Annual Report 2018

changing | currents

EIM®
ENERGY INSURANCE MUTUAL

EIM 2018 ANNUAL REPORT

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EMBRACING CHANGE AND CAPITALIZING ON RESULTING OPPORTUNITIES.

A MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

This year's annual Risk Managers Information Meeting focused on "changing currents." The theme highlighted transformations underway in both the insurance and energy industries that will require new and innovative solutions to meet emerging risk management challenges. The four Member Companies highlighted in this year's annual report, along with other EIM members, have embraced change and capitalized on the resulting opportunities. These members reflect the collective foresight and innovation represented throughout EIM's membership.

EIM's current strategic plan highlights technology-driven changes impacting the energy industry, including continued growth of renewables, enhanced battery storage, and distributed generation. EIM anticipates ongoing evolutionary, rather than revolutionary, changes in these areas, but expects many of these anticipated changes to carry over and impact EIM's updated 2020-2022 strategic plan. In fact, through coordinated efforts with the Board and the Insurance Advisory Committee (IAC), EIM is already laying the foundation to address evolving risk management considerations driven by these continuously developing technologies.

In addition to addressing change, EIM remains committed to its longstanding core lines of business—General Liability, Directors and Officers, Fiduciary and Property—which will be augmented by targeted growth in the cyber liability and property portfolios, larger General Liability limits, and the delivery of tailored solutions for discrete risk management issues faced by Member Companies. Commitment to core products and services, financial strength, and the ability to move quickly in the face of change will continue as EIM's hallmarks in the coming years.

EIM's current strategic plan highlights technology-driven changes impacting the energy industry, including continued growth of renewables, enhanced battery storage, and distributed generation.

Throughout 2018, EIM's ongoing Member Company focus was highlighted in several areas, including the following:

- More than 100 renewal and Mutual Advantage meetings were undertaken by EIM management and staff
- Additional General Liability capacity was established, in combination with Nuclear Electric Insurance Limited (NEIL), above $135 million for members seeking increased limits

- EIM's cyber liability relationships with Associated Electric & Gas Insurance Services Limited (AEGIS) and NEIL continued to expand
- AEGIS, EIM and NEIL worked together to identify cost efficiencies, product enhancements, and collaborative opportunities

In addition, Energy Insurance Services, Inc. (EIS) helped two California members put together first-of-their-kind, wildfire-focused catastrophe bond transactions, providing hundreds of millions in added wildfire capacity.

Numerous factors afford EIM the agility to respond quickly and meaningfully to emerging risk management challenges. First, the company remains relatively unencumbered by historical loss reserves. Given the nature of it excess of loss portfolio, EIM has only $2 million in net loss reserves for the years 2008 and prior. Without long-tail, legacy loss exposures, EIM faces less risk of adverse loss development.

Overall, the company saw policyholders' surplus grow by 2% to $1.2 billion and the 2018 Member Company distribution increase by more than 85% to $75 million.

Second, the relatively short tail associated with EIM's claim reserves frees capital that can be readily allocated on a net basis to new or expanded lines of business or returned to members. As of year-end 2018, EIM had gross loss reserves, including incurred but not reported losses (IBNR), of $696 million, or 61% of surplus. On a net basis, loss reserves drop to $432 million, or 38% of surplus. This relatively low loss reserve-to- surplus ratio ensures that there is ample capital available to respond to evolving Member Company excess insurance needs.

Finally, EIM's conservative use of reinsurance has always been an integral part of the company's business platform. EIM was originally formed to insulate Member Companies from the vagaries of the commercial insurance market. Adherence to this principle continues today as, on average, EIM cedes about 31% of its gross written premium to reinsurance partners, with 50% of this ceded premium going to sister mutuals, NEIL and Oil Casualty Insurance Limited (OCIL). This judicious use of reinsurance protects EIM from catastrophic events while still ensuring sufficient capital to retain risk net and independently meet Member Company emergent risk management issues.

EIM expects to maintain near-term annual distributions in the $50-$75 million range, slowly managing surplus back to around $1 billion.

Further buttressing its member-focused commitment, EIM enhanced internal operational efficiencies in 2018, moving core IT systems to the cloud, while conducting cybersecurity exercises to ensure system integrity and successfully updating and testing EIM's disaster recovery plan. Equally noteworthy, enterprise risk metrics were routinely reviewed and updated by the company's enterprise risk management (ERM) committee, ensuring that EIM stayed within the company-wide risk tolerance parameters of no more than a 10% probability of losing 20% of policyholders' surplus in any one year.

EIM's commitment to ERM paid off in 2018 as a volatile investment market and an active loss year delivered results which, while lower than 2017, were still in line with EIM's expected performance over time. Although EIM's total return on investments was below plan at -1%, financial performance was bolstered by a net loss ratio of 72% and below-budget expense ratio of 6%.

Overall, the company saw policyholders' surplus grow by 2% to $1.2 billion and the 2018 Member Company distribution increase by more than 85% to $75 million. We were pleased to see that even in a down year on the investment front, EIM saw surplus continue to rise and the annual distribution almost double. This is a credit to the Board's focus on balancing underwriting and investment risk, along with the solid risk management efforts undertaken by Member Companies. EIM is a stronger company because of the insights and direction provided by the Board and IAC.

EIM continues to benefit from its strong financial position, driven by a 10-year average return on investments of 6.7%, a 64.5% net loss ratio, and an 8.7% net expense ratio. These contributions accounted for EIM's surplus growth from $467 million at the beginning of 2009, to a year-end 2018 surplus of $1.135 billion (net of seven consecutive years of distributions totaling $218 million). This result was achieved against a background of ongoing claim activity involving more than $1.4 billion in gross claim payments made to members since 2009.

Absent extraordinary circumstances impacting EIM's underwriting or investment performance, EIM expects to maintain near-term annual distributions in the $50-$75 million range, slowly managing surplus back to around $1 billion.

While annual distributions are meaningful to members, the IAC 2018 Member Survey responses (portions of which are highlighted in this annual report) overwhelmingly support the proposition that consistent underwriting—in terms of pricing, capacity, and coverage terms and conditions—along with a strong, stable financial base continue to be what EIM members value most. This rings particularly true during times of change.

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Change can be intimidating, but it also offers great opportunity. Those who anticipate and adapt best to change will thrive. Amidst these "changing currents," EIM remains committed to ensuring that its members thrive as, together, we assess emerging risks and fashion meaningful solutions.

SCOTT K. GOODELL
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Meeting the Needs of the Modern Customer

The world of energy is experiencing change at an exponential rate. Environmental factors, evolving customer requirements and technology advancements are changing the way successful power and utility companies conduct their business. The fundamental challenge we all face is how to successfully respond.

Transformative changes are underway in the generation of power and the provision of utility services. Conventional energy sources are increasingly interchanged sustainable, cost-competitive, renewable energy. This 'alternative' source is now becoming mainstream. Customers are increasingly seeking out new choices in the way they consume their utility services. New technologies are ready to play a leading role in the utility of the future, and the unregulated power generation business is also well positioned to play an important part in this movement.

