NEW FRONTIERS TRUSTED PARTNERSHIPS

2017 ANNUAL REPORT

EIM®
ENERGY INSURANCE MUTUAL

EIM

2017

ANNUAL REPORT

CONTENT

THE POWER OF PARTNERSHIPS IN DYNAMIC TIMES

A MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

The 2018 Risk Managers Information Meeting embraced the theme, “New Frontiers - Trusted Partnerships.” This theme reflects the ongoing, transformative changes in the insurance and energy industries, and captures the power of trusted partnerships in successfully meeting these challenges.

The energy industry is exploring the new frontiers occasioned by the ongoing expansion of renewable energy, the exponential growth of battery storage capabilities, and the adoption of game-changing initiatives such as distributed generation. At the same time, the industry must continue to address aging infrastructure and ongoing industry consolidation.

On the insurance front, a sustained soft market for property and D&O lines prevails, while insurers prepare for increasingly frequent and broadened cyberattacks. These attacks involve both personal data and hard assets, such as control systems, pipelines, and electric grids. To further complicate matters, many insurers are also grappling with the impact of recent natural catastrophes, including hurricanes, floods, and earthquakes.

Trusted partnerships have long represented the cornerstone of EIM’s operations. Transparency, trust, and confidence provide the foundation for enduring relationships that have collectively met the challenges of new frontiers. We’re confident that the continued collaboration between EIM, our Member Companies, and the company’s business partners will leave us well-positioned to help identify and address emerging risk management needs, both today and tomorrow.

Successfully navigating new frontiers requires well-capitalized organizations. In 2017, EIM achieved strong results, growing surplus by 14% from $1.03 billion to $1.17 billion, and nearing $2 billion in total assets. Both underwriting and investment activities contributed to this growth, with underwriting achieving a net loss ratio of 59% for the year. When added to EIM’s 8% net expense ratio, this resulted in a net combined loss ratio of 67%.

The investment portfolio of $1.6 billion returned 9%, more than double the 2017 budget. This return was coupled with a $41 million, one-time favorable adjustment to deferred taxes triggered by the Tax Cuts and Jobs Act of 2017. As a result, EIM’s comprehensive income—after taxes and a $40 million distribution to Member Companies—totaled $140 million. With the record $40 million distribution declared by the Board for the 2017 fiscal year, a 60% increase from 2016, EIM has now returned more than $320 million to Member Companies since its inception. We are committed to sustaining and, when prudent, increasing EIM’s annual distribution.

Although we continue to see energy industry consolidation—four transactions involving eight EIM members were completed or announced in 2017—EIM maintained consistent written premium, which should remain essentially flat for 2018. Over the next two years, EIM expects written premium growth of 2-4%, driven by new business and expansion of existing lines such as cyber, and anticipates stable premiums over the long term. Those Member Companies who have experienced losses, however, will see larger premium adjustments commensurate with their loss experience.

EIM's strong capital position and consistent underwriting approach have enabled the company to actively work with Member Companies to identify and implement solutions for cyber, wildfire, and renewable energy risks. These include expansion of existing cyber limits and creation of bespoke solutions for members facing risks that are difficult to place in the commercial market.

December 31, 2017 policyholders' surplus at $1.17 billion, a 14% increase year over year.

As members tackle emerging risks, EIM will continue to work with risk managers, the Insurance Advisory Committee (IAC), and the Board of Directors to fashion meaningful responses. For example, EIM and Energy Insurance Services, Inc. (EIS), EIM's wholly-owned South Carolina protected cell captive insurer, are working together to offer coordinated coverage for general liability, directors & officers, and property towers of insurance. By accessing traditional excess of loss capacity in tandem with a protected cell solution, members can achieve greater cost efficiencies, enhance control over risk mitigation and loss control activities, and design manuscripted coverages specifically tailored to the individual company's risk management needs.

We are particularly proud that EIS was recently recognized as the "Captive Insurer of the Year" by the Captive Insurance Companies Association. This is a great honor for EIS and a testament to the exceptional products and services EIS and Energy Captive Management, LLC, provide to Member Companies.

Net underwriting income of $46.3 million for the 12-month period ending 12/31/17.

Speaking of members, they represent the company's most trusted partners. EIM was formed more than 30 years ago by a consortium of 17 utility companies seeking more stable and enduring capacity and pricing for D&O and general liability coverages. These original 17 partners have grown to today's membership total of 155, which now includes both utility and energy services companies. We are pleased that the company's 2017 membership retention rate again exceeded 95% (exclusive of mergers and acquisitions) as it has since EIM was founded.

Member Company support for EIM's core excess insurance products at existing limits and attachment points is integral to the company's ongoing strength and stability. This support not only supplies the critical mass necessary to continue offering limits of $100 million in general liability, $50 million in D&O, $25 million in fiduciary, and $35 million in property, but also provides the foundation for EIM's sound corporate governance. EIM's Board of Directors, comprised of senior executives from Member Companies, provides invaluable leadership on the company's strategic direction and long-term goals and objectives.

Complementing EIM's Board is the IAC, made up of Member Company risk managers. The committee regularly advises EIM on operational matters such as coverage terms and conditions,

policy issuance, claims administration, and emerging risk management needs. The partnership between the Board, the IAC, and EIM ensures that short-term tactical and longer-term strategic direction remain consistent, well-reasoned, and responsive to membership needs.

With more than $2.4 billion in gross claim payments made to members since 1986, EIM recognizes that a critical component of its partnership with Member Companies is the willingness and ability to pay covered claims in a timely fashion. While 2017 was a relatively benign year in terms of loss activity, with only $105 million in newly established claim reserves, EIM expects to see a more active loss year in 2018. This will be driven by natural catastrophes that moved through the insurance markets in late 2017, as well as statewide California wildfires.

