

A CONVERSATION WITH EIM'S  
CHAIRMAN, CARTER REID  
pages 2-4

AI—A SMART MOVE FOR  
ENERGY pages 5-7

2018—DEVELOPING AS  
PLANNED  
page 8

EIM WELCOMES NEW  
IAC MEMBERS  
page 9

EIM WELCOMES NEW  
MEMBER COMPANY page 10

RMIM REMINDER page 10

CONGRATULATIONS TO  
DANIEL NELSON ON FIVE  
YEARS WITH EIM page 11

Q3 2018 FINANCIALS  
page 12



AI - A SMART MOVE  
FOR ENERGY

A CONVERSATION WITH  
CARTER REID

DEVELOPING  
AS PLANNED

A CONVERSATION WITH EIM'S  
CHAIRMAN, CARTER REID  
pages 2-4

AI—A SMART MOVE FOR  
ENERGY pages 5-7

2018—DEVELOPING AS  
PLANNED  
page 8

CONGRATULATIONS  
TO DANIEL NELSON  
ON 5 YEARS WITH EIM

EIM WELCOMES NEW  
MEMBER COMPANY,  
AMEREN

EIM WELCOMES NEW  
IAC MEMBERS  
page 9

EIM WELCOMES NEW  
MEMBER COMPANY page 10

RMIM REMINDER page 10

EIM WELCOMES  
NEW IAC MEMBERS

RMIM ANNOUNCEMENT

Q3 2018  
FINANCIAL  
REPORT

CONGRATULATIONS TO  
DANIEL NELSON ON FIVE  
YEARS WITH EIM page 11

Q3 2018 FINANCIALS  
page 12



**Carter Reid**  
Chairman of the Board

*Carter Reid is the executive vice president and chief administrative and compliance officer for Dominion Energy, a charter EIM Member Company since EIM's founding in 1986. Carter was elected to the EIM Board in May 2012. In May 2018, Carter was elected Chair of EIM's Board of Directors. As she closes in on her first year of leadership, we thought we would get her perspective on EIM and its role within the energy industry.*

### **What prompted you to join the EIM Board?**

I was approached by EIM in 2011 about the possibility of joining the Board. I am fortunate to be a part of a company like Dominion Energy that emphasizes giving back to the communities where we do business, as well as to our industry as a whole. I felt that service on a mutual insurance company Board, focusing on the energy community, was a worthwhile endeavor. Tom Farrell, our CEO at Dominion, was fully supportive of my role at EIM and endorsed it from the start. We value EIM and other mutuals, including AEGIS and NEIL, and appreciate what they do to ensure availability of a stable and consistent suite of insurance products and services.

### **What about EIM stands out to you as Board Chair?**

There are four driving principles that have always defined EIM. The first is member focus. Everything EIM does must always consider what is in the best interest of the Member Companies. If an initiative does not add value to members, we are probably not going to pursue it. Second, EIM needs a strong financial base from which to operate. I also subscribe to the notion that the energy-focused mutual insurers should take a long-term view of their operations, focusing on financial stability, consistent core coverages and prompt claim payments. Third, it is important that EIM have an infrastructure in place that enables it to operate efficiently. This means maintaining up-to-date processes and systems that enable EIM staff to effectively support EIM members. Finally, a company is only as good as the people who run it. I have always been struck by the longevity and commitment of EIM staff, particularly with respect to the underwriting team. They know the business, they know the members, and they have longstanding relationships that extend over decades. Couple this with the experience and talent amongst other professionals at EIM, and you have a dedicated team that is singularly focused on excellence.

### **How is EIM doing regarding these four principles?**

On member focus and financial strength, EIM is doing exceptionally well. EIM has enjoyed consistent growth in surplus over the last nine years, while controlling year-on-year premiums to modest increases, particularly for those members who are loss-free. I think that Member Company loyalty remains high, even in the face of ongoing industry

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consolidation. In the past two years, EIM has returned almost \$100 million in capital to members and anticipates, at a minimum, similar levels of distributions in the coming years.

The company has also achieved success on its infrastructure and people goals. EIM recently upgraded its information technology infrastructure and implemented several IT initiatives designed to make the company more efficient and user friendly. EIM has also focused on ongoing education and professional development to ensure that EIM staff continue to be knowledgeable and well-trained. The company remains committed to a diverse and inclusive work environment, which includes encouraging business partners to champion diversity and inclusion as part of their day-to-day operations as well.

### **What, in your view, are the opportunities and challenges facing EIM?**

There are a number challenges facing EIM and its mutual company peers, reflecting some of the key risks faced by Member Companies. But with challenges come opportunities as well.

Some of the challenges have a long past, like upgrading outdated infrastructure and addressing an aging industry workforce. Others like cyber security and renewable energy offer more current challenges. These challenges present opportunities for Member Companies to undertake infrastructure modernization programs, to hire diverse and innovative employees to join their experienced workforce, and to invest in renewable energy, along with the needed infrastructure behind renewables, all designed to ensure reliable energy to customers.

Others, like newly emerging technologies associated with electric vehicles, distributed generation and battery storage present exciting opportunities for our members, but also bring an entirely new set of risk management challenges. These opportunities and challenges are arising as industry consolidation continues, changing the number and characteristics of energy industry participants. It's important that EIM stay focused on all of these issues and work closely with the Board, Insurance Advisory Committee (IAC) and Member Company risk managers to ensure that it continues to provide meaningful risk management solutions. This will be particularly important as technological advances introduce new risks that require new or expanded coverages.

