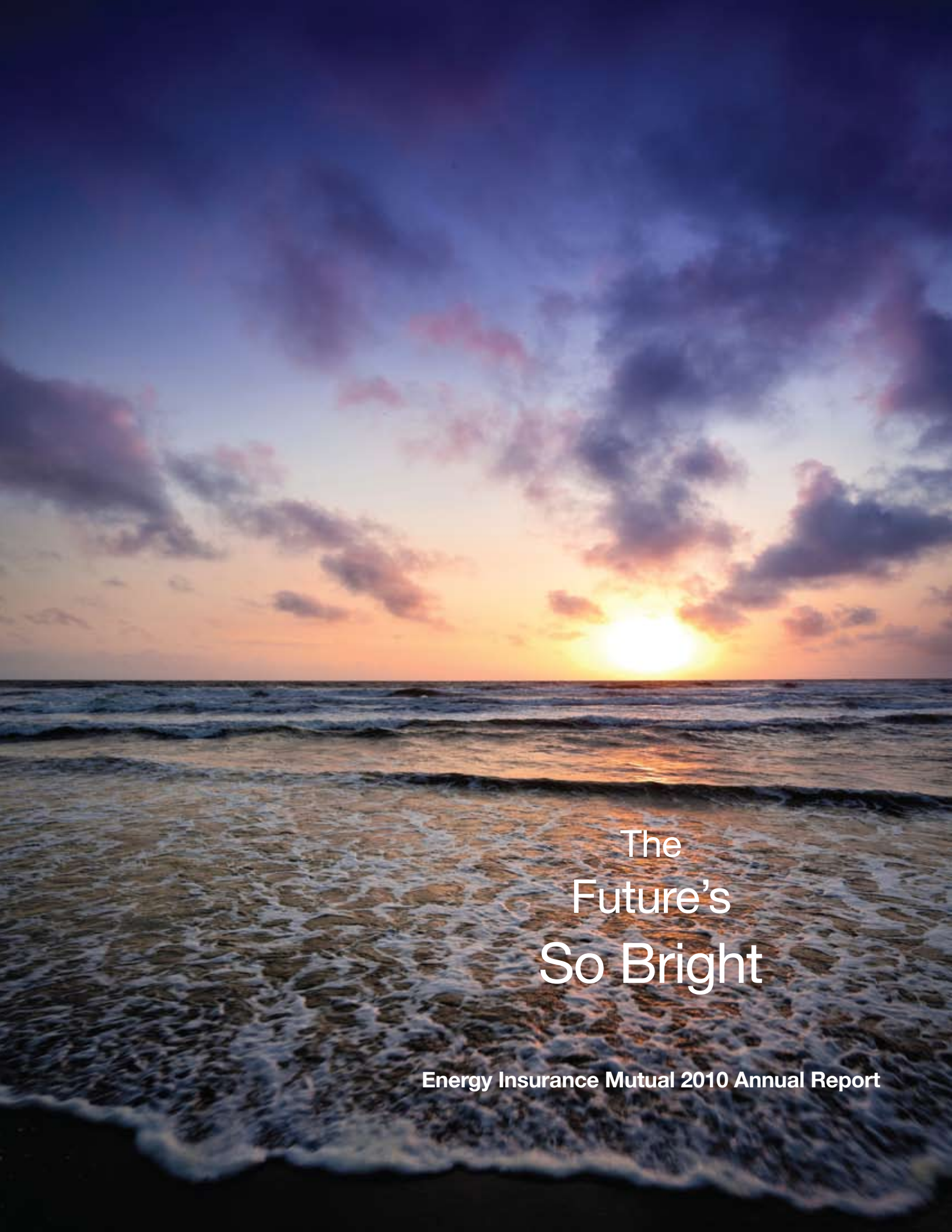

The Future's So Bright

Energy Insurance Mutual 2010 Annual Report

Energy Insurance Mutual, known as EIM,
is a mutually owned excess liability
insurance company that was incorporated
June 13, 1986, in Barbados,
where it remains domiciled. 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.

From the President and Chief Executive Officer

We're Well Positioned to Meet Tomorrow's Challenges

Scott Goodell

I recall reading the newspaper last December 6 and learning that the United States Supreme court had granted a petition for certiorari to review *Connecticut vs. American Electric Power Co., et al.,* a lawsuit alleging that emission of carbon dioxide contributed to the "public nuisance" of global warming. Only days later, the East Coast was blanketed with record-setting snowfall that paralyzed travel from Washington, D.C. to Boston, Massachusetts. While both events are noteworthy, they were striking because of the juxtaposition between the two issues presented—global warming and record-setting snowfall.

Similarly, in 2010, the energy industry began implementing some of the most forward-thinking, energy-conscious technology in its history while grappling with upgrading and/or replacing decades-old infrastructure. And, although cap and trade has taken a back seat in Congress, the Environmental Protection Agency has stepped up efforts to aggressively regulate carbon emissions. Each of these examples represents the divergent challenges facing the energy industry today. This broad spectrum of issues brings with it a certain level of volatility—the potential for a wide range of outcomes—that, while not unprecedented, puts a premium on understanding potential consequences, designing a sound risk management strategy, and effectively executing that strategy.

We talked at the February 2011 Risk Managers Information Meeting about a bright future and continue to believe that the "Future's So Bright." However, successfully meeting tomorrow's challenges requires financial strength, strategic vision, and exemplary execution. EIM built on each of these elements in 2010 and will continue focusing on these areas in 2011.

Financial Strength

2010 was a solid year for EIM. By any empirical standard, the

Company is as financially strong as it has ever been. Policyholders' surplus grew in 2010 by 12 percent to $727 million, the highest level in the Company's history, and the net loss ratio stood at 54 percent. Investment return on EIM's $1.2-billion portfolio averaged 8.2 percent, and the Company's BCAR (Best's Capital Adequacy Ratio) score remained well in excess of the range required to maintain an "A" rating from A. M. Best. Each of these factors supported A. M. Best's confirmation in February 2011 of EIM's "A" rating, with a "stable" outlook.

This sound financial base also enabled EIM to absorb two full-limit losses in 2010 and increase reserves on two prior-year claims—actions that totaled more than $150 million. Still, we were able to grow surplus significantly.

However, despite EIM's financial strength, challenges remain. A continued soft casualty market, particularly in the Directors & Officers arena, will mute written premium in 2011. Similarly, EIM has seen a significant number of occurrences—natural gas explosions, oil spills, and interruptions of service in late 2010 and early 2011, which portend greater frequency and, perhaps, greater severity of losses. And although investment returns were strong in 2010, pronounced volatility in the equity markets, driven by political and economic unrest around the globe, could impact returns negatively on a going-forward basis.

EIM has recovered admirably from the "perfect storm" that derailed both underwriting results and investment portfolio performance in 2008. Surplus has increased by 56 percent, and the net loss ratio has improved by 80 percentage points. Equally noteworthy is the impressive growth of Energy Insurance Services (EIS)—not only in terms of written premium, which increased almost 60 percent in 2010, but also with respect to the number of Member Companies EIS is currently serving as well as the breadth and scope of risk management solutions EIS offers EIM Members.