Given the volatility inherent in EIM's excess of loss portfolio, EIM is mindful to maintain sufficient capital to pay covered losses, even in the most extreme loss scenarios. EIM's risk capacity—a measure of the company's ability to withstand a 1:200 year loss event and still maintain an A rating from A.M. Best—ended 2017 above its 100% target. This buffer provides ample ability to pay covered claims, even in extraordinary events such as a systemic loss impacting multiple Member Companies. We expect to see the risk capacity measure trend downward toward 100% over the next two years as EIM brings on new business, expands existing lines of business, and returns capital to our Member Companies.

In addition to Member Company partnerships, EIM has also partnered with other mutuals, particularly Nuclear Electric Insurance Limited (NEIL) and Oil Casualty Insurance Limited (OCIL), to share risk on general liability, D&O, property, and cyber coverages. These relationships—along with the hundreds of professionals ranging from actuaries to brokers to reinsurers, to name just a few—support EIM on a daily basis. This collaboration, coupled with the hard work and dedication of member-focused EIM staff, ensures the company's ongoing resiliency and responsiveness.

The three vignettes included in this year's annual report highlight the power of partnerships, particularly in the context of exploring, understanding, and effectively addressing the new challenges posed by evolving landscapes. Whether it is Member Company collaboration, coordination with state and federal agencies, or interaction with academics, working in tandem offers a strong foundation for conquering new frontiers.

22% increase in surplus over the last three years at December 31, 2017.

Quite simply, new frontiers and trusted partnerships go hand in hand. EIM is well-positioned to work together with Member Companies and business partners to successfully meet the challenges, address the threats, and capitalize on the opportunities presented by these dynamic times.

SCOTT K. GOODELL

PRESIDENT AND CHIEF EXECUTIVE OFFICER

RETIREE MEDICAL FUNDING IN PROGRAM 15

PARTNERING TO FIND COST EFFICIENCIES

Mutual Business Program #15 (MBP 15) is one of Energy Insurance Service, Inc.'s (EIS) longest running programs. This unique protected cell within EIS operates like a group captive to insure medical obligations for retirees. After 20 years in operation, the program continues to save participants on their retiree medical costs by funding obligations in a tax-efficient manner.

There are currently five participating EIM Members in MBP 15. As of December 31, 2017, MBP 15 assets totaled $271 million.

The assets within MBP 15 reimburse the Voluntary Employee Beneficiary Associations (VEBAs) of participating companies for retiree medical claims incurred. Because the policy is classified as life insurance, these assets receive tax-free investment growth. This has saved participants millions of dollars over the previous two decades.

Mark Smith,
VP Treasury, One Gas

"ONE Gas has benefited in multiple ways from its participation in MBP 15. MBP 15 has been an excellent way for ONE Gas to tax-efficiently meet its regulatory funding requirements. Working collaboratively with our peers has been an added bonus."

Why Do Companies Choose Not To Fund Retiree Medical?

Retiree medical plan sponsors have traditionally funded retiree medical benefits through pay-as-you-go funding. This means they pay current retiree benefits without any advance funding.

Tom King of Spring Consulting Group, the primary actuary for MBP 15, offers this explanation: "The main reason for not funding retiree medical obligations is that it is typically inefficient, compared to pre-funding defined benefit pension plans. If a retiree medical plan is pre-funded through a VEBA, the investment income from that funding incurs Unrelated Business Income Tax (UBIT)—provided the obligations are for non-bargained employees. As a result, most plan sponsors choose not to pre-fund."

"For eligible companies that provide retiree health benefits, joining MBP 15 can save as much as 10% of the total retiree medical obligation over the long term."

Tom King,
Spring Consulting Group

The MBP 15 Solution

MBP 15 writes reimbursement policies for its Members, covering a portion of retiree medical claims each year. These policies are called Non-Cancellable Accident & Health policies. They are treated as life insurance for tax purposes. Due to this tax treatment, the investment income within the policy is tax-sheltered, as long as the policy is held until the obligations are fulfilled.

At inception, MBP 15 operated with an IRS Private Letter Ruling. This ruling was superseded by the issuance of IRS Revenue Ruling 2014-15. According to Tom King, these rulings affirm that the program meets risk-shifting requirements, since the retiree health benefits provided by the plan are spread across a large group of retirees.

MBP 15 stands as a shining example of Member Companies partnering to meet shared challenges.

GRIDEX

EXPLORING CYBER RISK'S EXPANDING FRONTIERS

In 2011, the North American Electric Reliability Corporation (NERC) conducted its initial sector-wide grid security exercise, GridEx 2011. The exercise was designed to simulate a cyber/physical attack on electric and other critical North American infrastructures, with the goals of assessing readiness for response to cyber incidents, hardening crisis response capabilities, and identifying areas for improvement.

Seventy-five utility and government organizations participated in GridEx 2011, including many EIM Member Companies. Bulk power system (BPS) entities included generation and transmission facilities, Reliability Coordinators, independent system operators, and balancing authorities. Key government agencies taking part included the Department of Homeland Security, the Federal Bureau of Investigation, and the Department of Energy. The GridEx exercise has continued on a biennial basis, with GridEx II conducted in November 2013, GridEx III in November 2015, and GridEx IV in November 2017.

While the GridEx IV report has not yet been published, the March 2016 GridEx III report highlights how the exercise has evolved over the last six years. More than 4,400 individuals from 364 organizations, including industry, law enforcement, and government agencies, participated in GridEx III. This made it the largest geographically distributed grid security exercise to date.

Like its predecessors, the third biennial grid security and emergency response exercise provided an opportunity for the energy industry to respond to simulated cyber and physical attacks. The exercise consisted of a two-day distributed play exercise, with a separate six-hour tabletop exercise on the second day. Key objectives included: (1) exercising crisis response and recovery; (2) improving communication; (3) identifying lessons learned; and (4) engaging senior leadership.

Ron Rispoli, Director of Risk and Insurance at Entergy Services, noted, "We have found the GridEx biennial exercises valuable because they present theoretical cyber and physical invasions to the grid, which then require participants to apply real world solutions."

> "By engaging our three lines of defense that include cyber and physical security, operations, and senior management resources across the organization, we are better positioned to detect, respond to and neutralize attacks."