Algonquin Power & Utility Corporation ("Algonquin") is successfully responding to these changes through its two business groups, which provide rate-regulated natural gas, water, and electricity generation, transmission and distribution utility services to over 768,000 connections in the United States. The company is committed to being a global leader in the generation of clean energy, through its ownership and operation of long-term contracted wind, solar, hydroelectric and thermal generating facilities, representing approximately 1.5 GW of gross installed capacity.

In response to industry evolution, Algonquin is addressing ways to provide exceptional value to customers. Differentiated services, sustainable business practices, and improved accessibility are what the customers of the future will demand. Declining costs of technology, integration of business streams and digitization represent opportunities that an entrepreneurial and agile organization can pursue to the benefit of their customers and investors.

2018 EIM MEMBER SURVEY HIGHLIGHT
69% of respondents strongly agree or agree that it is important for EIM to provide a meaningful annual distribution.


Luning Solar Facility

2018 EIM MEMBER SURVEY HIGHLIGHT

80% of members with claims experience agreed or strongly agreed that EIM approaches claims handling differently than commercial carriers.

Deerfield Wind Farm

Liberty Utilities Linemen

By thinking big, starting small, and scaling rapidly, Algonquin is committed to building and maintaining customer loyalty by providing an attractive business and social proposition. Sustainability is a core component of Algonquin's growth strategy and is woven throughout the way the company plans, evaluates and conducts business—from renewable energy to clean water to efficient, reliable utility operations. Being equally committed to delivering social and environmental sustainability, as well as to generating economic profit, provides the opportunity for responsible investing in a safe, reliable and agile international organization.

"Our commitment to sustainability represents a strategic choice. We make this commitment in the belief that it's the path forward to continued success, and we recognize that crafting a business for the future demands considering the needs of people and the planet in the same way we consider our need for economic profit," explains Ian Robertson, Chief Executive Officer, Algonquin Power & Utilities Corp.

Technology solutions now provide boundless potential for growth and innovation in a utility industry that has been historically resistant to change. More than ever before, digitization is connecting people, things and activities on a global scale. Realization of a bright future in power and utilities means transforming the capabilities of people, processes and technology to meet the evolving needs of the modern customer.

ALGONQUIN Power & Utilities Corp.

Adapting to Change with Industry Leading Solutions

The energy industry is changing rapidly. Dynamic technology, market and customer trends are reshaping what it means to be an energy company. Across the board, investor-owned utilities are evolving, finding ways to make energy cleaner, grids smarter, and customer service more accommodating.

Emera has built a track record of leading change, delivering on a proven strategy of cleaner, affordable energy for more than a decade. From its origins as a single electric utility in Nova Scotia, Canada, Emera has grown to serve more than 2.5 million utility customers in the USA, Canada and the Caribbean. In 2016, Emera acquired TECO Energy – including Tampa Electric and Peoples Gas Company in Florida, as well as New Mexico Gas Company – effectively doubling the size of its business and becoming a North American energy leader.

Part of the secret of Emera's success has been finding clean energy solutions that make the most sense for different regions. In Atlantic Canada, this means wind and hydro. Emera company Nova Scotia Power has added more than 300 commercial wind turbines over the past decade, and is well on track to generate more than a targeted 40% of electricity from renewable sources by 2020.

2018 EIM MEMBER SURVEY HIGHLIGHT

89% of respondents to the 2018 Member Survey agreed or strongly agreed that the premium paid for GL coverage reflected the value of the excess insurance coverage received.

Tampa Electric's Big Bend solar array in Florida.

2018 EIM MEMBER SURVEY HIGHLIGHT

72% of respondents view renewable energy as one of the top issues facing the energy industry.

In the Sunshine State, solar generation makes a lot more sense. Emera company Tampa Electric is currently adding 600MW of new solar generation – installing six million panels as part of 10 new large-scale arrays. Once complete, this $850 million investment will increase Tampa Electric's total solar generation to 7%. The team at Tampa Electric is also advancing another $850 million initiative to modernize the Big Bend generating station, replacing coal-fired generation with cleaner and more efficient natural gas.

As more intermittent renewables and distributed generation sources come online, investments in storage and grid intelligence are needed to manage an increasingly complex energy system. Emera is working with Tesla and other technology partners to install large-scale storage solutions across its electric utilities, enabling renewable energy to be captured when it's readily available, and to be used later when it's actually needed. Emera companies are also trialling and implementing tools, such as intelligent feeders, to build a smarter, more reliable grid.

Since smart meters play a critical role in building grid intelligence, Emera is investing more than $375 million to deploy 1.5 million units across four utilities. This investment recognizes that customers want real time information about their energy, including where it comes from, what it costs and how much they are consuming. With the benefit of smart meters, customers can access their energy usage in real time via a digital platform. Equally important, energy providers like Emera can more quickly pinpoint system issues and failures to speed restoration and ensure a more reliable energy future.

Smart meters give customers more real-time energy information, enabling even more choice and control in future.

2018 EIM MEMBER SURVEY HIGHLIGHT

86% of respondents believe that EIM is adequately capitalized.

A Power Model That Puts Customers First

NRG continues to lead the market with strong retail brands and diverse generation assets.

NRG believes companies should evolve to meet customer needs—which is why they have embarked on a transformation. Responsible for providing power to more than three million homes and businesses across the nation, NRG continues to focus on the safe generation of electricity and sale of power to organizations and communities. It's just that now, a new corporate strategy focuses on a more customer-driven approach.

Leveraging deep industry and market knowledge, backed by robust data and analytics, NRG is providing customers with compelling choices to meet their energy needs. From homeowners to large businesses, the company's commitment to an excellent customer experience remains strong.

An Evolving Industry

Over the last few years, the entire electricity value chain has seen changes that have fundamentally reshaped the market. These external forces fueled NRG's desire to redefine their business strategy. Generation has been impacted by low natural gas prices and the proliferation of solar and wind power. These changes have made the traditional independent power producer (IPP) model obsolete.

NRG Headquarters –Princeton, NJ

2018 EIM MEMBER SURVEY HIGHLIGHT

Survey respondents overwhelmingly counseled EIM that to stay relevant and responsive it must, "Continue strong, interactive communications with members and adjust quickly and decisively to changes in the industry."

For the long term, trends in retail are evolving, as consumers are increasingly engaged with energy through smart appliances and controllable demand. This consumer engagement represents an emergent and significant opportunity for NRG.

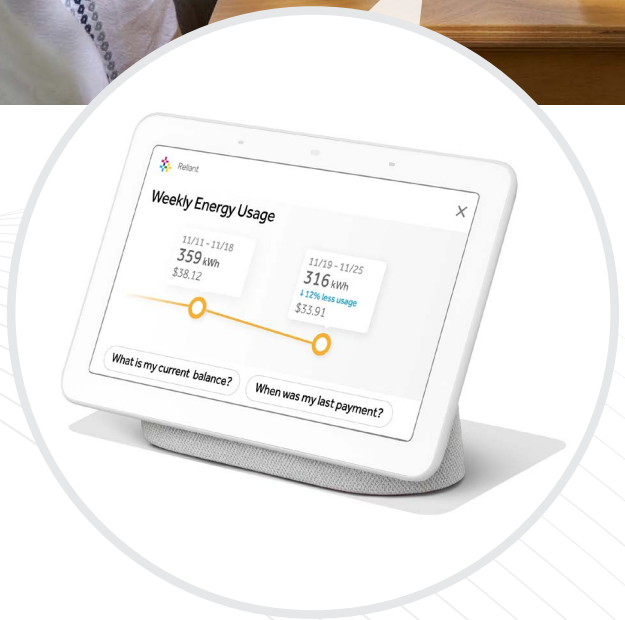
The company stays nimble and open to change. Strong values of fiscal responsibility, safety, and sustainability lead the way. As NRG brings together expertise in both managing generation and serving customers, the company has the unique opportunity to evolve its business and better align with customer demand. This transformation towards a customer-centric model equates to a modern, integrated platform for success.