Nevertheless, we are an industry in flux, facing a wide array of operational, regulatory, and technology issues. EIM's financial strength well positions the Company to manage potential volatility associated with its underwriting, investment, and claims activities, but a strategic vision is essential to assess and manage risk and to ensure that EIM continues to be responsive to the needs of its Members.

Strategic Vision

In 2010, EIM updated its three-year strategic plan, emphasizing four principal goals: Member Company focus, financial stability, business process, and professional development of staff. In the context of these goals, EIM confirmed its Mission, Vision, and Core Values, and more clearly defined its risk tolerance (managing to less than a 10-percent likelihood of losing more than 20 percent of surplus in any given year).

The updated three-year strategic vision is embodied in EIM's 2011 business plan which focuses on Membership satisfaction, sustained financial stability, capitalizing on technology efficiencies, and continued professional and personal development of EIM colleagues. Key objectives relating to each of these four goals include:

- In addition to tracking Member satisfaction and retention, EIM is committed to a more transparent underwriting process, greater electronic data exchange with Member Companies, and an emphasis on the "mutual advantage" to claims resolution.
- On the financial front, EIM is focused on growing surplus, while prudently managing underwriting, investment, and claims activities within the Company's stated risk tolerance.
- EIM is implementing technology efficiencies—electronic submissions, updated web-based capabilities, and reduced reliance on paper files—which will enable EIM to gain greater operating efficiencies and make information more readily available to Member Companies.
- EIM will continue to develop the professional skills of all EIM colleagues, emphasizing cross-training and succession planning for the Company's senior management team.

The updated strategic plan represented a team effort incorporating input from EIM colleagues, the Insurance Advisory Committee, and the Board of Directors. The wealth of knowledge and experience across each of these groups made for a robust dialogue and resulted in a comprehensive final product. We are especially

appreciative of the contributions of Mark Blair, Ameren, and John Luley, Pepco Holdings, both of whom retired from the IAC in 2010. We also welcomed the insights of Mark Webster, Duke Energy, who joined the IAC in early 2010.

Through this joint effort, EIM is confident that it has identified the key issues facing Member Companies and has developed a responsive strategy that positions the Company to help Members successfully meet these challenges.

Execution

Strength and vision can only be supported and sustained through execution, the hallmarks of which are responsibility and accountability. Throughout 2010, EIM continued to develop its management objectives, focusing on responsibility and accountability, while slowly evolving from simply managing operations to more broadly managing risk.

The enterprise risk management process (ERM) was expanded and refined in 2010 and now encompasses 13 insurance, financial, strategic, and operational risk metrics, ranging from change in surplus to reserve development to credit quality of reinsurance partners. These metrics provide the foundation to assess progress on achieving goals and objectives, and, where necessary, make changes.

The benefits of ERM made themselves clear in 2010. By monitoring key metrics relating to EIM's General Liability and Directors & Officers policies, we refined the risk profile of the underwriting portfolio by reducing average limits and raising average attachment points. These changes were subtle and, in most instances, imperceptible to Members but helped manage the "tail risk" associated with the underwriting portfolio, making it more predictable and stable. Similarly, EIM deleveraged its investment portfolio, realigning a portion of asset allocation from equities to fixed income. The end result was a less volatile investment portfolio that still provided an acceptable return.

Complementing the ERM process is a detailed 2011 business plan that dovetails with the Company's three-year strategic vision, expressly articulating and assigning short-term action plans to each colleague within EIM. These action plans have defined benchmarks from which progress can be measured and monitored. Simply stated, through a combination of the ERM process and EIM's long- and short-term planning process, responsibilities are assigned and accountability established.

Volatility—whether it is based on technology, regulation, or infrastructure—can be managed. The energy industry is incredibly resilient, with a long history of meeting the challenges of generating, transmitting, and distributing its products and services. The six stories from seven of our founding Members contained in this Annual Report are compelling evidence of this fact. I am confident that, with the continued input and support from our Member Companies, EIM has the financial wherewithal, strategic vision, and requisite commitment to execution to continue providing valued products and services that will enable Member Companies to meet the challenges of tomorrow.

In closing, I thank Director Kim Greene for faithful service as a member of our Board of Directors from 2004 until January of this year. We say farewell with much regret but wish her continued success at TVA.

In 2010, we welcomed five new directors to the EIM Board—Don Chappel of The Williams Companies, Marian Durkin of Avista, Ben Fowke of Xcel, Darren Olagues of Cleco, and Joe Rigby of Pepco Holdings. Then, in January 2011, we welcomed Darryl Bradford of Exelon. The impact and insights of these new directors is being felt already, and I thank them and my other fellow Board members for sharing with us their valuable time and deep experience.

Finally, I am grateful for my EIM colleagues and the opportunity to work with them on a day-to-day basis. Each has contributed meaningfully to EIM's success in 2010 and represents an integral part of EIM's ongoing strategy and vision.

The strength of EIM's collective Membership is inspiring—and is truly making EIM's future so bright.

Scott K. Goodell
President and CEO

April 12, 2011

ENERGY INSURANCE MUTUAL

25 YEARS STRONG

On these two pages are the names of the 17 founding Members of Energy Insurance Mutual. These are the companies that made the commitment in early 1986 to form a mutually owned excess liability insurance company. A year earlier, when General Liability and Directors & Officers coverages were either extinct or too costly to purchase, some 65 utilities funded a study, managed by a steering committee of insurance executives, which led to the Company's formation on June 13, 1986. The 17 initial policies were dated July 1, 1986. While most of the companies have new names, all 17 policies remain active.

On pages 6-17, seven of the founding companies share stories that reflect the innovation and vision of EIM's Membership as a whole, and that demonstrate our theme, "The Future's So Bright."

Allegheny Power System, Inc.
(now FirstEnergy Corp.)

American Electric Power Company, Inc.

Atlantic City Electric Company
(Now Pepco Holdings, Inc.)

Centerior Energy Corporation
(Now FirstEnergy Corp.)

Cincinnati Gas & Electric Company
(Cinergy Corp., now Duke Energy)

Consumers Power Company
(Now CMS Energy Corporation)

Detroit Edison Company
(Now DTE Energy Company)

Gulf States Utilities
(Now Entergy Corporation)

Long Island Lighting Company
(MarketSpan, KeySpan Corporation, now National Grid plc)

Middle South Utilities, Inc.
(Now Entergy Corporation)

Ohio Edison Company
(Now FirstEnergy Corp.)

Philadelphia Electric Company
(Now Exelon Corporation)

Rochester Gas and Electric Corporation
(Energy East Corporation, now Iberdrola USA, Inc.)

Texas Utilities Company
(TXU Corp., now Energy Future Holdings Corp.)