Ron Rispoli
Director, Risk & Insurance, Entergy Services

As part of its first objective, GridEx III sought to increase the number of participants in the exercise, while increasing the extent to which organizations employed cyber, physical, and operations responses. With an increase of more than 130 organizations and 800 individuals from GridEx II, the 2015 exercise met NERC's first objective. Equally important, 84% of participating companies reported exercising cyber response plans, while 92% confirmed implementation of physical security response protocols. Ninety-eight percent of participants reported accessing operational security response procedures.

With regard to the second goal of improved communication, NERC sought to enhance internal communications processes, increase the level of communication with Reliability Coordinators and neighboring organizations, heighten interaction with law enforcement and other government agencies, and strengthen communication procedures with NERC's E-ISAC and Bulk Power System Awareness. To this end, the "Very Well" responses from participants increased by 20% for internal communication, 17% for communication with Reliability Coordinators, 11% for government entity interaction, and 14% for E-ISAC and BPSA interchange.

NERC noted that it had received a total of 25 lessons-learned reports, reflecting 24% of the actively participating utilities. Although these submissions were shared without attribution to a specific company, they provided the foundation for improvements to future exercises focused on enhanced response to cyber and physical attacks.

The six-hour tabletop exercise, introduced for the first time in GridEx III, successfully engaged senior management and highlighted the significance of information sharing between the industry, consumers and government entities.

"Having participated in the GridEx exercise for several years, we have learned the importance of collaboration, cooperation, and communication during a crisis with other key organizations in our industry, public safety, and government," said John Spink, National Grid Vice President of Control Center Operations.

> "Not only does this improve our ability to respond effectively, but it also helps strengthen our internal processes and better prepares us to handle real-world emergencies, such as the series of severe storms we experienced during the winter of 2018."

John Spink,
National Grid,
VP of Control
Center Operations

Forrest Strachan, Risk Manager at PJM Interconnection, had this to say: "In recognition of our commitment to be the electric industry leader in reliable operations and efficient wholesale markets, GridEx offers PJM the opportunity to confirm the strengths of our cyber security procedures while identifying weaknesses that can then be promptly addressed."

> "GridEx provides the opportunity to capitalize on the adage that 'practice makes perfect.' "

Forrest Strachan,
Risk Manager,
PJM Interconnection

GridEx provides a collaborative forum for like-minded participants from various professions and disciplines to share ideas and coordinate expertise for the benefit of enhanced grid security.

KNOWLEDGE IS POWER: THE ENERGY SCHOOL

Launched in 2007, The Energy School is a customized education program intended to enhance the knowledge and skills of young, up-and-coming industry professionals and future leaders. Sponsoring companies and their attendees understand that professional development is not only vital for maintaining success and leadership, but that symposia such as the The Energy School better position attendees to meet the evolving risk management challenges within the energy industry. The Energy School helps perpetuate lifelong learning and instill values that inspire people to achieve more.

In particular, The Energy School curriculum focuses on relevant areas of risk management, providing an intensive and challenging educational forum—one specifically customized to the energy industry. Classroom-based sessions include presentations, facilitated peer discussions, exercises, case studies, presentations, and vital team work.

The School began as the brainchild of the chief executives of three energy mutual companies: Nuclear Energy Insurance Limited (NEIL), Oil Insurance Limited (OIL), and Energy Insurance Mutual (EIM). Initially established at the Bauer School of Management at the University of Houston, it has since relocated. The Energy School currently resides at Florida State University (FSU), which also houses one of the oldest and highest ranking insurance and risk management programs in the nation. In 2016, Associated Electric and Gas Insurance Services (AEGIS) came on board as a program co-sponsor.

"The school allowed me to see different risk management perspectives by working on cases different than my day-to-day function or industry. Also, attending the School alongside such a diverse and experienced group of individuals was invaluable."

R. Paige Miller,
Senior Analyst,
Corporate Insurance
NiSource Corporate Services

One attendee noted that, "The collaborative efforts with risk management, the mutuals, and broker[s] are extremely important in completing the class case studies. This translates well to our daily efforts."

A Challenging Curriculum

Some of the essential lessons The Energy School instills in its participants include:

- A big picture view of managing energy industry risk
- An understanding of the unique, shared risk management issues, challenges, and opportunities
- Insight into key areas of risk management discipline, as well as self-assessment of the role, responsibility, and competencies required
- How to actively apply what's learned in ways that will enhance job performance

- Strengthening competencies that will help risk managers support their companies and embrace challenges and changes within the industry
- Taking part in real-world scenarios and case study exercises
- Exploring opportunities and challenges with experts and colleagues
- Gaining a unique perspective of a rapidly changing energy environment
- Acquiring additional skills to adapt to upcoming industry challenges

In addition to the above, all attendees are provided with multiple opportunities to build meaningful relationships with industry experts and peers. The School's environment is designed to foster knowledge sharing, applied learning, introspection, interaction, camaraderie, and professional networking.

"I thoroughly enjoyed collaborating with my fellow risk managers, our energy mutuals, and brokers on risk issues that we all commonly share in the industry. This experience has served me well in my daily efforts to better manage risk."

Jason Tan,
Treasury Portfolio Manager, BC Hydro

Earning High Marks for Effectiveness

To find out how successfully The Energy School achieved its initial objectives, 2016 participants provided feedback through an anonymous survey.

Attendees at the 2016 Energy School

In addition to some excellent recommendations regarding new course offerings, students responded favorably to the School's curriculum. Nearly 90% rated the current courses either somewhat or highly effective. Courses receiving the highest marks in this area included Ethics, Catastrophe Loss Analytics, and Captive Solutions.

When asked about the effectiveness of the team case study, many of the respondents cited the opportunity to interact with other Energy School participants as a key benefit. "Practice in the management of a work challenge within key time constraints" also earned high marks among respondents.

In an industry marked by change, where energy generation, transmission, and distribution are shifting from fossil fuels to renewables and focusing increasingly on more localized, two-way transmission and distribution of power, The Energy School provides an excellent setting to explore new risk management strategies, share experiences in providing responsive solutions, and collectively address the evolving risk management landscape.