The Future is Bright

NRG is shifting its focus from megawatts owned to customers served. It has always been the company's mission to deliver innovative power solutions for consumers, big and small. The difference is that now, this mission is at the heart of the entire organization.

Energy is a resource, full of potential, with the flexibility to fulfill robust, individualized solutions. This refined business model marks a new phase in NRG's history—and a rare opportunity to pivot the market and put customers at the forefront of a sustainable energy future.

NRG's retail brand, Reliant, provides technology to help customers stay connected with their energy.



2018 EIM MEMBER SURVEY HIGHLIGHT

75% of respondents view cyber liability as one of the top issues facing the energy industry.

Turning Change Into Opportunity

2018 EIM MEMBER SURVEY HIGHLIGHT
93% of members with claims experience agreed or strongly agreed that EIM handles claims effectively and fairly.

Plains All American Pipeline, L.P. (PAA) has always strived to anticipate and adapt to constant changes in the industry. Among the largest crude oil midstream service providers in North America, the company owns and operates midstream energy infrastructure in the U.S. and Canada, and provides logistics services for crude oil, NGLs and natural gas. In total, Plains handles more than 5 million crude oil and NGL barrels per day.

Marine terminal in St. James, Louisiana

After several years of relative lows, the oil and gas pipeline industry saw robust growth in 2018. “Thanks to an enterprise-wide focus on continuous improvement in the preceding years, PAA was poised to take advantage of available growth opportunities and saw a 29 percent increase in full-year Adjusted EBITDA between 2017 and 2018,” stated Sharon Spurlin, VP and Treasurer of PAA.

“We have a culture in which we are always looking for ways to advance while also ensuring that safety and risk reduction are at the forefront of all efforts,” Spurlin commented. These continuous improvement efforts are organized around three pillars: people, assets and systems.

Assets

Plains recently invested $1.9 billion on capital projects in 2018. Seizing on the boom in American oil production and ever-increasing global demand, the company is building additional capacity at its marine terminals in the Gulf Coast, and investing in pipeline projects to move oil south toward export opportunities. New

Sunset at Crude Oil Terminal in Cushing, Oklahoma

Diamond Pipeline under construction in Oklahoma

2018 EIM MEMBER SURVEY HIGHLIGHT

The top three most important issues facing risk managers in the next five years are: cyber liability, cost of insurance and regulatory mandates.

PLAINS ALL AMERICAN

pipeline construction is expected to increase crude oil and condensate takeaway capacity by more than 1.5 million barrels per day.

People

"Our people are our greatest asset," said Spurlin. "We're firmly dedicated to developing our employees to their full potential." In recent years, recognizing the need to adjust in the face of planned retirements of a number of senior executives, leadership competency development has been a priority at PAA. "We need to continually grow the number and capacity of our leaders because it's their decisions and actions that set expectations and drive execution," explained Spurlin, "As our industry continues evolving, leadership will be among the largest factors in our success."

2018 EIM MEMBER SURVEY HIGHLIGHT

Over 95% of respondents agreed or strongly agreed that it was important for EIM to provide substantial excess insurance limits for the long term and to price its products so capacity remains stable.

Systems

Technology is an integral part of conversations surrounding the evolution of the midstream industry, and PAA has recognized the need to implement stronger, more secure and more efficient systems across the organization. "With the increase in competition that we expect in the years ahead, implementing highly effective processes and technologies will enable us to realize a competitive advantage and ensure we continue to be the partner of choice for our customers," said Spurlin.

"Plains has always enjoyed an entrepreneurial culture and we're leveraging the best aspects of that mindset to adapt the organization to a changing environment. This industry is always advancing, and we know we need to be forward-looking, creative and flexible in order to stay relevant. Our goal is to be the most respected midstream organization in North America, with the people, assets and systems that allow us provide the utmost in value-added services to our customers, and in doing so, deliver superior returns to our stakeholders," Spurlin concluded.

FINANCIALS AND NOTES TO THE FINANCIALS

The Financial Statements To This Annual Report Have Been Approved By The Board Of Directors Of Energy Insurance Mutual Limited.

Carter M. Reid | Chairman of the Board
March 1, 2019

Report of Independent Auditors

To the Audit Committee of the Board of Directors
Energy Insurance Mutual Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Energy Insurance Mutual Limited ("the Company") which comprise the balance sheets as of December 31, 2018 and 2017 and the related statements of income and comprehensive (loss) income, changes in policyholders' surplus and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the disclosures about short-duration insurance contracts on pages 31-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Johnson Lambert LLP

Jacksonville, Florida

February 27, 2019

Energy Insurance Mutual Limited
Balance Sheets

(Expressed in Thousands of U.S. Dollars)

	As of December 31, 2018	2017
Assets		
Investments, available-for-sale	$ 1,453,717	$ 1,492,113
Alternative investments	212,867	181,358
Investment in subsidiaries	4,266	3,690
Total investments	1,670,850	1,677,161
Cash and cash equivalents	60,416	8,105
Reinsurance recoverables on unpaid losses	264,056	225,579
Reinsurance recoverables on paid losses	1,364	3,094
Prepaid reinsurance premiums	32,553	40,352
Accrued investment income	7,519	7,785
Receivables for security sold	4,431	7,050
Premiums receivable	8,006	9,106
Deferred policy acquisistion costs	1,373	1,103
Income taxes recoverable	8,677	16,690
Due from (to) subsidiary	284	(11,744)
Other assets	1,361	1,530
Total assets	$ 2,060,890	$ 1,985,721

	As of December 31, 2018	2017
Liabilities and policyholders' surplus		
Liabilities:		
Reserve for losses and loss adjustment expenses	$ 695,969	$ 563,971
Unearned and advance premiums	121,310	126,979
Reinsurance premiums payable and funds held for reinsurers	7,640	8,488
Net deferred tax liability	39,296	61,383
Policyholder distributions payable	50,000	40,000
Accounts payable and accrued expenses	11,506	16,061
Total liabilities	925,721	816,882
Policyholders' surplus:		
Accumulated other comprehensive income	186,892	264,215
Members' account balance	948,277	904,624
Total policyholders' surplus	1,135,169	1,168,839
Total liabilities and policyholders' surplus	$ 2,060,890	$ 1,985,721

See accompanying notes to financial statements.