The Southern Company
(Now Southern Company)

United Illuminating Company
(Now UIL Holdings Corporation)

Virginia Power
(Now Dominion Resources, Inc.)

The
Future's
So Bright

AEP Dedicated to Making Coal Environmentally Acceptable Through Carbon Capture and Storage Technology

AEP's Mountaineer Plant in West Virginia.

American Electric Power (AEP) is a leader in the advancement and application of technologies, such as carbon dioxide (CO_2) capture and storage (CCS), which will enable the world to continue to rely on coal for electricity generation while reducing its environmental impact.

AEP relies on coal to fuel approximately 66 percent of its installed generating capacity. Coal is an abundantly available, domestic, and economical fuel that will continue to be a significant component of America's and the world's energy mix.

In 2009, the world's first fully integrated CCS project began operation at a technology validation scale at AEP's Mountaineer Plant in West Virginia. AEP and its partners now are moving forward with a larger project that will demonstrate CCS technologies at commercial scale.

The Mountaineer Plant CCS project uses Alstom Group's patented chilled ammonia process for post-combustion CO_2 capture. Alstom Group is a world leader in transport infrastructure, power generation, and transmission. The process uses ammonium carbonate to absorb CO_2 from the plant's flue gas. The resulting ammonium bicarbonate is converted back to ammonium carbonate in a regenerator and is reused to repeat the process. The flue gas, cleaned of CO_2, flows back to the stack and the captured CO_2 is sent for permanent storage in deep geologic formations.

Once captured, the CO_2 is compressed into a liquid-like state and is injected into rock layers approximately one and one-half miles beneath the surface. Monitoring wells verify and evaluate the conditions in the storage layers as CO_2 is injected. Cap rock keeps the CO_2 from moving back to the surface.

AEP and Alstom began operating the technology validation project in September 2009 to capture and store approximately 100,000 metric tons of CO_2 per year. The project captures up to 90 percent of the CO_2 from a 20-megawatt (MW) portion of the plant's flue gas.

AEP and partners, including the U.S. Department of Energy (DOE), now are working to bring the chilled ammonia process for CO_2 capture and geologic CO_2 storage technologies to commercial scale.

U.S. DOE has awarded AEP funding for 50 percent of the cost, up to $334 million, of building a commercial-scale CCS installation at Mountaineer. The project, operational in 2015, will capture and store approximately 1.5 million metric tons of CO_2 per year. It is intended to remove up to 90 percent of the CO_2 from a 235-MW portion of the power plant's flue gas.

AEP's efforts to advance CO_2 technologies are part of the company's legacy of technological advancement in the electric power industry.

The CCS project captures up to 90 percent of the CO_2 from a 20-MW portion of the plant's flue gas.

***American Electric Power (AEP)** is one of the largest electric utilities in the United States, delivering electricity to more than 5 million customers in 11 states. AEP ranks among the nation's largest generators of electricity, owning nearly 38,000 megawatts of generating capacity. AEP also owns the nation's largest electricity transmission system, a nearly 39,000-mile network that includes more 765-kilovolt extra-high-voltage transmission lines than all other U.S. transmission systems combined.*

The
Future's
So Bright

CMS/DTE Provide Innovative Overhaul and Expansion to Ludington Pumped Storage Plant in Michigan

The multi-million-dollar project will enhance the plant's ability to "store" renewable energy generated by winds farms.

Consumers Energy and Detroit Edison are helping find solutions to a challenge facing wind energy producers: What to do with energy that is not immediately needed to power homes and businesses?

The co-owners of the Ludington Pumped Storage Plant announced on Feb. 7, 2011, a maintenance overhaul and upgrade that will increase the plant's generating capacity by 16 percent and enhance its ability to "store" the renewable energy generated by wind farms.

Each company will invest about $40 million per year for 10 years in the project, which is expected to create 100 construction building trades jobs a year for six years and provide a major economic boost to the local and state economies.

"The Ludington Pumped Storage Plant has proven its value over several decades of service, providing millions of Michigan electric customers with outstanding performance and dependable reliability," said John Russell, Consumers Energy's president and chief executive officer. "This major investment will enhance the capability of the plant and optimize it to support the growth

of renewable energy in Michigan."

Consumers Energy operates and owns 51 percent of the Ludington plant, which has provided Michigan electric customers with reliable, low-cost electricity since 1973. Detroit Edison owns 49 percent of the facility.

"We're pleased to make this investment in the Ludington facility," said Steve Kurmas, president of Detroit Edison. "The upgrades will improve its efficiency, increase its role in support of clean-energy sources for Michigan, create jobs and ensure that the plant will continue to contribute to the economy of the Ludington area and Michigan for many decades. This kind of long-term investment would not have been possible without the comprehensive energy legislation adopted by the state legislature in 2008."

The Ludington plant's 27-billion-gallon reservoir.

As more wind generation is added in Michigan and the Midwest, the Ludington plant may be used at night and during other periods when demand for electricity is low to "store" the clean energy until it's needed by customers. That will help make renewable energy more affordable and reliable.

The power produced at wind farms, and not immediately used by customers, can flow to Ludington for use during pumping and be "stored" in the plant's 27-billion-gallon reservoir. The water can then be released to turn the plant's generators.

Toshiba International Corporation, a global leader in electric generator technology, will fabricate and install equipment to increase the efficiency, output, and reliability of the plant's six 312-megawatt hydroelectric units.

The maintenance and upgrades planned for the next 10 years will allow the plant to continue providing efficient, reliable service for many years to come.

***Consumers Energy**, the principal subsidiary of CMS Energy, provides natural gas and electricity to nearly 6.5 million of Michigan's 10 million residents in all 68 Lower Peninsula counties.*

***Detroit Edison** serves 2.1 million customers in southeastern Michigan and is a subsidiary of DTE Energy, a Detroit-based diversified energy company involved in the development and management of energy-related businesses and services nationwide.*

The
Future's
So Bright

Dominion Focuses on Turning All Sorts of Waste into Energy

Dominion is managing waste to reduce greenhouse emissions.

Waste. It's everywhere. Whether its mounds of garbage, wood waste, or poultry litter, energy producers worldwide are exploring how to turn waste into renewable energy.

Dominion Resources is no different. The company is consistently increasing renewable energy investments to bring greater diversity to power supplies to reduce greenhouse gas emissions and protect the environment. It is making strides in:

Organic Waste

Dominion East Ohio (DEO) is investigating opportunities and working with Quasar Energy Group and the Ohio State Agricultural Research and Development Center project to develop some new technology for Northeast Ohio. The technology, an anaerobic digester, rapidly decomposes organic waste to produce biogas, which is then converted and refined to pipeline quality natural gas. It would be fed into Dominion's existing natural gas system. Additionally, DEO has been accepting landfill methane gas since 2003 into its transmission pipeline system. The methane is a byproduct of the organic waste decomposition process in the landfill and is collected, cleaned, and compressed before it is delivered to DEO.