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.

Marian M. Durkin | Chairman of the Board
March 1, 2018

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, 2017 and 2016 and the related statements of income and comprehensive 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, 2017 and 2016, 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 29-30 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 28, 2018

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

	As of December 31, 2017	As of December 31, 2016
Assets		
Investments, available-for-sale	$ 1,492,113	$ 1,355,647
Alternative investments	181,358	164,040
Investment in subsidiaries	3,690	3,295
Total investments	1,677,161	1,522,982
Cash and cash equivalents	8,105	39,696
Reinsurance recoverables on unpaid losses	225,579	338,780
Reinsurance recoverables on paid losses	3,094	15,707
Prepaid reinsurance premiums	40,352	39,444
Accrued investment income	7,785	7,236
Receivables for security sold	7,050	2,685
Premiums receivable	9,106	8,186
Deferred policy acquisistion costs	1,103	1,105
Income taxes recoverable	16,690	726
Other taxes	1,530	809
Total assets	$ 1,997,465	$ 1,977,356

	As of December 31, 2017	As of December 31, 2016
Liabilities and policyholders' surplus		
Liabilities:		
Reserve for losses and loss adjustment expenses	$ 563,971	$ 673,877
Unearned and advance premiums	126,979	121,825
Reinsurance premiums payable and funds held for reinsurers	8,488	8,574
Net deferred tax liability	61,383	72,365
Policyholder distributions payable	40,000	25,000
Accounts payable and accrued expenses	13,779	12,588
Line of credit	-	16,500
Payables for securities purchased	2,282	10,470
Due to subsidiaries	11,744	7,790
Total liabilities	828,626	948,989
Policyholders' surplus:		
Accumulated other comprehensive income	264,215	167,068
Members' account balance	904,624	861,299
Total policyholders' surplus	1,168,839	1,028,367
Total liabilities and policyholders' surplus	$ 1,997,465	$ 1,977,356

See accompanying notes to financial statements.

ENERGY INSURANCE MUTUAL LIMITED

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Expressed in Thousands of U.S. Dollars)

	Years ended December 31, 2017	Years ended December 31, 2016
Underwriting revenue		
Net premiums earned		
Direct and assumed premiums earned	$ 221,057	$ 222,951
Ceded premiums earned	(77,140)	(83,124)
Net premiums earned	143,917	139,827
Ceding commission income	2,393	2,421
Total underwriting revenue	146,310	142,248
Underwriting expenses		
Net losses and loss adjustment expenses		
Gross and assumed losses and loss adjustment expenses	75,670	123,118
Ceded losses and loss adjustment expenses	9,750	(28,161)
Net losses and loss adjustment expenses	85,420	94,957
Policy acquisition costs	1,944	2,273
Administrative expenses	12,620	10,559
Total underwriting expenses	99,984	107,789
Income from underwriting	$ 46,326	$ 34,459

	Years ended December 31, 2017	Years ended December 31, 2016
Investment income		
Net realized gain on investments sold	$ 15,879	$ 12,426
Other-than-temporary impairments	-	(126)
Net investment income	39,161	49,295
Total investment income	55,040	61,595
Income before policyholders' distribution and income taxes	101,366	96,054
Distributions to policyholders	(40,000)	(25,000)
Income tax benefit (expense)	28,765	(17,271)
Net income	$ 90,131	$ 53,783
Comprehensive income		
Net income	$ 90,131	$ 53,783
Net unrealized gains on available-for-sale securities, net of taxes of $32,664 and $5,456, respectively	60,662	10,133
Less: reclassification adjustment for net gains realized in net income, net of taxes of $5,558 and $4,305, respectively	(10,321)	(7,995)
Other comprehensive income, net of taxes	50,341	2,138
Comprehensive income	$ 140,472	$ 55,921

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, 2016	$ 164,930	$ 807,516	$ 972,446
Other comprehensive income, net of taxes	2,138	-	2,138
Net income	-	53,783	53,783
Balance at December 31, 2016	167,068	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

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, 2017	Years ended December 31, 2016
Net income	$ 90,131	$ 53,783
Cash flows from operating activities:		
Add (deduct) items not affecting cash:		
Depreciation	226	150
Amortization of bond premium or discount	3,865	4,141
Net realized investment gain	(15,879)	(12,300)
Deferred income taxes	(38,306)	3,580
Changes in operating assets and liabilities:		
Reinsurance recoverables on unpaid and paid losses	125,814	47,753
Prepaid reinsurance premiums	(908)	4,190
Premiums receivable	(920)	(740)
Reserve for losses and loss adjustment expenses	(109,906)	(165,345)
Unearned and advance premiums	5,154	850
Reinsurance premiums payable and funds held for reinsurers	(86)	(11,557)
Accounts payable and accrued expenses	703	979
Due to subsidiaries	3,954	7,661
Policyholder distribution payable	15,000	5,000
Income taxes recoverable	(15,964)	1,111
Net cash from operations	$ 62,878	$ (60,744)

	Years ended December 31, 2017	Years ended December 31, 2016
Cash flows from investing activities:		
Cost of investments purchased	$ (682,378)	$ (548,234)
Proceeds from sales of investments	555,794	542,854
Proceeds from maturities of investments	59,640	18,152
Change in amount due from purchase/sale of securities	(12,553)	5,437
Income from alternative investments	2,839	(9,882)
Equity in earnings of subsidiaries	(395)	(136)
Purchases of fixed assets	(1,006)	(276)
Net cash from investing	(78,059)	7,915
Cash flows from financing activities:		
Draws and repayments on line of credit	(16,500)	16,500
Net cash from financing	(16,500)	16,500
Net change in cash and cash equivalents	(31,681)	(36,329)
Cash and cash equivalents, beginning of year	39,696	76,025
Cash and cash equivalents, end of year	$ 8,015	$ 39,696
Supplemental disclosure of cash flow information:		
Income taxes paid, net of refunds	$ 13,600	$ 2,877

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. Pursuant to its Florida license, the Company is authorized to write excess insurance in all 50 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. During 2015, the Company started providing 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, 2017, EIS has 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. As of December 31, 2016, EIS had assets (exclusive of assets held in MBPs) of approximately $10.6 million, shareholder's equity of $2.5 million and net income of approximately $277,000.

