.

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in the Fair Value Measurements and Disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The three levels of the hierarchy are as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets. Included are those investments traded on an active exchange, such as the NASDAQ Global Select Market.

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. Included are investments in U.S. Treasury securities and obligations of U.S. government agencies, together with municipal bonds, corporate debt securities, commercial mortgage and asset-backed securities, certain residential mortgage-backed securities that are generally investment grade and certain equity securities.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement. Material assumptions and factors considered in pricing investment securities may include projected cash flows, collateral performance including delinquencies, defaults and recoveries, and any market clearing activity or liquidity circumstances in the security or similar securities that may have occurred since the prior pricing period. Generally included in this valuation methodology are investments in certain mortgage-backed and asset-backed securities.

Fair values are based on quoted market prices when available (Level 1). The Company receives the quoted market prices from a third party, nationally recognized pricing service (pricing service). When market prices are not available, the Company utilizes a pricing service to determine an estimate of fair value, which is mainly used for its fixed-maturity investments fair value. The fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). In instances where there is little or no market activity for the same or similar instruments, the Company estimates fair value using methods, models and assumptions that management believes are relevant to the particular asset or liability. This may include discounted cash flow analysis or other income based approaches (Level 3). These valuation techniques involve some level of management estimation and judgment. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used and are reflective of the assumptions that market participants would use in valuing assets or liabilities.

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, 2009 *(in thousands)*:

	Total	Level 1	Level 2	Level 3
Fixed-maturity	$ 548,784	$ -	$ 548,784	$ -
Equities	494,112	494,112	-	-
Total	$ 1,042,896	$ 494,112	$ 548,784	$ -

The following table summarizes changes in Level 3 assets measured at fair value for the year ended December 31, 2009 *(in thousands)*.

	2009	2008
Begining Balance	**$ 16,509**	$ -
Net transfers (out of) into Level 3	**(16,509)**	16,509
Ending Balance	**$ -**	$ 16,509

Several of EIM's policyholders are companies represented in the S&P 900. Consequently, at December 31, 2009, EIM holds investments totaling approximately $15.3 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)*:

	2009	2008
Deferred tax assets:		
Discounting of unpaid losses and LAE	**$ 13,388**	$ 20,433
Unearned premiums	**3,750**	3,667
AMT carryforward credit	**36**	36
Unrealized capital loss	**-**	1,843
Unrealized comprehensive losses in earnings	**19,459**	14,585
Original issue discount	**658**	1,394
Total deferred tax assets	**37,291**	41,958
Deferred tax liabilities:		
Unrealized capital gains	**$ 44,875**	$ -
Premium amortization	**1,370**	1,647
Other	**631**	787
Total deferred tax liabilities	**46,876**	2,434
	$ (9,585)	$ 39,524

The provision for federal income tax differs from the amount derived by applying the statutory federal tax rates to pretax income for financial reporting purposes due primarily to tax exempt income.

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.

Notes to Financial Statements

The company adopted the relevant provisions of GAAP concerning uncertainties in Income Taxes on January 1st, 2009. At the adoption date and as of December 31, 2009, the Company determined there are no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

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.

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, 2009, 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 $639,734,000 at December 31, 2009, that is available for the payment of dividends.

In Memoriam

David L. Hadler

March 30, 1946 - December 10, 2009

Energy Insurance Mutual

President and Chief Executive Officer
September 1, 1994 – August 11, 2009

Consultant
November 1986 – August 1994

Board of Directors

Trevor A. Carmichael
Barrister at Law, Chancery House, Chancery Chambers
Bridgetown, Barbados

Allen L. Leverett
Executive Vice President and Chief Financial Officer
Wisconsin Energy Corporation
Milwaukee, Wisconsin

Mark S. Dodson
Retired, Chief Executive Officer
Northwest Natural Gas
Portland, Oregon

Richard H. Marsh
Retired, Senior Vice President and Chief Financial Officer
FirstEnergy Corp.
Akron, Ohio

Kimberly S. Greene
Group President of Strategy & External Relations
Tennessee Valley Authority
Knoxville, Tennessee