The Virginia Hybrid Energy Center, currently under construction in Southwest Virginia, is designed to use biomass for up to 20 percent of its fuel supply.

Swine Waste and Poultry Litter

Dominion North Carolina Power is part of a joint request for proposals for renewable energy credits generated from swine waste and poultry litter facilities in the state. Poultry litter consists of bedding materials and feathers. This is part of the state electric suppliers' efforts to increase the amount of electricity they purchase from renewable energy resources in compliance with state energy law. The law has a requirement that 0.07 percent of statewide retail electric sales in 2012 and 0.14 percent of retail electric sales in 2015 must come from swine waste-to-energy facilities. The requirements for energy from poultry litter are stated differently, but they result in Dominion needing the equivalent of about 5,000 megawatt hours in 2012 and 26,000 megawatt hours in 2015.

Biomass

The company already is in the playing field when it comes to biomass—the use of wood waste. Dominion operates one of the largest generating units using wood waste in the country. Located in Hurt, Virginia, the Pittsylvania Power Station burns waste that would otherwise go to landfills to generate 84 megawatts (MWs) of power—enough to serve more than 20,000 homes. Dominion recently started looking into converting its 63-megawatt, coal-powered Altavista Power Station to biomass and has plans to use up to 117 MWs of biomass energy at the Virginia City Hybrid Energy Center, currently under construction in Southwest Virginia.

At Pittsylvania Power Station in Hurt, Virginia, leftovers from sawmills, logging operations, and paper mills provide electricity for about 20,000 homes. An estimated 3,300 tons of wood waste is unloaded each day at the plant, which translates to about 150 truckloads.

Garbage

Dominion is purchasing electricity made from garbage, both from the burning of garbage from cities, called municipal solid waste, and landfill gas. The organic materials in landfills slowly decompose, producing methane, which is the major component of natural gas. This gas is recovered and combusted in engines attached to electric generators.

Whether it is organic waste, biomass, or garbage, Dominion is identifying new and innovative ways to turn waste into renewable energy.

***Dominion Resources** is one of the nation's largest producers and transporters of energy, with a portfolio of approximately 27,600 MWs of generation, 11,000 miles of natural gas transmission, gathering, and storage pipeline and 6,100 miles of electric transmission lines. Dominion operates the nation's largest natural gas storage system with 947 billion cubic feet of storage capacity and serves retail energy customers in 14 states.*

The
Future's
So Bright

Iberdrola USA Leads in Smart Meters in Maine

The pursuit of cleaner energy sources requires a massive updating of aging infrastructure.

The Great Seal of the State of Maine bears the motto, *Dirigo,* which is Latin for "I lead." A bold claim for a small state, but not an idle boast for Central Maine Power (CMP), a subsidiary of Iberdrola USA and the utility that serves more than 80 percent of Maine's homes and businesses. The company is making top-to-bottom, smart-grid investments that include the largest transmission project in New England. And, the installation of new smart meters for every CMP customer will give Maine the highest penetration of Advanced Meter Infrastructure in the country.

In 2010, CMP began a five-year, $1.4-billion building program to update its aging bulk power transmission system. Once complete, the new lines will enhance the reliability of the entire New England grid. As the region looks to its energy future, the new lines also will provide better access to Maine's abundant renewable energy resources such as off-shore winds, ocean waves and tidal currents, hydroelectric dams, biomass fuels, and inland wind power sites. The Maine grid will have the latest technology for grid communications, controls, and protection, and it will enable the state to pursue new opportunities for cleaner, more secure energy resources.

CMP also was fortunate to win a $96-million grant from the federal Smart Grid Investment Grant program. The federal support is helping the company replace all of its 620,000 electro-mechanical meters with new digital smart meters. These meters are linked by a wireless, two-way communication mesh for exchanging information between the meters and the company. The new smart meters will help customers manage their energy use better and give them more opportunities to save through time-of-use energy rates. The system also will support home area networks (HANs) to allow customers to control remotely the next generation of smart appliances through the Internet.

The technology also will mean quicker, better service for customers at lower cost. For example, by obtaining meter readings via a wireless signal, the company will be able to reduce its annual vehicle use by nearly two million miles. The system will help the company spot and repair problems more quickly, and it will take less time to restore power after major storms.

In the longer term, the combination of a stronger grid and smarter meters can integrate renewable resources and new consumer technologies in ways that benefit everyone. For example, smart meters will make it possible to recharge electric cars using off-peak energy from local wind- or tidal-power generators. That's a smart way of helping Maine's people, the environment, and the economy.

CMP's smart grid initiatives include Advanced Meter Infrastructure and 500 miles of new transmission lines to improve reliability and integrate renewable energy resources.

By its investments in a stronger, smarter grid, CMP is putting Maine in the lead toward a cleaner, more secure energy future.

***Iberdrola USA** is an energy services and delivery company with more than 2.4 million customers in upstate New York and New England. There are three operating companies: Central Maine Power, New York State Electric and Gas, and Rochester Gas & Electric. Iberdrola USA's parent company is Iberdrola, S.A., one of the largest energy services companies in the world—and a global leader in wind power generation.*

The
Future's
So Bright

Pepco Holdings' ACE Unit Capitalizes on Growing Number of Solar Facilities in Southern New Jersey

Nearly 500 residents of Vineland, New Jersey, now get their power directly from the sun through the Vineland Solar One partnership.

Pepco Holdings' (PHI) Atlantic City Electric (ACE) region is experiencing a tremendous increase in the number and scale of solar photovoltaic projects seeking to connect to its system. The influx of solar is presenting opportunities and complex technical challenges, as well as customer and policy considerations that ACE is actively working to address. Some of the issues stem from the fact that at several points on the delivery system, there are more solar projects requesting connection than the system can reliably accommodate.

About 1,430 solar facilities have been connected to the company's distribution system in southern New Jersey. The distribution grid covers more than 2,600 square miles and the impact of a solar installation can differ by location along the different feeders. While far from reaching maximum capacity for adding solar systems, certain connection points on the system have reached the saturation point.

Solar panels on the roof of the Atlantic City Convention Center.

The distribution system was designed originally to deliver electricity from central power plants to end users. With customers able to import and/or export energy, the electric grid has become a multidirectional highway. The impacts on the current system design of connecting renewable generation must be evaluated in terms of ACE's primary responsibility to provide reliable electricity service to its customers.

ACE currently has under evaluation 64 large solar projects requesting interconnection to its distribution system. These projects represent nearly 950 megawatts (MWs) of solar development. That is nearly double the total number of solar-generated MWs installed in the entire United States in 2009. ACE is responsible for approximately 13 percent of the electric distribution load in New Jersey, but it has 68 percent of the solar projects/MWs proposed for the state. To illustrate the explosive growth, just under 29 MWs of solar generation are in operation in the ACE region today.