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, 2017, ECM has assets of approximately $917,000, member's equity of $757,000 and net income of $10,000. As of December 31, 2016, ECM had assets of approximately $915,000, member's equity of $747,000 and net income of $25,000.

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. 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 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 estimated 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, 2017 and 2016, 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 2017 and 2016, the Board of Directors approved the declaration of policyholder distributions in the amount of $40 million and $25 million, respectively.

Reclassifications

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 income and members' account balance.

Subsequent Events

The Company has evaluated subsequent events for disclosure and recognition through February 28, 2018, the date on which these financial statements were available to be issued.

Note B - Insurance Activity

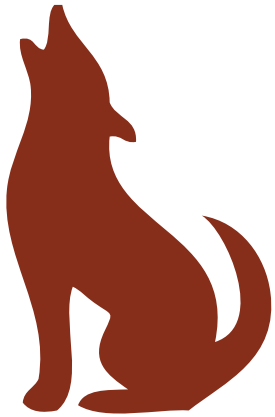
Premium activity for 2017 and 2016 is summarized as follows *(in Thousands of U.S. Dollars):*

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

2016	Direct	Assumed	Ceded	Net
Premiums written	$ 217,863	$ 4,831	$ (87,314)	$ 135,380
Change in unearned premiums	1,570	(1,313)	4,190	4,447
Premiums earned	$ 219,433	$ 3,518	$ (83,124)	$ 139,827

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

	2017	2016
Gross balance, beginning of year	$ 673,877	$ 839,222
Less: reinsurance recoverables on unpaid losses and LAE	(338,780)	(402,203)
Net balance, beginning of year	335,097	437,019
Incurred related to:		
Current year	150,707	106,091
Prior years	(65,287)	(11,134)
Total incurred	85,420	94,957
Paid related to:		
Current year	93	483
Prior years	82,032	196,396
Total paid	82,125	196,879
Net balance, end of year	338,392	335,097
Plus: reinsurance recoverables on unpaid losses and LAE	225,579	338,780
Gross balance, end of year	$ 563,971	$ 673,877



Note B - Insurance Activity (Continued)

During 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 $49 million. Remaining favorable development of $16.3 million was due to all other accident years with varying redundancies.

For the year ended December 31, 2016, incurred losses and LAE attributable to events of prior years decreased by approximately $11.1 million. The favorable development of prior year losses related to prior accident years exclusive of 2003, 2005 and 2015 of approximately $39.6 million. Accident years 2003, 2005 and 2015 experienced unfavorable development totaling approximately $28.5 million.

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, 2017 is as follows *(in Thousands of U.S. Dollars):*

Net liabilities for unpaid losses and allocated LAE	$ 326,892
Reinsurance recoverables on unpaid losses and allocated LAE	225,579
Unallocated LAE	11,500
Gross liabilities for unpaid losses and LAE	$ 563,971

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, 2017 *(in Thousands of U.S. Dollars, Except Number of Claims Data):*

Accident Year	Incurred	Cumulative Paid	IBNR Plus Expected	Cumulative Number
2008	$ 51,081	$ 50,044	$ 1,033	184
2009	121,486	120,671	815	209
2010	107,382	106,520	862	178
2011	11,946	10,649	1,100	209
2012	87,776	72,804	1,771	223
2013	118,521	100,665	8,901	219
2014	57,845	13,411	3,361	206
2015	158,105	142,183	14,614	208
2016	87,042	6,555	78,321	298
2017	146,429	93	113,562	228
Total	$ 947,613	$ 623,595	$ 224,340	

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 2017 and 2016 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.

During 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, 2017 and 2016, the total fair value of the assets held in the Trust were $973,685,000 and $901,682,000, which collateralized $61,521,000 and $72,378,000 in reinsurance recoverables on losses and LAE, respectively.

During 2017 and 2016, EIM entered into a reinsurance agreement with Oil Casualty Insurance Limited ("OCIL") whereby OCIL provides coverage for 60% of $25,000,000 in excess of $75,000,000 for all general liability policies issued during the year. OCIL secures its obligations through a trust arrangement. As of December 31, 2017 and 2016, the total fair value of the assets held in the trust were $52,299,000 and $52,081,000, which collateralized $35,281,000 and $68,977,000 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 and various Lloyds of London syndicates, comprising 27%, 16%, and 17%, respectively, of the balance at December 31, 2017 and 21%, 20%, and 19%, respectively, at December 31, 2016. The remaining balance is comprised of amounts due from various reinsurers, each not exceeding 12% of the total for 2017 and 2016.

Note C - Investments

As of December 31, 2017, 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):*

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, 2016, the cost or amortized 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):*

2016	Cost or Amortized Cost	Other-than-temporarily Impaired	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury & agencies	$ 79,066	$ -	$ 336	$ (384)	$ 79,018
U.S. state and municipal obligations	488,654	-	18,796	(698)	506,752
Corporate debt securities	103,682	-	1,819	(976)	104,525
Mortgage-backed securities	247,639	(10,015)	3,690	(2,413)	238,901
Foreign government debt	3,234	-	23	(50)	3,207
Domestic equities	100,707	(2,259)	193,737	(787)	291,398
Foreign equities	88,553	(202)	54,326	(10,831)	131,846
Total investments	$ 1,111,535	$ (12,476)	$ 272,727	$ (16,139)	$ 1,355,647

Note C - Investments (Continued)

The Company's investment guidelines require 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.