Energy Insurance Mutual Limited
Statements Of Income And Comprehensive (Loss) Income

(Expressed in Thousands of U.S. Dollars)

	Years ended December 31, 2018	Years ended December 31, 2017
Underwriting revenue		
Net premiums earned		
Direct and assumed premiums earned	$ 226,780	$ 221,057
Ceded premiums earned	(70,613)	(77,140)
Net premiums earned	156,167	143,917
Ceding commission income	2,166	2,393
Total underwriting revenue	158,333	146,310
Underwriting expenses		
Net losses and loss adjustment expenses		
Gross and assumed losses and loss adjustment expenses	190,964	75,670
Ceded losses and loss adjustment expenses	(77,797)	9,750
Net losses and loss adjustment expenses	113,167	85,420
Policy acquisition costs	2,148	1,944
Administrative expenses	8,998	12,620
Total underwriting expenses	124,313	99,984
Income from underwriting	$ 34,020	$ 46,326

	Years ended December 31, 2018	Years ended December 31, 2017
Investment income		
Net realized gain on investments sold	$ 32,936	$ 15,879
Net investment income	47,879	39,161
Total investment income	80,815	55,040
Income before policyholders' distribution and income taxes	114,835	101,366
Distributions to policyholders	(75,000)	(40,000)
Income tax benefit	3,818	28,765
Net income	$ 43,653	$ 90,131
Comprehensive (Loss) Income		
Net income	$ 43,653	$ 90,131
Net unrealized (losses) gains on available-for-sale securities, net of taxes of $(13,638) and $32,664, respectively	(51,303)	60,662
Less: reclassification adjustment for net gains realized in net income, net of taxes of $6,916 and $5,558, respectively	(26,020)	(10,321)
Other comprehensive (loss) income, net of taxes	(77,323)	50,341
Comprehensive (Loss) Income	$ (33,670)	$ 140,472

See accompanying notes to financial statements.

Energy Insurance Mutual Limited
Statements Of Changes In Policyholders' Surplus

(Expressed in Thousands of U.S. Dollars)

	Accumulated Other Comprehensive Income	Members' Account Balance	Total Policyholders' Surplus
Balance at January 1, 2017	$ 167,608	$ 861,299	$ 1,028,367
Other comprehensive income, net of taxes	50,341	-	50,341
Reclassification of stranded tax (Note A)	46,806	(46,806)	-
Net income	-	90,131	90,131
Balance at December 31, 2017	264,215	904,624	1,168,839
Other comprehensive loss, net of taxes	(77,323)	-	(77,323)
Net income	-	43,653	43,653
Balance at December 31, 2018	$ 186,892	$ 948,277	$ 1,135,169

See accompanying notes to financial statements.

Energy Insurance Mutual Limited
Statements Of Cash Flows

(Expressed in Thousands of U.S. Dollars)

	Years ended December 31, 2018	Years ended December 31, 2017
Net income	$ 43,653	$ 90,131
Cash flows from operating activities:		
Add (deduct) items not affecting cash:		
Depreciation	314	226
Amortization of bond premium or discount	2,133	3,865
Net realized investment gain	(32,936)	(15,879)
Deferred income taxes	(1,533)	(38,306)
Changes in operating assets and liabilities:		
Reinsurance recoverables on unpaid and paid losses	(36,747)	125,814
Prepaid reinsurance premiums	7,799	(908)
Premiums receivable	1,100	(920)
Reserve for losses and loss adjustment expenses	131,998	(109,906)
Unearned and advance premiums	(5,669)	5,154
Reinsurance premiums payable and funds held for reinsurers	(848)	(86)
Accounts payable and accrued expenses	(2,281)	703
Due (from) to subsidiaries	(12,028)	3,954
Policyholder distribution payable	10,000	15,000
Income taxes recoverable	8,013	(15,964)
Net cash from operations	$ 112,968	$ 62,878

	Years ended December 31, 2018	Years ended December 31, 2017
Cash flows from investing activities:		
Cost of investments purchased	$ (634,199)	$ (682,378)
Proceeds from sales of investments	472,566	555,794
Proceeds from maturities of investments	109,021	59,640
Change in amount due from purchase/sale of securities	345	(12,553)
Income from alternative investments	(7,553)	2,839
Equity in earnings of subsidiaries	(576)	(395)
Purchases of fixed assets	(171)	(1,006)
Net cash from investing	(60,567)	(78,059)
Cash flows from financing activities:		
Draws on line of credit	30,000	56,000
Repayments on line of credit	(30,000)	(72,500)
Net cash from financing	-	(16,500)
Net change in cash and cash equivalents	52,401	(31,681)
Cash and cash equivalents, beginning of year	8,015	39,696
Cash and cash equivalents, end of year	$ 60,416	$ 8,015
Supplemental disclosure of cash flow information:		
Income taxes paid, net of refunds	$ (11,478)	$ 13,600

See accompanying notes to financial statements.

Note A - Organization and Significant Accounting Policies

Organization

Energy Insurance Mutual Limited (the "Company" or "EIM") is a mutual insurance company incorporated in Barbados on June 13, 1986 and licensed as a Qualifying Insurance Company under Insurance Act Cap. 310 of the Laws of Barbados. On June 9, 1988 EIM was licensed by the State of Florida as an industrial insured captive insurance company. EIM operates as an eligible surplus lines insurer in all other states and the District of Columbia.

The Company is a mutual insurance company with membership 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. The Company also provides cyber liability coverage to its members.

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 Subsidiaries

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 ("MBPs"), 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 and neither EIS nor EIM has any obligation to absorb losses of the MBPs. Likewise, EIS has no right to the capital and accumulated profits of the MBPs cells. EIM does not have the power to direct the activities of the MBPs, which most significantly impact economic performance.

As of December 31, 2018, EIS has assets (exclusive of assets held in MBPs) of approximately $15.3 million, shareholder's equity of $3.5 million and net income of approximately $570,000. As of December 31, 2017, EIS had assets (exclusive of assets held in MBPs) of approximately $14.3 million, shareholder's equity of $2.9 million and net income of approximately $386,000.

The Company considers EIS a variable interest entity, which is not consolidated due to the lack of obligations, rights and powers described above. EIM accounts for its investment in EIS using the equity method of accounting because EIM is not the primary beneficiary of EIS' operations.

During 2015, EIM formed Energy Captive Management, LLC ("ECM") in the State of South Carolina to provide captive management services to EIS. As of December 31, 2018, ECM has assets of approximately $940,000, member's equity of $770,000 and net income of $13,000. As of December 31, 2017, ECM had assets of approximately $917,000, member's equity of $757,000 and net income of $10,000.

Investments

Management determines the appropriate classification of marketable 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. The Company releases the income tax effects from accumulated other comprehensive income as individual securities are sold or mature. Interest and dividends on securities classified as available-for-sale are included in net investment income. Declines in value judged to be other-than-temporary are included as realized losses in the statement of income and comprehensive (loss) income. The cost of securities sold is based on the specific identification method.