ACE assembled and engaged an internal team to evaluate the engineering, regulatory, and legal issues surrounding the installation of solar projects. Based on internal evaluation and feedback from senior company leadership, the ACE Government Affairs and Public Policy Team developed a lobbying and communications strategy that included a forum for solar energy developers where ACE engaged in a discussion about its solar interconnection process and received feedback from the industry. ACE also worked with legislators to amend legislation that would allow the interconnection of renewable (solar) projects to be connected to its 69-kV transmission system and still be eligible for solar renewable energy credits (SRECs). Legislative work continues in this area.

Achieving environmental excellence through proactive environmental management, such as illustrated in this ACE story, is among PHI's highest corporate priorities.

Pepco Holdings, Inc. (PHI) *is one of the largest energy delivery companies in the Mid-Atlantic region, serving about 1.9 million customers in Delaware, the District of Columbia, Maryland, and New Jersey. PHI subsidiaries Pepco, Delmarva Power, and Atlantic City Electric provide regulated electricity service; Delmarva Power also provides natural gas service. Through its subsidiary Pepco Energy Services, PHI also provides energy efficiency and renewable energy services.*

The Future's So Bright

Southern Company Revitalizes Nuclear Option for U.S.

Two nuclear units are being added to Plant Vogtle in eastern Georgia.

On Feb. 16, 2010, Southern Company became the nation's first electric utility to be offered a conditional commitment for loan guarantees from the U.S. Department of Energy for the construction of the nation's first nuclear power units in more than 30 years.

Nuclear power is re-emerging as a viable way to meet new demand for electricity with the added benefit of no air emissions—including no greenhouse gases. Southern Company is pursuing the addition of two new nuclear units to meet growing demand for electricity by 2016 and 2017. The new units, 1,100 megawatts (MWs) each, will be located at Plant Vogtle near Waynesboro, Georgia, where the company already owns and operates two nuclear units.

The construction of Vogtle Units 3 and 4 is part of Southern Company's innovative approach to providing reliable, safe, clean electricity at affordable prices. In addition to nuclear development, Southern Company:

- Operates the nation's second largest solar photovoltaic plant in New Mexico in a partnership with Ted Turner;
- Has invested $8.1 billion in environmental controls since 1990 and plans to invest an additional $1.2 billion through 2013 to further reduce emissions of nitrogen oxides, sulfur dioxide, and mercury;
- Has managed more than $500 million in environmental research and development over the past decade;
- Is building a commercial-scale, 582-MW generating plant in Kemper County, Mississippi, using local lignite and the company's Transport Integrated Gasification (TRIG™) technology, with 65 percent carbon capture and re-use;
- Is constructing a 100-MW biomass plant in Texas; and
- Is installing more than 4 million "smart meters" by 2012, which will help the company lower costs and customers better manage energy use.

Unassembled circulating-water piping for the two new units.

President Obama and Energy Secretary Chu in February 2010 announced the commitment for the loan guarantees as a catalyst to accelerate the construction of new nuclear plants and other clean energy sources while adding jobs and aiding the economy. The additions of Units 3 and 4 at Vogtle are expected to produce approximately 3,500 jobs during construction and another 800 permanent jobs once the units begin operation. Final approval and issuance of the loan guarantees are subject to receipt of the Combined Operating License from the U.S. Nuclear Regulatory Commission.

Westinghouse AP1000 technology was submitted for the new units. It's more efficient and simpler than current models. The AP1000 design employs a passive safety system that relies on gravity, natural circulation, and other features to maintain safe operation and shut down safely if needed.

With its broad array of energy saving initiatives, Southern Company is fully committed to a cleaner more efficient energy footprint.

***Southern Company**, with 4.4 million customers and more than 42,000 megawatts of generating capacity, is the premier energy company serving the Southeast. A leading U.S. producer of electricity, Atlanta-based Southern Company owns electric utilities in four states and a growing competitive generation company, as well as fiber optics and wireless communications. Southern Company brands are known for retail electric prices that are below the national average.*

2010 Operating Highlights

EIM paid gross losses of $66.8 million in 2010 and established gross claim reserves totaling $155.1 million. EIM now has gross case reserves of $801.4 million, with total assets of almost $2.0 billion.

The $1.2-billion investment portfolio returned 8.2 percent in 2010, generating total investment income and change in market value of $79.2 million.

EIM continued to offer $100-million limits on its General Liability excess of loss policies while reducing its overall risk profile and accompanying volatility associated with its portfolio of General Liability, Directors & Officers, and Fiduciary coverages.

EIS added one new cell and reactivated a dormant cell while increasing premium written almost 60 percent to $145.0 million.

The Board approved an updated three-year strategic plan that focuses on: Member satisfaction, financial stability, technology efficiencies, and professional development of staff.

EIM's enterprise risk management (ERM) process now encompasses insurance, financial, operational, and strategic risk, incorporating 13 metrics ranging from change in surplus to three-year reserve development to the credit quality of reinsurance partners.

EIM had its A. M. Best rating of "A" (Excellent), with a "stable" outlook, confirmed for 2011.

Policyholders' surplus increased 12 percent, reaching $727.3 million, the highest in the Company's 24-year history.

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 (worldwide)
- Products and completed operations
- Joint Ventures
- Automobile
- Failure to supply

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-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 $100 million limits excess of at least $35 million in underlying coverage

D&O

Excess Directors and Officers Liability insurance is critical to Member Companies. 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, 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. Quota share coverage can be provided on a primary and/or excess basis.

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
Chairman of the Board

February 20, 2011

Report of Independent Auditors

To the Audit Committee of the 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, 2010 and 2009 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended.

Johnson Lambert & Co. LLP

Jacksonville, Florida
February 15, 2011

Balance Sheets

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

	As of December 31,	
	2010	2009
ASSETS		
Investments, available-for-sale	**$ 1,207,855**	$ 1,042,896
Investment in subsidiary	**1,520**	1,577
Total investments	**1,209,375**	1,044,473
Cash and cash equivalents	**132,903**	99,602
Reinsurance recoverable	**411,268**	356,218
Prepaid reinsurance premiums	**42,315**	48,533
Accrued investment income	**5,557**	5,431
Receivable for securities purchased	**143,899**	2,350
Due from subsidiary	**4,268**	145
Premiums receivable	**2,651**	905
Deferred policy acquisition costs	**1,009**	1,025
Other assets	**575**	526
TOTAL ASSETS	**$ 1,953,820**	$ 1,559,208
LIABILITIES AND POLICYHOLDERS' SURPLUS		
LIABILITIES		
Reserve for losses and loss adjustment expenses	**$ 801,392**	$ 725,778
Unearned premiums	**94,053**	102,735
Reinsurance premiums payable	**16,304**	10,630
Payable for securities purchased	**265,522**	27,920
Accounts payable and accrued expenses	**6,043**	2,233
Net deferred tax liability	**25,645**	9,585
Income taxes payable	**17,609**	28,539
TOTAL LIABILITIES	**1,226,568**	907,420
POLICYHOLDERS' SURPLUS		
Accumulated other comprehensive income	**103,243**	83,340
Members' account balance	**624,009**	568,448
TOTAL POLICYHOLDERS' SURPLUS	**727,252**	651,788
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	**$ 1,953,820**	$ 1,559,208