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, 2017, 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 2018	$ 39,096	$ 39,027
In 2019-2023	211,198	212,682
In 2024-2028	176,430	180,844
Due after 2029	582,497	596,552
Total fixed-maturity securities	$ 1,009,221	$ 1,029,105

Gross gains of approximately $24,561,000 and $26,187,000 and gross losses of ($8,682,000) and ($13,761,000), during 2017 and 2016 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, 2017, the Company determined that no investments were other-than-temporarily impaired. For the year ended December 31, 2016, the Company determined that one fixed maturity security of approximately $126,000 was 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	
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)

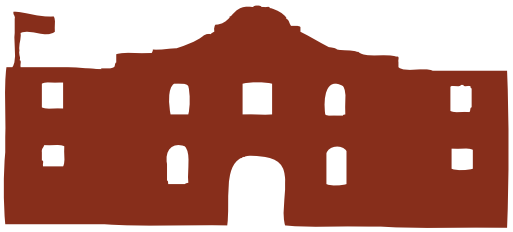
	Less than one year		One year or more		Total	
2016	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury & agencies	$ 42,092	$ (384)	$ -	$ -	$ 42,092	$ (384)
U.S. state and municipal obligations	67,600	(694)	182	(4)	67,782	(698)
Corporate debt securities	42,838	(933)	1,455	(43)	44,293	(976)
Mortgage-backed securities	126,227	(1,737)	31,381	(676)	157,608	(2,413)
Foreign government debt	1,463	(50)	-	-	1,463	(50)
Domestic equities	5,746	(577)	49	(210)	5,795	(787)
Foreign equities	24,182	(2,198)	91,896	(8,633)	116,078	(10,831)
Total temporarily impaired securities	$ 310,148	$ (6,573)	$ 124,963	$ (9,566)	$ 435,111	$ (16,139)

Note C - Investments (Continued)

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. As of December 31, 2016, the Company had 568 fixed-maturity securities with unrealized losses. This included five with aggregate unrealized losses of $88,600, which were 20% or greater than the cost.

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 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. Of the 716 equity securities with unrealized losses, 86 with unrealized losses of $3,382,000 were 20% or greater than the cost and have been in a continuous loss position for longer than a year at December 31, 2016. 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):*

	2017	2016
Interest income	$ 30,242	$ 29,721
Dividend income	12,758	13,490
Income from subsidiary	209	71
Income from alternative investments	409	10,401
Other	(27)	7
Gross investment income	43,591	53,690
Investment management fees	(4,251)	(4,218)
Interest expense	(179)	(177)
Net investment income	$ 39,161	$ 49,295

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, 2017 *(in Thousands of U.S. Dollars):*

	Total	Level 1	Level 2	Level 3
Fixed-maturity	$ 1,029,105	$ -	$ 1,029,105	$ -
Equities	463,008	463,008	-	-
Total	$ 1,492,113	$ 463,008	$ 1,029,105	$ -

There were no transfers between fair value levels during 2017 and 2016.

EIM has policyholders who are also represented in the S&P 900. At December 31, 2017 and 2016, EIM holds investments with a total fair value of approximately $37 million and $46.3 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):*

	2017 Fair Value	2016 Fair Value	Redemption Frequency	Redemption Notice Period
Catastrophe reinsurance	$ 19,305	$ 10,825	Quarterly	45 days
High yield bank loan	72,738	69,926	Monthly	30 days
Core real estate	89,315	83,289	Quarterly	45 days
Total	$ 181,358	$ 164,040		

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 investments 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 core real estate class includes two core real estate 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, 2017 and 2016, the Company did not have any unfunded commitments.

Note D - Federal Income Taxes

The components of the provision for federal income taxes for the years ended December 31, 2017 and 2016 are as follows *(in Thousands of U.S. Dollars):*

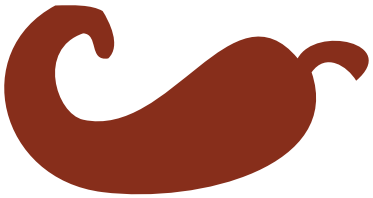
	2017	2016
Current income tax expense	$ (9,541)	$ (13,691)
Deferred income tax expense	(2,613)	(3,580)
Deferred income tax benefit - legislative rate change	40,919	-
Total income tax benefit (expense)	$ 28,765	$ (17,271)

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 and are measured at enacted tax rates. As of December 31, 2016, the Company measured its deferred tax items at its effective tax rate of 35%. 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 deferred tax items are measured at a rate of 21% as of December 31, 2017.

Note D - Federal Income Taxes (Continued)

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):*

	2017	2016
Deferred tax assets:		
Unpaid losses and LAE	$ 3,436	$ 6,256
Unearned premiums	3,638	5,767
Accrued expenses	2,071	3,191
Other than temporary impairments	2,196	4,453
Total deferred tax assets	11,341	19,667
Deferred tax liabilities:		
Unrealized capital gains, net	(70,209)	(89,761)
Alternative investment income	(1,459)	(859)
Premium amortization	(592)	(969)
Other	(464)	(443)
Total deferred tax liabilities	(72,724)	(92,032)
Net deferred tax liability	$ (61,383)	$ (72,365)



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, 2017 and 2016, 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 2017 and 2016, EIM provided reinsurance to certain EIS cells. For the years ended December 31, 2017 and 2016, premiums earned included $362,000 and $564,000 of premium assumed from EIS, respectively. 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, 2017 and 2016, 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, 2017 and 2016, $0 and $16,500,000, respectively, was outstanding on the line of credit. During 2017 and 2016, draws on the line of credit amounted to $56,000,000 and $46,500,000, respectively, and subsequent repayments amounted to $72,500,000 and $30,000,000, 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. The Plan is unfunded. Employees hired after June 1, 2017 are not eligible under the Plan.

The assumed discount rate used to determine the benefit obligation is 4.65% for 2017. The assumed healthcare cost trend rate is 6.6% for 2017, trending to 4.5% by 2037. The Company recognized a liability representing the actuarially determined accumulated post-retirement benefit obligation in the amount of $9,862,000 and $9,118,000 as of December 31, 2017 and 2016, respectively.