Alternative investments include interests in shares of investment funds, limited partnership funds and real estate funds ("the Funds"), which are considered non-marketable. Alternative investments are structured such that the Company holds interest in the Funds and not the underlying holdings of such Funds. The Company's ownership does not provide for control over the related investees, and financial risk is limited to the funded and unfunded commitment for each investment. These Funds are stated at fair value, which is from the most recently reported net asset value as reported by their investment managers or administrators. The Company has elected the fair value option with respect to the Funds, with all gains and losses associated with the Funds recorded directly to the statement of income and comprehensive (loss) income, as a component of net investment income. The use of net asset value as an estimate of the fair value for investments in certain entities that calculate the net asset value is a permitted practical expedient.

Note A - Organization and Significant Accounting Policies (Continued)

These alternative investment funds give investors the right, subject to predetermined redemption procedures, to redeem their investments at net asset value. Since the funds are not actively traded on an exchange, the fair values are subject to judgment and uncertainty.

The financial statements of the Funds are audited annually by independent auditors, although the timing for reporting the results of such audits may not coincide with the Company's financial reporting.

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 ("LAE") represents the estimated ultimate gross cost of all reported and unreported losses unpaid through December 31. 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 LAE is adequate. These estimates are periodically reviewed and adjusted as experience develops or new information becomes known. Such adjustments are included in current operations.

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 initially capitalized and 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, ceding commissions, loss reimbursement and reinsurance recoverables on unpaid claims are accounted for on a basis consistent with that used in accounting for the original policies or claims.

Management periodically reviews the financial condition of its existing reinsurers and concludes as to whether any allowance for uncollectible reinsurance is required. At December 31, 2018 and 2017, no such allowances were deemed necessary.

Deferred Policy Acquisition Costs

Commissions and other costs of acquiring insurance that are directly related to the successful acquisition 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.

The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated based on separate return calculations.

Policyholder Distributions

As a mutual insurer, EIM is owned by its policyholders. Policyholder distributions are released from excess surplus and are charged to income when declared by the Board of Directors. During 2018 and 2017, the Board of Directors approved the declaration of policyholder distributions in the amount of $75 million and $40 million, respectively.

Reclassifications

In 2017, the Company has elected to early adopt Accounting Standards Update 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* This update was issued directly in response to the Tax Cuts and Jobs Act of 2017, to alleviate certain stranded tax effects. As shown on the Statements of Changes in Policyholders' Surplus, this resulted in the Company reclassifying stranded taxes on net unrealized gains of $46.8 million between accumulated other comprehensive loss and members' account balance as of December 31, 2017.

Subsequent Events

The Company has evaluated subsequent events for disclosure and recognition through February 27, 2019, the date on which these financial statements were available to be issued.

Note B - Insurance Activity

Premium activity for 2018 and 2017 is summarized as follows *(in Thousands of U.S. Dollars):*

2018	Direct	Assumed	Ceded	Net
Premiums written	$ 217,054	$ 4,472	$ (79,134)	$ 142,392
Change in unearned premiums	5,855	(601)	8,521	13,775
Premiums earned	$ 222,909	$ 3,871	$ (70,613)	$ 156,167

2017	Direct	Assumed	Ceded	Net
Premiums written	$ 223,271	$ 3,687	$ (76,232)	$ 150,726
Change in unearned premiums	(6,028)	127	(908)	(6,809)
Premiums earned	$ 217,243	$ 3,814	$ (77,140)	$ 143,917

Activity in the liability for losses and LAE is summarized as follows *(in Thousands of U.S. Dollars):*

	2018	2017
Gross balance, beginning of year	$ 563,971	$ 673,877
Less: reinsurance recoverables on unpaid losses and LAE	(225,579)	(338,780)
Net balance, beginning of year	338,392	335,097
Incurred related to:		
Current year	158,000	150,707
Prior years	(44,833)	(65,287)
Total incurred	113,167	85,420
Paid related to:		
Current year	186	93
Prior years	19,460	82,032
Total paid	19,646	82,125
Net balance, end of year	431,913	338,392
Plus: reinsurance recoverables on unpaid losses and LAE	264,056	225,579
Gross balance, end of year	$ 695,969	$ 563,971

Note B - Insurance Activity (Continued)

During 2018, incurred losses and LAE attributable to events of prior years decreased by approximately $44.8 million. The favorable development of prior year losses related primarily to prior accident years 2016 and 2017, which decreased by approximately $53.7 million. Unfavorable development occurred in accident year 2015, which increased $11.2 million.

For the year ended December 31, 2017, incurred losses and LAE attributable to events of prior years decreased by approximately $65.3 million. The favorable development of prior year losses related primarily to prior accident years 2013, 2014, 2015 and 2016, which decreased by approximately $49M. Remaining favorable development of $16.3 million was due to all other accident years with varying redundancies.

The reconciliation of the net incurred and paid losses development tables to the liability for losses and LAE on the balance sheet as of December 31, 2018 is as follows *(in Thousands of U.S. Dollars):*

Net liabilities for unpaid losses and allocated LAE	$ 420,413
Reinsurance recoverables on unpaid losses and allocated LAE	264,056
Unallocated LAE	11,500
Gross liabilities for unpaid losses and LAE	$ 695,969

The following is information about incurred and cumulative paid losses and allocated LAE, net of reinsurance, total incurred-but-not-reported ("IBNR") liabilities plus expected development on reported claims, net of reinsurance and the cumulative number of reported claims as of December 31, 2018 *(in Thousands of U.S. Dollars, Except Number of Claims Data):*

Accident Year	Incurred	Cumulative Paid	IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2009	$ 121,369	$ 120,671	$ 698	210
2010	107,209	106,521	688	178
2011	11,753	10,712	869	209
2012	86,057	77,104	4,235	223
2013	125,340	106,280	9,235	221
2014	54,037	13,474	(1,308)	207
2015	169,930	142,445	26,292	212
2016	69,607	12,580	31,520	301
2017	112,609	2,270	65,189	253
2018	153,984	187	48,965	168
Total	$1,011,895	$ 592,244	$ 186,383	

Methodology for Determining Losses and LAE Reserves: With the assistance of a consulting actuary, generally accepted actuarial reserving techniques are utilized to project the estimate of ultimate losses and LAE at each reporting date.

Methodology for Determining Cumulative Number of Reported Claims: Cumulative number of reported claims include open and closed claims by accident year at the claimant level.

Note B - Insurance Activity (Continued)

The Company uses excess of loss reinsurance to protect against severe losses on the directors and officers, general partner, general liability and fiduciary liability books of business. After certain deductibles or retentions have been satisfied, the maximum amount that could be recoverable under the 2018 and 2017 reinsurance treaties is $240,000,000, with respect to general liability and $87,000,000 with respect to directors and officers, general partner and fiduciary liability.

Beginning in 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 in 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 2009, EIM entered into a Reinsurance Treaty Trust Account Agreement ("Trust") with NEIL to collateralize the losses and LAE due to EIM under reinsurance agreements. EIM has been listed as the beneficiary of the Trust. As of December 31, 2018 and 2017, the total fair value of the assets held in the Trust were $830,126,000 and $973,685,000, which collateralized $78,145,000 and $61,521,000 in reinsurance recoverables on losses and LAE, respectively.