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,	
	2010	2009
UNDERWRITING INCOME		
Net premiums earned		
Direct and assumed premiums earned	**$ 178,818**	$ 182,447
Ceded premiums earned	**(86,962)**	(87,350)
Net premiums earned	**91,856**	95,097
Ceding commission income	**2,529**	2,538
Total underwriting income	**94,385**	97,635
UNDERWRITING EXPENSES		
Net loss and loss adjustment expenses		
Gross and assumed losses and loss adjustment expenses	**145,624**	(21,046)
Ceded losses and loss adjustment expenses	**(96,374)**	(3,696)
Net losses and loss adjustment expenses	**49,250**	(24,742)
Policy acquisition costs	**2,027**	2,174
Administrative expenses	**13,648**	9,866
Total underwriting expenses	**64,925**	(12,702)
Income from underwriting	**29,460**	110,337
INVESTMENT INCOME		
Net realized gain on investments sold	**24,560**	14,057
Other-than-temporary impairments	**(5,593)**	(21,697)
Interest and dividends	**29,589**	36,419
Total investment income	**48,556**	28,779
Income before policyholders' distribution and income taxes	**78,016**	139,116
Policyholders' distribution	**-**	-
Income before income taxes	**78,016**	139,116
Income tax expense		
Current income tax expense	**(17,112)**	(39,018)
Deferred income tax expense	**(5,343)**	(2,391)
Total income tax expense	**(22,455)**	(41,409)
NET INCOME	**$ 55,561**	$ 97,707
COMPREHENSIVE INCOME		
Net income	**$ 55,561**	$ 97,707
Net unrealized gains on available-for-sale securities, net of income taxes of $4,078 and $49,391, respectively	**7,574**	91,727
Less: reclassification adjustment for net gains (losses) realized in net income, net of income taxes of $6,638 and $(2,674), respectively	**12,329**	(4,966)
Other comprehensive income, net of tax	**19,903**	86,761
Comprehensive income	**$ 75,464**	$ 184,468

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 January 1, 2009	$ (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
Change in net unrealized gain on securities available-for-sale, net of tax	**19,903**	_	**19,903**
Net income	_	**55,561**	**55,561**
Balance at December 31, 2010	**$ 103,243**	**$ 624,009**	**$ 727,252**

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, 2010	2009
Net income	$ 55,561	$ 97,707
Cash flows from operating activities:		
Depreciation and amortization	162	307
Net realized investment (gain) loss	(18,967)	7,640
Deferred income taxes	5,343	2,391
Equity in loss of subsidiary	57	105
Changes in operating assets and liabilities:		
Reinsurance recoverable	(55,050)	92,557
Prepaid reinsurance premiums	6,218	(1,819)
Accrued investment income	(126)	505
Premiums receivable	(1,746)	(197)
Deferred policy acquisition costs	16	27
Other assets	(190)	176
Reserve for losses and loss adjustment expenses	75,614	(238,283)
Unearned premiums	(8,682)	2,540
Reinsurance premiums payable	5,674	18
Due (to) from subsidiary	(4,123)	42
Accounts payable and other accrued expenses	3,810	(516)
Income tax payable	(10,930)	39,812
NET CASH FROM OPERATIONS	52,641	3,012
Cash flows from investing activities:		
Cost of investments purchased	(2,797,627)	(373,760)
Proceeds from sales of investments	2,636,379	353,590
Proceeds from maturities of investments	45,877	24,547
Change in receivable from purchase of investments	(141,549)	(2,348)
Change in payable from purchase of investments	237,601	23,157
Purchases of fixed assets	(21)	57
NET CASH FROM INVESTING	(19,340)	25,243
Net change in cash and cash equivalents	33,301	28,255
Cash and cash equivalents, beginning of year	99,602	71,347
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 132,903	$ 99,602
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	$ 25,501	$ 794

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. EIM 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, the Company 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, 2010, EIS has assets (exclusive of assets held in mutual business programs) of approximately $4.5 million, shareholder's equity of $1.5 million and a net loss of approximately $56,000. As of

Notes to Financial Statements

December 31, 2009, EIS had 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.

The Company and EIS file a consolidated federal income tax return. Income taxes are allocated based on separate return calculations. During 2010 and 2009, EIM provided reinsurance to certain EIS cells. For the years ended December 31, 2010 and 2009, premiums earned includes $450,000 and $156,103 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 and change in subsidiary 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.

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, 2010 and 2009.

Reclassifications

Certain balances in the 2009 financial statements have been reclassified to conform to the 2010 presentation.

Subsequent Events

The Company has evaluated subsequent events for disclosure and recognition through February 15, 2011, the date on which these financial statements were available to be issued.

Notes to Financial Statements

Note B - Insurance Activity

Premium activity for 2010 and 2009 is summarized as follows *(in thousands)*:

2010	**Direct**	**Assumed**	**Ceded**	**Net**
Premiums written	**$ 170,014**	**$ 122**	**$ (83,422)**	**$ 86,714**
Change in unearned premiums	**8,897**	**(215)**	**(3,540)**	**5,142**
Premiums earned	**$ 178,911**	**$ (93)**	**$ (86,962)**	**$ 91,856**
2009	Direct	Assumed	Ceded	Net
Premiums written	$ 182,718	$ 2,269	$ (89,169)	$ 95,818
Change in unearned premiums	(2,544)	4	1,819	(721)
Premiums earned	$ 180,174	$ 2,273	$ (87,350)	$ 95,097

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

	2010	2009
Gross balance, beginning of year	**$ 725,778**	$ 964,061
Less: reinsurance recoverables on paid and unpaid losses	**(356,218)**	(448,775)
Net balance, beginning of year	**369,560**	515,286
Incurred related to:		
Current year	**113,797**	88,556
Prior years	**(59,994)**	(107,980)
Change in related tail coverage	**(4,553)**	(5,318)
Total incurred	**49,250**	(24,742)
Paid related to:		
Current year	**370**	1,140
Prior years	**28,316**	119,844
Total paid	**28,686**	120,984
Net balance, end of year	**390,124**	369,560
Plus: reinsurance recoverables on paid and unpaid losses	**411,268**	356,218
Gross balance, end of year	**$ 801,392**	$ 725,778

For the year ended December 31, 2010, incurred losses attributable to events of prior years decreased $59.9 million. The 2010 decrease relates primarily to general liability coverage from the 2007 accident year, revisions in the emergence patterns and the expectation of lower claims being reported.

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.

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 deductibles or retentions have been satisfied, the maximum amount that could be recoverable under the 2010 and 2009 reinsurance treaties is $222,000,000 and $250,000,000 with respect of general liability and $88,200,000 and $75,000,000 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 2010, EIM entered into a reinsurance agreement with Oil Casualty Insurance Limited ("OCIL") providing coverage of $25,000,000 excess of $75,000,000 for all general liability policies issued during the year. OCIL fully secures its obligations via a funds held and trust agreement arrangement. As of December 31, 2010, the total fair value of the assets held in the trust were $25,028,611, which collateralized $25,008,163 in reinsurance recoverables on losses and loss adjustment expenses.

