



UNION MUTUAL OF VERMONT COMPANIES

Mutual sustainability through long-term relationships and innovation

*Mutual
sustainability
through
long-term
relationships
and innovation*

2008 HIGHLIGHTS

- Customer Support Department begun as a company-wide clearinghouse for information and routine data processing
- Record snow levels bring collapse losses in Northern New Hampshire and Maine
- Director of Project Management and Enterprise Risk Management created to assist in timely completion of IT and project initiatives and monitoring of non-underwriting risks
- Claims Department reorganized with new Vice President, Claims Manager and Auto Supervisor
- Credit card premium payment becomes available
- President and CEO retires; Senior Vice President and General Counsel assumes office
- Credit crisis and stock market collapse reduces investment portfolio
- Six management-level employees become Certified Insurance Operations Professionals (CIOP)
- Accounting initiates sweep processing of agency-billed accounts
- Underwriting offers real-time homeowner and auto quotes via Silverplume PL (formally SetWrite) comparative rater
- Company adopts rigorous budget process and trims expenses for 2009
- Direct Written Premium grows 5% with strong gains in automobile and commercial lines
- Devastating December ice storm generates 700 claims with incurred losses of \$3.4 million



TO OUR POLICYHOLDERS AND AGENTS:

Two thousand and eight was a rugged year for the Union Mutual of Vermont Companies. We suffered record losses from big fires, greater vandalism, heavy snows and a New England-wide ice storm. Investment markets collapsed in a free-fall not seen since the Great Depression, leaving a weak economy as the nation awaited inauguration of a new, young President. In September, we also got a new president and CEO, as I succeeded my predecessor, who retired after fifteen years of service.

Yet despite these challenges and adversities, our companies' direct written premium grew 5% last year, thanks in part to our real-time, home and automobile rate-and-write product, which continued to receive kudos from agents and CSRs for its ease of use. And by yearend, our investment portfolio (including impairments) had declined "only" 6.7%, proportionately much less than many of our peers and a testament to a cautious investment policy aimed at preservation of principal, growth and stability.

As a mutual insurance company, we manage for the long-term and do not feel pressured to chase immediate gains with insufficiently understood approaches (like credit default swaps). We do not face the pressures of a suddenly declining stock price. While innovation is important, steadiness and reliability is our goal. We believe in that old Yankee expression, "*measure twice and cut once.*"

Creating a Customer Support Department, diversifying our book by increasing the number of commercial risks, smoothly adjusting numerous losses, and implementing a full suite of payment options for both agents and policyholders were other key accomplishments. This year we plan to extend our electronic capabilities to further improve the ease of doing business, all the while recognizing that it is people – good, solid, thoughtful people – who ultimately make this business run and prosper. With careful underwriting and good cost control, and some help from things beyond our control, we look to replace the policyholder surplus lost in 2008.

I want to thank our policyholders, agents, directors, employees, and reinsurers for their shared commitment to our long-term mission; for their countless hours of service and financial support during the extraordinary year just ended; and for their continued energy, ideas and patronage in 2009 and beyond. With you, much can be accomplished; without you, nothing.

Sincerely,

John H. Fitzhugh

President & Chief Executive Officer





Union Mutual of Vermont Companies

UNION MUTUAL FIRE INSURANCE COMPANY

Assets

Bonds	\$74,058,000
Stocks	44,583,000
Cash & Equivalents	10,762,000
Premiums Receivable	19,019,000
Other Assets	16,445,000
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	\$164,867,000

Liabilities

Unearned Premiums	\$50,358,000
Loss & LAE Reserves	36,501,000
Taxes & Other Liabilities	13,500,000
Policyholders' Surplus	64,508,000
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	\$164,867,000

NEW ENGLAND GUARANTY INSURANCE COMPANY, INC.*

Assets

Bonds	\$27,961,000
Cash & Equivalents	1,482,000
Other Assets	2,834,000
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	\$32,277,000

Liabilities

Taxes & Other Liabilities	484,000
Policyholders' Surplus	31,793,000
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	\$32,277,000

EASTERN MUTUAL INSURANCE COMPANY**

Assets

Bonds	\$10,375,000
Stocks	902,000
Cash & Equivalents	1,845,000
Premiums Receivable	1,262,000
Other Assets	1,125,000
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	\$15,509,000

Liabilities

Unearned Premiums	\$3,651,000
Loss & LAE Reserves	3,781,000
Taxes & Other Liabilities	101,000
Policyholders' Surplus	7,976,000
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	\$15,509,000

COMBINED BALANCE SHEET December 31, 2008

Assets

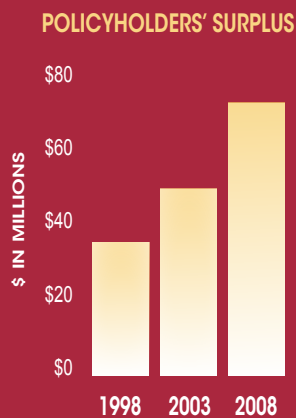
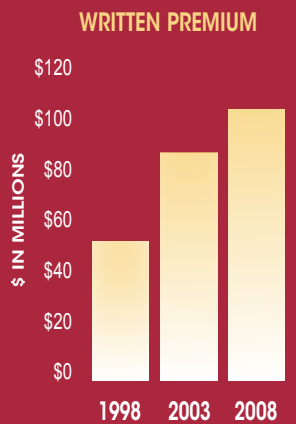
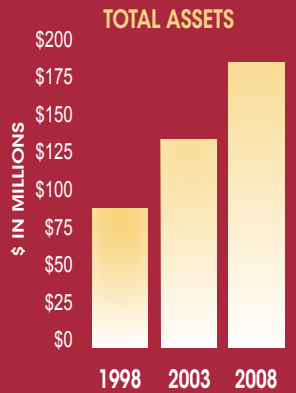
Bonds	\$112,745,000
Stocks	15,620,000
Cash & Equivalents	14,456,000
Premiums Receivable	20,118,000
Other Assets	16,182,000
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	\$179,121,000