During 2017, EIM entered into a reinsurance agreement with Oil Casualty Insurance Limited ("OCIL") whereby OCIL provided coverage for 60% of $25,000,000 in excess of $75,000,000 for all general liability policies issued during the year. The contract was not renewed for 2018 . During 2018, OCIL established a letter of credit to serve as collateral that named the Company as the beneficiary. OCIL secures the remainder of its obligations through a trust arrangement. As of December 31, 2018 and 2017, the combined collateral held in the trust and letter of credit were $42,989,000 and $52,299,000, which collateralized $37,799,000 and $35,281,000 in reinsurance recoverables on losses and LAE, respectively.

The Company writes directly and assumes certain members' cyber liability risk. A portion of this business is ceded to NEIL.

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 NEIL, OCIL, National Indemnity Company and various Lloyds of London syndicates, comprising 30%, 14%, 15% and 15%, respectively, of the balance at December 31, 2018. At December 31, 2017 the reinsurance recoverable on paid and unpaid losses due from NEIL, OCIL and various Lloyds of London Syndicates comprised of 27%, 16%, and 17%, respectively . The remaining balance is comprised of amounts due from various reinsurers, each not exceeding 12% of the total for 2018 and 2017.

Note C - Investments

As of December 31, 2018, the cost or amortized cost, gross unrealized gains, gross unrealized losses, other- than-temporarily impaired ("OTTI") and fair value of marketable fixed-maturity and equity securities are summarized as follows *(in Thousands of U.S. Dollars):*

2018	Cost or Amortized Cost	Other-than-temporarily Impaired	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury & agencies	$ 98,350	$ -	$ 1	$ (1,535)	$ 96,816
U.S. state and municipal obligations	385,186	-	13,449	(537)	398,098
Corporate debt securities	196,626	-	946	(3,022)	194,550
Mortgage-backed securities	357,089	(8,580)	3,650	(5,070)	347,089
Foreign government debt	2,063	-	23	(68)	2,018
Domestic equities	104,637	(1,599)	196,063	(5,434)	293,667
Foreign equities	83,648	(154)	45,005	(7,020)	121,479
Total investments	$ 1,227,599	$ (10,333)	$ 259,137	$ (22,686)	$ 1,453,717

As of December 31, 2017, the cost, gross unrealized gains, gross unrealized losses, other-than-temporarily impaired and fair value of marketable fixed-maturity and equity securities are summarized as follows *(in Thousands of U.S. Dollars):*

2017	Cost or Amortized Cost	Other-than-temporarily Impaired	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury & agencies	$ 90,378	$ -	$ 615	$ (403)	$ 90,590
U.S. state and municipal obligations	518,790	-	25,812	(156)	544,446
Corporate debt securities	132,326	-	2,192	(463)	134,055
Mortgage-backed securities	266,083	(9,798)	4,181	(2,134)	258,332
Foreign government debt	1,644	-	51	(13)	1,682
Domestic equities	81,161	(1,708)	240,531	(622)	319,362
Foreign equities	79,096	(186)	69,427	(4,691)	143,646
Total investments	$ 1,169,478	$ (11,692)	$ 342,809	$ (8,482)	$ 1,492,113

As of December 31, 2018, less than 1% of all debt securities have a below investment-grade bond rating by at least one nationally recognized credit rating agency or the equivalent.

Note C - Investments (Continued)

The Company's investment objective for equities is to emulate the returns of the S&P 900 and to a lesser extent the MSCI EAFE index for its domestic and international equity portfolios, respectively.

The cost and estimated fair value of fixed-maturity securities at December 31, 2018, by contractual maturity, are summarized below *(in Thousands of U.S. Dollars)*. 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 or Amortized Cost	Fair Value
Maturity:		
In 2019	$ 51,738	$ 51,649
In 2020-2024	211,739	210,709
In 2025-2029	211,728	212,151
Due after 2030	564,109	564,062
Total fixed-maturity securities	$ 1,039,314	$ 1,038,571

Gross gains of approximately $43,182,000 and $24,561,000 and gross losses of ($10,246,000) and ($8,682,000), during 2018 and 2017 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.

Impaired securities are assessed when the decline in fair value is below the amortized cost basis for a specified duration. OTTI losses are recorded in the statement of income and comprehensive income as 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. For the year ended December 31, 2018 and 2017, the Company determined that no investments were other-than-temporarily impaired.

Note C - Investments (Continued)

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 *(in Thousands of U.S. Dollars):*

	Less than one year		One year or more		Total	
2018	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury & agencies	$ 57,849	$ (764)	$ 18,971	$ (771)	$ 76,820	$ (1,535)
U.S. state and municipal obligations	45,334	(515)	1,950	(22)	47,284	(537)
Corporate debt securities	88,945	(2,059)	27,928	(963)	116,873	(3,022)
Mortgage-backed securities	102,187	(1,194)	121,667	(3,876)	223,854	(5,070)
Foreign government debt	1,002	(49)	532	(19)	1,534	(68)
Domestic equities	30,525	(5,134)	839	(300)	31,364	(5,434)
Foreign equities	5,925	(852)	54,214	(6,168)	60,139	(7,020)
Total temporarily impaired securities	$ 331,767	$ (10,567)	$ 226,101	$ (12,119)	$ 557,868	$ (22,686)

	Less than one year		One year or more		Total	
2017	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury & agencies	$ 63,795	$ (403)	$ 198	$ -	$ 63,993	$ (403)
U.S. state and municipal obligations	26,115	(48)	2,866	(108)	28,981	(156)
Corporate debt securities	49,180	(313)	8,979	(150)	58,159	(463)
Mortgage-backed securities	129,723	(842)	55,008	(1,292)	184,731	(2,134)
Foreign government debt	566	(13)	10	-	576	(13)
Domestic equities	4,005	(466)	1,222	(156)	5,227	(622)
Foreign equities	8,275	(709)	107,680	(3,982)	115,955	(4,691)
Total temporarily impaired securities	$ 281,659	$ (2,794)	$ 175,963	$ (5,688)	$ 457,622	$ (8,482)

As of December 31, 2018, the Company had 852 fixed-maturity securities with unrealized losses. This included two with aggregate unrealized losses of $7,944 which were 20% or greater than the cost. As of December 31, 2017, the Company had 657 fixed-maturity securities with unrealized losses. This included three with aggregate unrealized losses of $18,000, which were 20% or greater than the cost.

Note C - Investments (Continued)

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 the Company will not be required to sell the securities before recovery. The Company does not consider these securities to be other-than-temporarily impaired.

Of the 744 equity securities with unrealized losses, 58 with unrealized losses of $6,884,000 were 20% or greater than the cost and have been in a continuous loss position for longer than a year at December 31, 2018. Of the 486 equity securities with unrealized losses, 26 with unrealized losses of $1,250,000 were 20% or greater than the cost and have been in a continuous loss position for longer than a year at December 31, 2017. 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 the Company will not be required to sell the securities before recovery. The Company does not consider these securities to be other-than-temporarily impaired.

The composition of net investment income is summarized below *(in Thousands of U.S. Dollars):*

	2018	2017
Interest income	$ 34,807	$ 30,242
Dividend income	13,816	12,758
Income from subsidiaries	362	209
Income from alternative investments	3,633	409
Other	(26)	(27)
Gross investment income	52,592	43,591
Investment management fees	(4,669)	(4,251)
Interest expense	(44)	(179)
Net investment income	$ 47,879	$ 39,161

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.