During 2009, 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, 2010 and 2009, the total fair value of the assets held in the Trust were $801,953,102 and $678,507,158 which collateralized $73,595,650 and $95,160,049 in reinsurance recoverables on losses and loss adjustment expenses, respectively.

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 22% and 30%, respectively, of the balance at December 31, 2010 and 27% and 34%, respectively, at December 31, 2009. The remaining balance comprises amounts from various reinsurers, each not exceeding 12% of the total for 2010 and 2009.

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, 2010 and 2009, no such allowances were deemed necessary.

Notes to Financial Statements

Note C - Investments

As of December 31, 2010, 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)*:

2010	Cost	Other-than-temporarily Impaired	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury & Agencies	**$ 396,691**	**$ -**	**$ 2,827**	**$ (2,357)**	**$ 397,161**
U.S. state and municipal obligations	**149,594**	**(154)**	**6,979**	**(3,632)**	**152,787**
Corporate debt securities	**140,742**	**-**	**4,433**	**(1,085)**	**144,090**
Mortgage-backed securities	**91,822**	**(19,288)**	**3,906**	**(900)**	**75,540**
Total fixed-maturity securities	**778,849**	**(19,442)**	**18,145**	**(7,974)**	**769,578**
Domestic equities	**210,341**	**(14,325)**	**112,548**	**(6,782)**	**301,782**
Foreign equities	**99,545**	**(5,948)**	**48,565**	**(5,667)**	**136,495**
Total Equities	**309,886**	**(20,273)**	**161,113**	**(12,449)**	**438,277**
Total investments	**$ 1,088,735**	**$ (39,715)**	**$ 179,258**	**$ (20,423)**	**$ 1,207,855**

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-temporarily 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
Domestic equities	106,659	(3,683)	43,267	(9,518)	136,725
Foreign equities	301,521	(29,644)	101,754	(16,243)	357,388
Total Equities	408,180	(33,327)	145,021	(25,761)	494,113
Total investments	$ 970,277	$ (55,596)	$ 162,903	$ (34,688)	$ 1,042,896

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, 2010 and 2009, 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, 2010, 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 2011	$ 39,652	$ 40,421
In 2012–2015	139,397	142,793
In 2016–2020	213,913	215,585
Due after 2020	385,887	370,779
Total fixed-maturity securities	$ 778,849	$ 769,578

Proceeds from maturities of investments were approximately $45,877,000 and $24,547,000 and proceeds from sales of investments were approximately $2,636,379,000 and $353,590,000, during 2010 and 2009, respectively. Gross gains of approximately $67,271,000 and $32,808,000 and gross losses of $42,711,000 and $18,751,000, during 2010 and 2009 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 were OTTI. This resulted in recording impairment write-downs as part of net realized losses on investments for the years ended December 31, 2010 and 2009, and reduced the unrealized loss included in other comprehensive income *(in thousands)*:

	2010		2009	
	Number	**Impairment Recognized**	Number	Impairment Recognized
Fixed-maturity securities	**1**	**$ 154**	20	$ 4,184
Equity securities	**27**	**5,439**	35	17,513
Total	**28**	**$ 5,593**	55	$ 21,697

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, 2010 *(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	**$ 178,490**	**$ 2,357**	**$ 3,772**	**$ -**	**$ 182,262**	**$ 2,357**
U.S. state and municipal obligations	**52,220**	**1,487**	**34,086**	**2,145**	**86,306**	**3,632**
Corporate debt securities	**47,253**	**1,022**	**734**	**63**	**47,987**	**1,085**
Mortgage-backed securities	**16,142**	**424**	**1,660**	**476**	**17,802**	**900**
Domestic equities	**6,622**	**1,006**	**30,375**	**5,776**	**36,997**	**6,782**
Foreign equities	**9,939**	**1,630**	**13,204**	**4,037**	**23,143**	**5,667**
Total temporarily impaired securities	**$ 310,666**	**$ 7,926**	**$ 83,831**	**$ 12,497**	**$ 394,497**	**$ 20,423**

Of the 355 fixed-maturity securities with unrealized losses, five with aggregate losses of $66,011 were 20% or greater than the cost at December 31, 2010. Of the 300 fixed-maturity securities with unrealized losses, six with aggregate 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 its domestic and international equity portfolios, respectively. Of the 409 equity securities with unrealized losses, 180 with losses of $7,162,568, were 20% or greater than the cost and have been in a continuous loss position for longer than a year at December 31, 2010. 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, 2010 and 2009.

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

	2010	2009
Interest income	**$ 25,091**	$ 26,647
Dividend income	**10,861**	11,866
Loss from subsidiary	**(4,256)**	(105)
Other	**4**	-
Gross investment income	**31,700**	38,408
Investment management fees	**(2,111)**	(1,989)
Net investment income	**$ 29,589**	$ 36,419

The Company has adopted the accounting guidance for Fair Value Measurements and Disclosures. This statement provides guidance for measuring assets and liabilities at fair value. 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, 2010 *(in thousands)*:

	Total	Level 1	Level 2	Level 3
Fixed-maturity	$ 769,578	$ -	$ 769,578	$ -
Equities	438,277	438,277	-	-
Total	$ 1,207,855	$ 438,277	$ 769,578	$ -

The following table summarizes changes in Level 3 assets measured at fair value for the years ended December 31, 2010 and 2009 *(in thousands)*:

	2010	2009
Begining Balance	**$ -**	$ 16,509
Net transfers out of Level 3	**-**	(16,509)
Ending Balance	**$ -**	$ -

Several of EIM's policyholders are companies represented in the S&P 900. Consequently, at December 31, 2010 and 2009, EIM holds investments totaling approximately $16.3 and $15.3 million, respectively, 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)*:

	2010	2009
Deferred tax assets:		
Discounting of unpaid losses and LAE	**$ 14,185**	$ 13,388
Unearned premiums	**3,622**	3,750
AMT carryforward credit	**36**	36
Accrued expenses	**1,250**	-
Unrealized comprehensive losses in earnings	**13,900**	19,459
Original issue discount	**903**	658
Fixed assets	**10**	-
Total deferred tax assets	**33,906**	37,291
Deferred tax liabilities:		
Unrealized capital gains	**$ 55,592**	$ 44,875
Premium amortization	**2,622**	1,370
Other	**1,337**	631
Total deferred tax liabilities	**59,551**	46,876
	$ (25,645)	$ (9,585)

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.

The Company adopted the relevant provisions of GAAP concerning uncertainties in Income Taxes on January 1, 2009. At December 31, 2010 and 2009, the Company determined there are no material unrecognized tax benefits, and no adjustments to liabilities or operations were required.