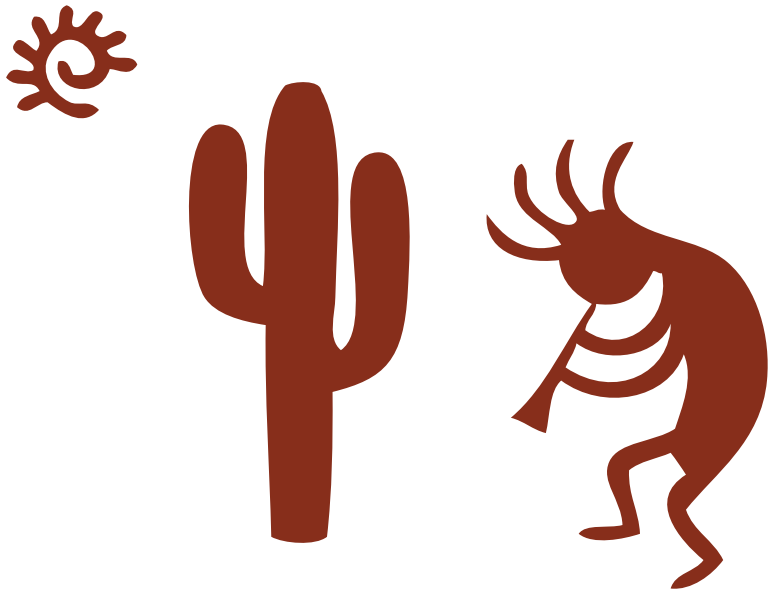
Note J - Margin of Solvency

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 $16 million. The policyholders' surplus provided an excess margin of solvency of approximately $1.2 billion at December 31, 2017.

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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2008	$ 94,389	$ 76,883	$ 83,435	$ 80,905	$ 56,767	$ 59,800	$ 56,389	$ 52,007	$ 51,021	$ 51,081
2009		79,351	77,157	45,819	153,011	138,768	132,454	123,470	121,936	121,486
2010			116,915	112,363	103,530	102,072	113,639	110,480	108,453	107,382
2011				74,159	70,584	44,988	40,534	16,729	15,245	11,946
2012					118,098	98,195	114,696	101,068	89,380	87,776
2013						107,503	80,064	133,300	125,652	118,521
2014							104,082	74,447	66,923	57,845
2015								152,607	172,589	158,105
2016									101,671	87,042
2017										146,429
Total										$ 947,613



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

Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2008	$ 2,307	$ 6,547	$ 14,350	$ 27,008	$ 32,109	$ 48,938	$ 50,004	$ 50,025	$ 50,037	$ 50,044
2009		979	1,553	2,019	2,177	113,881	120,629	120,635	120,635	120,671
2010			721	79,976	81,026	81,541	81,690	81,496	81,513	106,520
2011				876	5,560	8,851	9,981	10,257	10,647	10,649
2012					1,210	6,132	9,324	38,781	40,039	72,804
2013						1,527	3,036	55,626	94,806	100,665
2014							1,450	1,986	2,398	13,411
2015								695	141,523	142,183
2016									483	6,555
2017										93
Total										$ 623,595

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

Incurred losses and allocated loss adjustment expenses, net of reinsurance	$ 947,613
Less cumulative paid losses and allocated loss adjustment expenses, net of reinsurance	(623,595)
All outstanding liabilities before 2008, net of reinsurance	2,874
Liabilities for losses and loss adjustment expenses, net of reinsurance	$ 326,892

The following is the average historical claims duration as of December 31, 2017:

Average Annual Percentage Payout of Incurred Claims by Age

Years	1	2	3	4	5	6	7	8	9	10
	2.0%	25.1%	11.7%	17.2%	18.4%	15.8%	0.5%	7.8%	- %	- %

EIM DIRECTORS

AS OF DECEMBER 31, 2017

Marian M. Durkin, SVP, General Counsel, Corporate Secretary and Chief Compliance Officer
Avista Corporation, Spokane, Washington

Carter M. Reid, EVP – Chief Administrative & Compliance Officer and Corporate Secretary
Dominion Energy, Inc., Richmond, Virginia

Darryl M. Bradford, Executive Vice President and General Counsel (Retired)
Exelon Corporation, Chicago, Illinois

Marcus V. Brown, Executive Vice President and General Counsel
Entergy Corporation, New Orleans, Louisiana

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

Benjamin G. S. Fowke, III, Chairman, President, and Chief Executive Officer
Xcel Energy Inc., Minneapolis, Minnesota

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

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

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Mississippi Power Company, Gulfport, Mississippi

Armando Pimentel, Jr., President and Chief Executive Officer
NextEra Energy Resources, LLC, Juno Beach, Florida

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

Brian X. Tierney, Executive Vice President & Chief Financial Officer
American Electric Power Service Corporation, Columbus, Ohio


Marian M. Durkin, Chairman


Carter M. Reid, Vice Chairman


Darryl M. Bradford


Marcus V. Brown


Trevor A. Carmichael


Benjamin G.S. Fowke, III


Scott K. Goodell


James R. Hatfield


G. Edison Holland, Jr.


Armando Pimentel, Jr.


Joseph M. Rigby


Brian X. Tierney

BOARD COMMITTEES

AS OF DECEMBER 31, 2017

AUDIT COMMITTEE

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Brian X. Tierney (Vice Chairman)
G. Edison Holland, Jr.
Armando Pimentel, Jr.
Joseph M. Rigby

CLAIMS COMMITTEE

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G. Edison Holland, Jr. (Vice Chairman)
Darryl M. Bradford
Marcus V. Brown
Marian M. Durkin

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Marian M. Durkin (Chairman)
Carter M. Reid (Vice Chairman)
Benjamin G. S. Fowke, III
Scott K. Goodell
Brian X. Tierney

INVESTMENT COMMITTEE

James R. Hatfield (Chairman)
Armando Pimentel, Jr. (Vice Chairman)
Benjamin G. S. Fowke, III
Brian X. Tierney

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G. Edison Holland, Jr. (Vice Chairman)
Scott K. Goodell
Joseph M. Rigby

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Benjamin G. S. Fowke, III (Vice Chairman)
Marcus V. Brown
Scott K. Goodell
Armando Pimentel, Jr.