Note C - Investments (Continued)

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.

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, 2018 *(in Thousands of U.S. Dollars):*

	Total	Level 1	Level 2	Level 3
Fixed-maturity	$ 1,038,571	$ -	$ 1,038,571	$ -
Equities	415,146	415,146	-	-
Total	$ 1,453,717	$ 415,146	$ 1,038,571	$ -

There were no transfers between fair value levels during 2018 and 2017.

EIM has policyholders who are also represented in the S&P 900. At December 31, 2018 and 2017, EIM holds investments with a total fair value of approximately $32 million and $37 million, respectively, in issuers who are also policyholders.

Note C - Investments (Continued)

The alternative investment funds include the following as of December 31 *(in Thousands of U.S. Dollars):*

	2018 Fair Value	2017 Fair Value	Redemption Frequency	Redemption Notice Period
Catastrophe reinsurance	$ 27,946	$ 19,305	Quarterly	90 days
High yield bank loan	87,510	72,738	Monthly	30 days
Core real estate	95,709	89,315	Quarterly	45 days
Industrial real estate	1,702	–	Quarterly	60 days
Total	$ 212,867	$ 181,358		

The catastrophe reinsurance class includes funds with investments primarily in portfolios of traditional reinsurance and other insurance-based investment instruments that have returns tied to property and casualty catastrophe risk. In addition, this class may hold cash, treasury bills and money market funds. The investors in this class have limited redemption rights that may be suspended from time to time.

The high yield bank loan class includes funds that invest in a diversified portfolio consisting primarily of direct or indirect interests in noninvestment grade, floating rate bank loans.

The real estate class includes three funds that invest primarily in industrial, retail, office and multifamily housing.

The fair values of all alternative investment fund classes have been estimated using the net asset value per share of investments. As of December 31, 2018 the Company had unfunded commitments of $13 million with the three real estate funds. No such commitments were made to the funds as of December 31, 2017.

Note D - Federal Income Taxes

The components of the provision for federal income taxes for the years ended December 31, 2018 and 2017 are as follows *(in Thousands of U.S. Dollars):*

	2018	2017
Current income tax benefit (expense)	$ 2,285	$ (9,541)
Deferred income tax benefit (expense)	1,533	(2,613)
Deferred income tax benefit - legislative rate change	-	40,919
Total income tax benefit	$ 3,818	$ 28,765

Deferred federal income taxes arise from temporary differences between the valuation of assets and liabilities as determined for financial reporting purposes and federal income tax purposes. As of December 31, 2017, the Company measured its deferred tax items at its effective tax rate of 21%. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law. The Act reduced the Company’s 2018 corporate federal tax rate from 35% to 21%, among other things. As a result of the Act, the Company’s temporary differences are measured at a rate of 21% as

Note D - Federal Income Taxes (Continued)

of December 31, 2018 and 2017. The Company previously applied the guidance of the SEC Staff Accounting Bulleting 118 when accounting for the tax effects of the Act in the 2017 financial statements. The Company has now completed its accounting for all of the tax effects of the Act and recognized an adjustment of $2.8 million in 2018 related to the provisional amounts recorded on December 31, 2017, of which $346,000 of tax expense has been recognized in 2018 and the remainder will be recognized over the next 7 years.

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 of U.S. Dollars):*

	2018	2017
Deferred tax assets:		
Unpaid losses and LAE	$ 5,394	$ 3,436
Unearned premiums	3,728	3,638
Accrued expenses	2,438	2,071
Other than temporary impairments	1,911	2,196
Total deferred tax assets	13,471	11,341
Deferred tax liabilities:		
Unrealized capital gains, net	(53,680)	(70,209)
Alternative investment income	2,091	(1,459)
Premium amortization	(664)	(592)
Other	(514)	(464)
Total deferred tax liabilities	(52,767)	(72,724)
Net deferred tax liability	$ (39,296)	$ (61,383)

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 investment income and enacted tax rate change from 35% to 21% beginning in 2018.

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. Management believes that it is more likely than not that the Company will realize the benefit of the deferred tax assets, therefore 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. Federal income taxes incurred by the Company are determined in accordance with the provisions of the Internal Revenue Code.

At December 31, 2018 and 2017, the Company determined there are no material unrecognized tax benefits, and no adjustments to liabilities or operations were required.

Note E - Related Party Transactions

As described in Note A, the Company has two subsidiaries, EIS and ECM. During 2018 and 2017, EIM provided reinsurance to certain EIS cells. For the years ended December 31, 2018 and 2017, premiums earned included $960,000 and $362,000 of premium assumed from EIS, respectively. During 2018, EIM ceded premiums earned of $165,000 to EIS. EIS reimburses ECM for certain expenses incurred related to administration of EIS, plus a service fee.

Note F - 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 LAE 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 G - 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 for 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 $150,000,000 or $5,400,000 plus 30% for liabilities arising from business on or after January 1, 1998. At December 31, 2018 and 2017, the balance in the trust fund was in excess of $150,000,000. 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 H - Line of Credit

The Company has a $75,000,000 line of credit used solely to fund claim payments that are subject to reinsurance recovery. As of December 31, 2018 and 2017, there was no outstanding balance on the line of credit. During 2018 and 2017, draws on the line of credit amounted to $30,000,000 and $56,000,000, respectively, and subsequent repayments amounted to $30,000,000 and $72,500,000, respectively.

Note I - Retiree Medical Benefits

The Company provides employees with a Post-Retirement 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. Employees hired after December 31, 2011, are required to contribute 50% of the medical plan COBRA rate, upon fulfilling the eligibility requirements under the Plan. Employees hired after June 1, 2017 are not eligible under the Plan. The Plan is unfunded.

The assumed discount rate used to determine the benefit obligation is 4.50% for 2018. The assumed healthcare cost trend rate is 6.2% for 2018, trending to 4.5% by 2037. The Company recognized a liability representing the actuarially determined accumulated post-retirement benefit obligation in the amount of $8,448,000 and $9,862,000 as of December 31, 2018 and 2017, respectively.

Note J - Margin of Solvency

In order to meet the requirements of a Qualifying Insurance Company under the Insurance Act Cap. 310 of the Laws of Barbados, the Company must have contributed reserves of $15 million. The policyholders' surplus provided an excess margin of solvency of approximately $1.1 billion at December 31, 2018.

The following is information about incurred and paid claims development, net of reinsurance for years ended December 31 *(in Thousands of U.S. Dollars)*.