J. Barry Mitchell
Retired, President and Chief Operating Officer
ComEd
Chicago, Illinois

James R. Hatfield
Senior Vice President and Chief Financial Officer
Pinnacle West Capital Corporation
Phoenix, Arizona

Michael W. O'Donnell
Retired, Executive Vice President
NiSource Inc.
Merrillville, Indiana

G. Edison Holland, Jr.
Executive Vice President, General Counsel, and Corporate Secretary
Southern Company
Atlanta, Georgia

Charles W. Shivery
Chairman, President, and Chief Executive Officer
Northeast Utilities
Berlin, Connecticut

Board Committiees

(As of December 31, 2009)

Audit Committee

Kimberly S. Greene, chairman, Allen L. Leverett, vice chairman
Richard H. Marsh, Michael W. O'Donnell

Claims Committee

Mark S. Dodson, chairman
G. Edison Holland, Jr., Michael W. O'Donnell

Executive Committee

James R. Hatfield, chairman
J. Barry Mitchell, Charles W. Shivery

Insurance Advisory Committee

Deborah S. Gaffney, chairman, Randall L. Martin, vice chairman
Mark E. Blair, Robert W. Dillard, Jack R. Hadsall, Sandra K. Hart, Julie R. Jackson
Gary Y. Little, John E. Luley

Investment Committee

J. Barry Mitchell, chairman, Richard H. Marsh, vice chairman
Allen L. Leverett, Charles W. Shivery

Nominating Committee

J. Barry Mitchell, vice chairman
Kimberly S. Greene, G. Edison Holland, Jr., Allen L. Leverett

Reinsurance Committee

Richard H. Marsh, chairman, G. Edison Holland, Jr., vice chairman
Mark S. Dodson, Kimberly S. Greene

Strategic Planning Committee

Charles W. Shivery, chairman, Mark S. Dodson, vice chairman
Deborah S. Gaffney, J. Barry Mitchell, Michael W. O'Donnell, William R. Powell

Insurance Advisory Committee

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Chairman
Manager, Risk Management
Southern Company Services
Atlanta, Georgia

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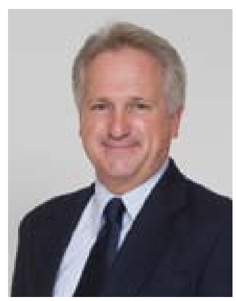
Director, Risk, Environment, and Land
Northwest Natural Gas Company
Portland, Oregon

Randall L. Martin
Vice Chairman
Managing Director, Risk & Insurance Management
American Electric Power Service Corp.
Columbus, Ohio

Julie R. Jackson
Director, Risk Management and Insurance
Targa Resources Investments Inc.
Houston, Texas

Mark E. Blair
Manager, Insurance Risk Management
Ameren Corporation
St. Louis, Missouri



Gary Y. Little
Manager, Corporate Insurance
Progress Energy Service Company, LLC
Raleigh, North Carolina

Robert W. Dillard
Vice President, Risk Management and Insurance
Kinder Morgan Inc.
Houston, Texas

John E. Luley
Manager, Corporate Insurance
Pepco Holdings, Inc.
Washington, D.C.

Jack R. Hadsall
Director, Risk and Security Management
City Utilities of Springfield
Springfield, Missouri