Internal Revenue Service ("IRS") Examination

In November of 2010, the Company resolved the IRS examination of its consolidated income tax returns for 2003 and 2004. The final settlement was based on adjustments provided to the IRS by EIS in early 2007 in an amended return.

Tax years 2007 through 2010 are subject to examination by the Internal Revenue Service.

Notes to Financial Statements

Note E - Commitments and Contingencies

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

Note F - Trust Funds and Deposits

The Company has established a trust fund with a federally insured depository. This trust fund serves as security for 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, 2010 and 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 - Retiree Medical Benefits

The Company provides employees with a Postretirement Medical, Dental and Vision Plan ("the Plan"). The Plan is available to retirees (upon fulfilling eligibility requirements), their spouses and dependents as a continuation of the healthcare plan available to active employees. Currently the benefits are self insured, with a third party stop-loss reinsurance arrangement. Retirees are not required to make contributions for coverage. The Plan is unfunded.

The assumed discount rate used to determine the benefit obligation is 6.10% for 2010. The assumed healthcare cost trend rate is 8% for 2011, trending to 4.5% by 2027. The assumed trend rate increased due to the expected impact of health care reform on plan liabilities. The Company has recognized a liability representing the actuarially determined accumulated postretirement benefit obligation in the amount of $3,630,704 as of December 31, 2010.

Note H - 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 $721,674,000 at December 31, 2010, that is available for the payment of dividends.

EIM Directors

Donald R. Chappel
Senior Vice President and
Chief Financial Officer
The Williams Companies, Inc.
Tulsa, Oklahoma

Benjamin G. S. Fowke, III
President and Chief
Operating Officer
Xcel Energy, Inc.
Minneapolis, Wisconsin

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

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

Marian M. Durkin
Senior Vice President,
General Counsel, and Chief
Compliance Officer
Avista Corp.
Spokane, Washington

Scott K. Goodell
President and
Chief Executive Officer
Energy Insurance Mutual
Tampa, Florida

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

As of December 31, 2010

Richard H. Marsh
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and Chief Financial Officer
FirstEnergy Corp.
Akron, Ohio

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

Joseph M. Rigby
Chairman, President,
and Chief Executive Officer
Pepco Holdings, Inc.
Washington, D.C.

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

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

Darren J. Olagues
Senior Vice President
and Chief Financial Officer
Cleco Corporation
Pineville, Louisiana

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

Board Committees

As of December 31, 2010

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Kimberly S. Greene, Chairman; James R. Hatfield, Vice Chairman
Donald R. Chappel, Michael W. O'Donnell, Darren J. Olagues

Claims Committee

G. Edison Holland, Jr., Chairman; Michael W. O'Donnell, Vice Chairman
Marian M. Durkin, Scott K. Goodell, Benjamin G. S. Fowke, III

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James R. Hatfield, Chairman; G. Edison Holland, Jr., Vice Chairman
Scott K. Goodell, J. Barry Mitchell, Charles W. Shivery

Insurance Advisory Committee

Deborah S. Gaffney, Chairman; Randall L. Martin, Vice Chairman
Robert W. Dillard, Jack R. Hadsall, Sandra K. Hart
Julie R. Jackson, Gary Y. Little, Mark A. Webster

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Charles W. Shivery, Chairman; Richard H. Marsh, Vice Chairman
Marian M. Durkin, James R. Hatfield, Darren J. Olagues

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Kimberly S. Greene, G. Edison Holland, Jr., Richard H. Marsh

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Richard H. Marsh, Chairman; G. Edison Holland, Jr., Vice Chairman
Donald R. Chappel, Scott K. Goodell, Kimberly S. Greene

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Charles W. Shivery, Chairman; Scott K. Goodell, Vice Chairman
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Michael W. O'Donnell, William R. Powell

Insurance Advisory Committee

As of December 31, 2010

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

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Security Management
City Utilities of Springfield
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IAC Chairman
Manager, Risk Management
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Kinder Morgan Inc.
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Sandra K. Hart
Director, Risk and Land
Northwest Natural Gas
Company
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Gary Y. Little
Manager,
Corporate Insurance
Progress Energy Service
Company, LLC
Raleigh, North Carolina

2010 EIM Officers

As of December 31, 2010

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Vice Chairman of the Board

G. Thomas Bolton, III
Vice President and Chief Financial Officer

Robert P. Schmid
Vice President-Subsidiary Operations

Trevor A. Carmichael
Assistant Secretary

James R. Hatfield
Chairman of the Board

Scott K. Goodell
President and Chief Executive Officer

Jill C. Dominguez
Vice President-Underwriting

Joan B. Bryant
Secretary

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California Independent System Operator
Calpine Corp.
CenterPoint Energy, Inc.
Central Arizona Water Conservation District
Central Vermont Public Service Corporation
CenturyLink, Inc.
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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
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CMS Energy Corporation
Complete Energy Holdings, LLC
Consolidated Edison Company of New York, Inc.
Constellation Energy Group, Inc.
Continental Energy Systems LLC
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Deseret Generation & Transmission Cooperative
Devon Energy Corporation
Dominion Resources, Inc.
DPL Inc.
DQE Holdings LLC
DTE Energy Company
Duke Energy
Dynegy Inc.
Edison International
El Paso Corporation
El Paso Electric Company
Electric Reliability Council of Texas, Inc.
Empire District Electric Company (The)
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Energen Corporation
Energy Future Holdings Corp.
Enron Dissolution Corp.
Entergy Corporation
EOG Resources, Inc.
E.ON U.S. LLC
EQT Corporation
Exelon Corporation
FirstEnergy Corp.
Florida Municipal Power Agency
Gaz Metro Inc.
GenOn Energy, Inc.
Grand River Dam Authority
Great Plains Energy Incorporated
Great River Energy
Hawaiian Electric Industries, Inc.
Hydro One Inc.
Hydro-Quebec
Iberdrola USA, Inc.
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 Corporation
JEA and Florida Power & Light d/b/a St. Johns River Power Park
Kinder Morgan, Inc.
Laclede Group, Inc. (The)
Long Island Power Authority
Los Angeles Department of Water and Power
MDU Resources Group, Inc.

EIM Members

Metropolitan Water District of Southern California
MGE Energy, Inc.
MidAmerican Energy Holdings Company
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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
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Nicor Inc.
NiSource Inc.
Northeast Utilities
Northwest Natural Gas Company
NorthWestern Corporation
NRG Energy, Inc.
NSTAR
NV Energy, Inc.
OGE Energy Corp.
Oglethorpe Power Corporation
Ohio Valley Electric Corporation
Oncor Electric Delivery Holdings Company LLC
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, L.L.C.
PNG Companies 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.
QEP Resources, Inc.
Questar Corporation
RGC Resources, 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 Corp.
TECO Energy, Inc.
Tennessee Valley Authority
Toronto Hydro Corporation
TransCanada Corporation
Transocean Ltd.
Tri-State Generation and Transmission Association, Inc.
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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