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$ 79,351	$ 77,157	$ 45,819	$ 153,011	$ 138,768	$ 132,454	$ 123,470	$ 121,936	$ 121,486	$ 121,369
2010		116,915	112,363	103,530	102,072	113,639	110,480	108,453	107,382	107,209
2011			74,159	70,584	44,988	40,534	16,729	15,245	11,946	11,753
2012				118,098	98,195	114,696	101,068	89,380	87,776	86,057
2013					107,503	80,064	133,300	125,652	118,521	125,340
2014						104,082	74,447	66,923	57,845	54,037
2015							152,607	172,589	158,105	169,930
2016								101,671	87,042	69,607
2017									146,429	112,609
2018										153,984
Total										$ 1,011,895

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$ 979	$ 1,553	$ 2,019	$ 2,177	$ 113,881	$ 120,629	$ 120,635	$ 120,635	$ 120,671	$ 120,671
2010		721	79,976	81,026	81,541	81,690	81,496	81,513	106,520	106,521
2011			876	5,560	8,851	9,981	10,257	10,647	10,649	10,712
2012				1,210	6,132	9,324	38,781	40,039	72,804	77,104
2013					1,527	3,036	55,626	94,806	100,665	106,280
2014						1,450	1,986	2,398	13,411	13,474
2015							695	141,523	142,183	142,445
2016								483	6,555	12,580
2017									93	2,270
2018										187
Total										$ 592,244

Reconciliation of incurred to liabilities for losses and loss adjustment expenses, net of reinsurance:

Incurred losses and allocated loss adjustment expenses, net of reinsurance	$ 1,011,895
Less cumulative paid losses and allocated loss adjustment expenses, net of reinsurance	(592,244)
All outstanding liabilities before 2009, net of reinsurance	762
Liabilities for losses and loss adjustment expenses, net of reinsurance	$ 420,413

The following is the average historical claims duration as of December 31, 2018:

Average Annual Percentage Payout of Incurred Claims by Age

Years	1	2	3	4	5	6	7	8	9	10
	1.6%	24.0%	10.6%	13.8%	16.8%	10.3%	1.3%	7.9%	- %	- %

EIM DIRECTORS

AS OF DECEMBER 31, 2018

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National Grid, Brooklyn, New York


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G. Edison Holland, Jr.


Armando Pimentel, Jr.


M. Bridget Reidy


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AS OF DECEMBER 31, 2018

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Lynwood D. Wade, Manager, Corporate Risk
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Michael G. McFarland Vice Chairman


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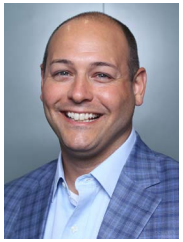
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Dean R. Jobko


Marianna Michael


Ronald D. Rispoli


Stephanie S. Rogers


Roni A. Salo


Forrest L. Strachan


Denise E. Straka


D. Timothy Underwood


Lynwood D. Wade

EIM, EIS AND ECM OFFICERS

AS OF DECEMBER 31, 2018


Carter M. Reid


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Scott K. Goodell


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G. Thomas Bolton, III


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Kevin R. Wolff


Taniyka D. Ragland


Trevor A. Carmichael


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Tobias P. Burke


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Jeffrey M. Tkacz
Controller and
Corporate Secretary

Taniyka D. Ragland
Assistant Corporate Secretary

Kevin R. Wolff
Assistant Corporate Secretary

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AS OF DECEMBER 31, 2018

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Alliant Energy Corporation
Ameren Corporation
American Electric Power Service Corporation
American States Water Company
Apache Corporation
Associated Electric Cooperative, Inc.
Atmos Energy Corporation
Avangrid, Inc.
Avista Corporation
Basin Electric Power Cooperative
Berkshire Hathaway Energy Company f/k/a MidAmerican Energy Holdings Company
Black Hills Corporation
British Columbia Hydro and Power Authority
California Independent System Operator Corporation
Calpine Corp.
CenterPoint Energy, Inc.
Central Arizona Water Conservation District
Chesapeake Energy Corporation
Chugach Electric Association, Inc.
Citizens Energy Group
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City Public Service of San Antonio, Texas
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Cleco Corporate Holdings LLC
CMS Energy Corporation
Colorado Springs Utilities
Consolidated Edison Company of New York, Inc.
Cooperative Energy
Crestwood Equity Partners, LP
Dairyland Power Cooperative
Deseret Generation & Transmission Cooperative
Devon Energy Corporation
District of Columbia Water and Sewer Authority
Dominion Energy, Inc.
Doyon Utilities, LLC
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DTE Energy Company
Duke Energy Corporation
East Kentucky Power Cooperative, Inc.
Edison International
El Paso Electric Company
Electric Reliability Council of Texas, Inc.
Emera Incorporated
Enable Midstream Partners, LP
Enbridge Inc.
Energir, Inc.
Energy Transfer Equity, L.P.
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Equitrans Midstream Corporation
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Exelon Corporation
FirstEnergy Corp.
FortisUS Inc.
GenOn Holdings, LLC
GenOn Mid-Atlantic, LLC
Great River Energy
Hawaiian Electric Industries, Inc.
Heorot Power Holdings LLC
Hydro One Limited
Hydro-Quebec
IDACORP, Inc.
Imperial Irrigation District
Intermountain Power Agency/Intermountain Power Service Corporation
Iroquois Gas Transmission System, LP
ISO New England
JEA and FPL d/b/a St. Johns River Power Park
Kinder Morgan, Inc.
LDC Funding LLC
Long Island Power Authority
Los Angeles Dept. of Water and Power
Magellan Midstream Partners, LP
MDU Resources Group, Inc.
Metropolitan Water District of Southern California
MGE Energy, Inc.
Midcontinent Independent System Operator, Inc.
Missouri Basin Municipal Power Agency d/b/a Missouri River Energy Services
Modesto Irrigation District
Mountaineer Gas Company
National Fuel Gas Company
National Grid plc
New Jersey Resources Corporation
New York Independent System Operator, Inc.
New York Power Authority
NextEra Energy, Inc.
NiSource Inc.
Northern California Power Agency
Northwest Natural Gas Company
NorthWestern Corporation
NRG Energy, Inc.
OGE Energy Corp.
Oglethorpe Power Corporation
Ohio Valley Electric Corporation
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Omaha Public Power District
Oncor Electric Delivery Holdings Company LLC
ONE Gas, Inc.
ONEOK, Inc. & ONEOK Partners, LP
Ontario Power Generation Inc.
PG&E Corporation
Philadelphia Gas Works
Pinnacle West Capital Corporation
PJM Interconnection, LLC
Plains All American Pipeline, L.P.
PNM Resources, Inc.
Portland General Electric Company
PowerSouth Energy Cooperative
PPL Corporation
Public Service Enterprise Group Incorporated
Public Utility District No. 1 of Chelan County
Public Utility District No. 1 of Snohomish County
Public Utility District No. 2 of Grant County, WA
Public Utility District No.1 of Douglas County
Public Utility Risk Management Services Joint Self Insurance
Puget Holdings LLC
QEP Resources, Inc.
RGC Resources, Inc.
Sacramento Municipal Utility District
Salt River Project Agricultural Improvement and Power District
SCANA Corporation
SEMCO Holding Corporation
Seminole Electric Cooperative, Inc.
Sempra Energy
South Carolina Public Service Authority (Santee Cooper)
Southern Company
Southern Star Central Corp.
Southwest Gas Holdings, Inc.
Southwest Power Pool, Inc.
Spire Inc.
STP Nuclear Operating Company
Talen Energy Corporation
Tallgrass Energy Holdings
Targa Resources Corp.
Tennessee Valley Authority
The Board of Public Utilities of the City of Springfield, Missouri dba City Utilities of Springfield
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UGI Corporation
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