Officers

James R. Hatfield
Chairman of the Board

Robert P. Schmid
Vice President-Subsidiary Operations

J. Barry Mitchell*
President and Chief Executive Officer

G. Thomas Bolton, III
Controller and Chief Accounting Officer

Samuel M. Garvin, Jr.
Vice President and Chief Financial Officer

Joan B. Bryant
Secretary

Jill C. Dominguez
Vice President-Underwriting

Trevor A. Carmichael
Assistant Secretary

* Served Aug. 11, 2009, until Jan. 10, 2010

EIM Members

AEGIS Insurance Services, Inc.
AES Corporation (The)
AGL Resources Inc.
Allegheny Energy, Inc.
ALLETE, Inc.
Alliant Energy Corporation
Ameren Corporation
American Electric Power Service Corporation
American Transmission Company LLC
Anadarko Petroleum Corporation
Apache Corporation
Associated Electric Cooperative, Inc.
Atmos Energy Corporation
Avista Corporation
Basin Electric Power Cooperative
Bicent Power, LLC
Black Hills Corporation
British Columbia Hydro and Power Authority
British Columbia Transmission Corporation
California Independent System Operator
Calpine Corp.
CenterPoint Energy, Inc.
Central Arizona Water Conservation District
Central Vermont Public Service Corporation
CenturyTel, Inc.
CH Energy Group, Inc.
Chesapeake Energy Corporation
Chugach Electric Association, Inc.
Citizens Energy Group
City of Richmond, Department of Public Utilities
City Public Service of San Antonio, Texas
City Utilities of Springfield, Missouri
Cleco Corporation
CMS Energy Corporation
Complete Energy Holdings, LLC
Consolidated Edison Company of New York, Inc.
Constellation Energy Group, Inc.
Continental Energy Systems LLC
Dairyland Power Cooperative
Deseret Generation & Transmission Co-Operative
Devon Energy Corporation
Dominion Resources, Inc.
DPL Inc.
DQE Holdings LLC
DTE Energy Company
Duke Energy Corporation
Dynegy Inc.
E.ON US, LLC
Edison International
El Paso Corporation
El Paso Electric Company
Electric Reliability Council of Texas, Inc.
Empire District Electric Company (The)
Enbridge Inc.
Enel North America, Inc.
Energen Corporation
Energy Future Holdings Corp.
Enron Creditors Recovery Corp.
Entergy Services, Inc.
Enterprise Products Partners, L.P.
EOG Resources, Inc.
EQT Corporation
Exelon Corporation
FirstEnergy Corp.
Florida Municipal Power Agency
FPL Group, Inc.
Grand River Dam Authority
Great Plains Energy Incorporated
Great River Energy
Hawaiian Electric Industries, Inc.
Hydro One Inc.
Hydro-Quebec
Iberdrola USA Corporation
IDACORP, Inc.
Imperial Irrigation District
Independent Electricity System Operator
Inergy, LP
Integrys Energy Group, Inc.
IPALCO Enterprises, Inc.
Iroquois Gas Transmission System, LP
ISO New England Inc.
ITC Holdings Corp.
JEA and FPL d/b/a St. Johns River Power Park
Kinder Morgan Inc.
Laclede Group, Inc. (The)
Long Island Power Authority

Los Angeles Dept. of Water and Power
MDU Resources Group, Inc.
Metropolitan Water District of Southern California
MGE Energy, Inc.
MidAmerican Energy Holdings Company
Midwest Independent Transmission System Operator
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.
Oglethorpe Power Corporation
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, WA
Public Utility Risk Management Services Joint Self-Insurance Fund
Puget Holdings, LLC
Questar Corporation
RC Cape May Holdings, LLC
RGC Resources, Inc.
RRI Energy, Inc.
Sacramento Municipal Utility District
Salt River Project Agricultural Improvement and Power District
SCANA Corporation
Seminole Electric Cooperative, Inc.
Sempra Energy
South Carolina Public Service Authority d/b/a Santee Cooper
South Mississippi Electric Power Association
Southern Company
Southern Union Company
Southwest Gas Corporation
Southwest Power Pool, Inc.
Spectra Energy Corp
Suburban Propane Partners, L.P.
T. W. Phillips Gas and Oil Co.
Targa Resources Investments Inc.
TECO Energy, Inc.
Tennessee Valley Authority
Toronto Hydro Corporation
TransCanada Corporation
Transocean Inc.
Tri-State Generation and Transmission Association
UGI Corporation
UIL Holdings Corporation
UniSource Energy Corporation
Vectren Corporation
Vermont Electric Power Company
Westar Energy, Inc.
WGL Holdings, Inc.
Williams Companies, Inc. (The)
Wisconsin Energy Corporation
Xcel Energy Inc.

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