Liabilities

Unearned Premiums	\$54,009,000
Loss & LAE Reserves	40,282,000
Taxes & Other Liabilities	12,347,000
Policyholders' Surplus	72,483,000
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	\$179,121,000

A.M. Best Rating of "A- (Excellent)"

*has been assigned
to all of the
Union Mutual of
Vermont Companies*



* New England Guaranty is a wholly-owned subsidiary of Union Mutual Fire Insurance Company. New England Guaranty's underwriting activity is 100% pooled into Union Mutual Fire Insurance Company.

** Eastern Mutual Insurance Company is a New York domestic company which is affiliated by contract with Union Mutual Fire Insurance Company.

*Service in
the Vermont
Tradition that
is "Second
to None"*



CUSTOMER SUPPORT

We created a Customer Support Department in April 2008 to concentrate the strengths of our previously separate service functions under a unified structure. This new Customer Support team processes all premium payments, reinstatements, personal lines endorsements and legal notices. With more than 150 years of collective experience, our helpful, friendly staff can also answer many questions regarding bills, endorsements and claims, and provide personal lines quotes that do not require underwriting pre-approval. In addition to the personal touch, we proudly support environmental responsibility and excellent customer service and encourage our agents to submit endorsements electronically via e-mail and fax. This reduces paper and printing waste and increases processing efficiency.

We believe our approach makes for both a better work environment for our employees and better service to our agents and policyholders. At Union Mutual, our motto is "service second to none."



Union Mutual Fire Insurance Company
New England Guaranty Insurance Company, Inc.
Eastern Mutual Insurance Company



*Left to right, back row: Kerri Allain, Bonnie Cane, Diana Klug, Duane Donahue, Kristy Copeland
Front row: Joanna Guillette, Lisa Keysar (Director of Customer Support), Diane Shadrui
Not shown above: Keri Champine*



*Left to right, back row: Leonora Conti, Christy Berard, Andrew (AJ) Walker, Jenn Zandy, JoAnn Gosselin
Front row: Vickie Lyons, Julie Benjamin (Business Unit Project Coordinator), Aimee Herschel*

**UNION MUTUAL FIRE INSURANCE COMPANY &
NEW ENGLAND GUARANTY INSURANCE COMPANY, INC.**

OFFICERS

John H. Fitzhugh
President & CEO

Ian B. Chisholm
Vice President, Underwriting

Guy W. Graham
Vice President, Claims

Carolyn S. Ix
*Assistant Vice President,
Marketing*

Bradley S. Keysar
*Vice President,
Information Systems*

Lisa L. Keysar
*Corporate Secretary &
Director of Customer Support*

Michael W. Nobles
Vice President & Treasurer

Harold L. Robinson, III
Regional Vice President

William R. Scrafford
Regional Vice President

John R. Walker
*Senior Vice President,
Marketing & Underwriting*

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Insurance Company*

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*Former Managing Partner,
KPMG*

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Union Mutual*

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*Partner, Downs Rachlin
Martin, PLLC*

John H. Fitzhugh
*President & CEO,
Union Mutual*

Allen Martin
*Retired Chairman,
WICOR Americas*

James A. McDonald
*President & CEO,
J.A. McDonald, Inc.*

S. John Osha
*Chairman, Union Mutual,
Dairy Farmer & Chairman,
Randolph National Bank*

Mark S. Young
*President & CEO,
The First National Bank
of Orwell*

F. Ray Keyser, Jr.*
*Of Counsel, Keyser & Crowley,
& Governor of VT (1961-1963)*

Lawrence H. Reilly*
*Former President & CEO,
Union Mutual*

Thomas P. Salmon*
*Former President, UVM and
Governor of VT (1973-1977)*

**Advisory Council Member*

EASTERN MUTUAL INSURANCE COMPANY

OFFICERS

William R. Scrafford
President & Treasurer

John H. Fitzhugh
Chief Executive Officer

Valerie A. Davis
Vice President & Secretary

Susan M. Fancher
*Vice President, Underwriting
& Marketing*

Bradley S. Keysar
*Vice President,
Information Systems*

Michael W. Nobles
Chief Financial Officer

Arlene K. Ingalls
Assistant Secretary

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Eastern Mutual*

Robert E. Flagler
*Chairman, Retired Assistant
Controller - Dime Savings Bank*

Elizabeth J. Friedland
*Retired Manager, Schoharie
& Schenectady Mutual
Insurance*

Scott T. Jeffers
*President, Sauquoit Valley
Insurance Company*

Kent L. Johnson
*Systems Analyst, Rensselaer
Polytechnic Institute*

William R. Scrafford
*President & Treasurer,
Eastern Mutual*

Allyn P. Wright
*Vice Chairman, Independent
Forestry Consultant*

Fred S. Zeitler
Public Accountant

Alan P. Zuk
*Transportation Coordinator,
Berne-Knox-Westerlo
School District*

**Union Mutual Fire Insurance Company
New England Guaranty Insurance Co., Inc.**

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Eastern Mutual Insurance Company

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