INSURANCE ADVISORY COMMITTEE

AS OF DECEMBER 31, 2017

Dean R. Jobko, Director – Risk Management & Insurance
NRG Energy, Houston, Texas

Edsel L. Carlson, Risk Manager
TECO Energy, Inc., Tampa, Florida

Robert A. Green, Insurance & Risk Manager
PSE&G, Newark, New Jersey

Michael G. McFarland, Director, Enterprise Risk Management
Great River Energy, Maple Grove, Minnesota

Ronald Rispoli, Director, Risk & Insurance
Entergy Services, Russellville, Arkansas

Stephanie S. Rogers, Director, Risk & Insurance
Plains All American Pipeline, Houston, Texas

Roni A. Salo, Risk Manager, Insurance Services
ALLETE, Inc., Duluth, Minnesota

Jessica L. Shultz, Corporate Director, Business Risk & Insurance
EQT Corp., Pittsburgh, Pennsylvania

Forrest L. Strachan, Risk Manager
PJM Interconnection, LLC, Norristown, Pennsylvania

D. Timothy Underwood, Director, Insurance Risk Management
CMS Energy Corporation, Jackson, Michigan

Lynwood D. Wade, Manager, Corporate Risk
Dominion Energy Services, Inc., Richmond, Virginia

Dean R. Jobko, Chairman

Edsel L. Carlson, Vice Chairman

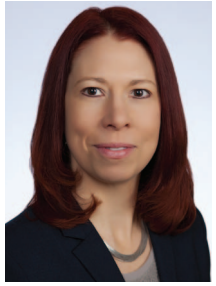
Robert A. Green

Michael G. McFarland

Ronald Rispoli

Stephanie S. Rogers

Roni A. Salo



Jessica L. Shultz

Forrest L. Strachan

D. Timothy Underwood

Lynwood D. Wade

EIM OFFICERS

AS OF DECEMBER 31, 2017

Marian M. Durkin

Carter M. Reid

Scott K. Goodell

Jill C. Dominguez

George Thomas Bolton, III

Ann M. Joslin

Kevin R. Wolff

Taniyka D. Ragland

Trevor A. Carmichael

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Chairman of the Board

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Vice Chairman of the Board

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President and Chief Executive Officer

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Vice President – Chief Underwriting Officer

George Thomas Bolton, III
Vice President – Chief Financial Officer

Ann M. Joslin
Vice President – Claims

Kevin R. Wolff
General Counsel and Secretary

Taniyka D. Ragland
Assistant Corporate Secretary

Trevor A. Carmichael
Assistant Corporate Secretary

EIS AND ECM OFFICERS

AS OF DECEMBER 31, 2017

Randall L. Martin

Tobias P. Burke

Jeffrey M. Tkacz

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Vice Chairman

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President and Chief Executive Officer

Randall L. Martin
Vice President – Chief Operating Officer

George Thomas Bolton, III
Vice President – Chief Financial Officer

Kevin R. Wolff
General Counsel and Secretary

Taniyka D. Ragland
Assistant Corporate Secretary

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Chairman

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Vice Chairman

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President and Chief Executive Officer

Randall L. Martin
Vice President – Chief Operating Officer

George Thomas Bolton, III
Vice President – Chief Financial Officer

Tobias P. Burke
Vice President – Chief Accounting Officer

Jeffrey M. Tkacz
Controller and Corporate Secretary

Taniyka D. Ragland
Assistant Corporate Secretary

EIM MEMBERS

AS OF DECEMBER 31, 2017

AES Corporation (The)
Algonquin Power & Utilities Corp.
ALLETE, Inc.
Alliant Energy Corporation
American Electric Power Service Corporation
American Transmission Company LLC
Apache Corporation
Associated Electric Cooperative, Inc.
Atmos Energy Corporation
Avangrid, Inc.
Avista Corporation
Basin Electric Power Cooperative
Berkshire Hathaway Energy Company (MidAmerican Energy Holdings Co.)
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
City of Richmond, Department of Public Utilities
City Public Service of San Antonio, Texas
City Utilities of Springfield, Missouri
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
DQE Holdings LLC
DTE Energy Company
Duke Energy Corporation
Dynegy Inc.
East Kentucky Power Cooperative, Inc.
Edison International
El Paso Electric Company
Electric Reliability Council of Texas, Inc.
Electric Transmission Texas, LLC
Emera Incorporated
Enable Midstream Partners, LP
Enbridge Inc.
Energen Corporation
Energir, Inc.
Energy Transfer Equity, L.P.
Entergy Services, Inc.
EOG Resources, Inc.
EQT Corporation
Eversource Energy
Exelon Corporation
FirstEnergy Corp.
Florida Municipal Power Agency
FortisUS Inc.
Great Plains Energy Incorporated
Great River Energy
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Heorot Power Holdings LLC
Hoosier Energy Rural Electric Cooperative Inc.
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 Inc.
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 (US) Holdings Ltd
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.
NRG Yield, Inc.
OGE Energy Corp.
Oglethorpe Power Corporation
Ohio Gas Company
Ohio Valley Electric Corporation
Old Dominion Electric Cooperative
Oncor Electric Delivery Holdings Company LLC
ONE Gas, Inc.
ONEOK, Inc.
Ontario Power Generation Inc.
Otter Tail Corporation
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. 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
Sharyland Utilities, L.P.
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, LLC
Targa Resources Corp.
Tennessee Valley Authority
TransCanada Corporation
Tri-State Generation and Transmission Association, Inc.
UGI Corporation
Vectren Corporation
Vermont Electric Power Company, Inc.
Vistra Energy Corp.
WEC Energy Group, Inc.
Westar Energy, Inc.
WGL Holdings, Inc.
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WPX Energy, Inc.
Xcel Energy Inc

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