### **You've mentioned collaboration as a key component to meeting challenges. What role does collaboration play in EIM's success?**

Collaboration is critically important in business, and nowhere more so than at EIM. First, EIM is a relatively small company, with about 25 employees. To truly sustain the critical mass necessary to meet tomorrow's challenges, EIM needs to collaborate with trusted partners who can augment existing resources and fill gaps where EIM does not have internal expertise. Second, working cooperatively opens the door to the experiences, insights and varied perspectives of others, which can only enhance the process of innovation and development. Finally, working collaboratively provides a platform for more diverse thinking and a broader array of potential solutions. I am a strong proponent of the mutual system and, as an essential component of mutuality,

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*(continued from page 3)*

companies working together to fashion solutions that deliver value to members.

I have witnessed firsthand the collaboration at the Board level, as we work to maintain and enhance EIM's value proposition to the membership. Equally, if not more, important is the contribution of the IAC members who work very closely with EIM staff to ensure that the company remains focused, relevant and responsive.

**What are some noteworthy achievements that you have experienced while at EIM?**

I am pleased that EIM remains member-focused and has worked to respond to member's risk management needs. Whether it is enhanced cyber limits, expanded general liability capacity or securitization of difficult-to-place risks like California wildfire, adding value to members stands at the forefront of EIM's long- and short-term decision making. I also applaud EIM's slow and steady growth over the last nine years. The company is as strong as it has ever been from a financial perspective, growing surplus to almost \$1.2 billion, while regularly providing capital returns to members. Each of these factors points to a strong, stable organization, well-positioned to meet members' risk management needs.

**Do you have any personal goals as EIM's Chairman?**

EIM is a great company with a terrific Board and IAC. I think it is important that we engage in a constant learning process that includes a continuous and transparent dialogue with members. Mutual insurers like

EIM were formed to help members identify and meet new challenges in an evolving industry. I think that all of us working together can continue to meet this goal. If I have one wish, it's that, at the end of my tenure, the company will remain responsive to Member Company needs, continue to be financially secure, operate efficiently, effectively and transparently, and that it will embrace a diverse and inclusive workplace. If this goal is met, and I firmly believe it will be, then the Board will have done its job. EIM has made great progress over the years, and I'm confident that it will continue to do so in the future.



**“Open the pod bay doors, HAL.”**

“I’m sorry, Dave. I’m afraid I can’t do that.

This mission is too important for me to allow you to jeopardize it.”

*2001 Space Odyssey*



Any discussion of artificial intelligence (AI) invariably leads to forecasts of AI devices developing human cognitive functions and creating the ultimate AI world, a place where humans become the subjects of the very technology they created. While science fiction authors have capitalized on this “world turned upside down” scenario, and while a rogue HAL or a rampaging TERMINATOR may make for blockbuster sci-fi movies, the reality is that these outcomes are just that, science fiction. In fact, AI is far more mundane than Hollywood suggests and has been

gaining traction in numerous industries. This includes slowly moving into the energy space, where AI has the potential to provide substantial operational efficiencies and cost savings.

AI, in its simplest form, is intelligence demonstrated by machines. Essentially, AI is comprised of devices that can perceive an environment and take appropriate steps to reach a desired outcome. While lacking the full cognitive ability associated with the human mind, AI can be used to address functions such as repetitive tasks or the manual integration of distinct data sets, executing them more quickly, more accurately and more frequently.

In a 2017 blog post to university graduates, Bill Gates tweeted, *“If I were starting out today and looking for the same kind of opportunity to make a big impact in the world, I would consider three fields. One is artificial intelligence. We have only begun to tap into all the ways it will make people’s lives more productive and creative. The second is energy, because making it clean, affordable and reliable will be essential for fighting poverty and climate change. The third is biosciences, which are ripe with opportunities to help people live longer, healthier lives.”* In less than 280 words, Gates highlighted the significance of AI and energy and the potential for extraordinary change that exists at the crossroads of these two fields.

Whether dealing with generation, transmission or distribution, the energy industry is intensely data driven. Advances in computing power, coupled with the introduction of the smart grid, provide utilities with an incredible cache of data that can be mined to better understand, anticipate and

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manage the energy cycle of production, distribution and use. Much of today's available data goes unused or only partially harvested, with data extraction often undertaken in arrears on a manual basis. This requires significant time, resources and analysis.

AI has the potential to impact utilities in at least three basic areas: (1) failure maintenance; (2) grid stability; and (3) operational efficiencies. Advances in one or more of these areas would have a profound impact on energy conservation and help lower costs.

### **Failure Maintenance**

For many years now, manufacturing facilities have been implementing AI to better predict equipment and system failure, enabling them to proactively address potential downtime before failures occur. Similar steps can be taken in the utility industry. For example, preventive maintenance can be undertaken by using drones for asset inspections, replacing time consuming and risky manual inspections. These drones can be programmed using deep learning algorithms that automatically identify defects and predict failures without interrupting operations.

This new forecasting approach, also known as predictive maintenance, uses a variety of internal and external data such as the age and type of the power assets, maintenance logs and failure statistics, as well as real-time information, such as the current load behavior. The resulting forecasts introduce completely new possibilities for the maintenance of the network infrastructure.

AI proponents see AI as the brain of smart grids of the future. Franklin Wolfe, a Ph.D. student at Harvard, has blogged:

*“The technology will continuously collect and synthesize overwhelming amounts of data from millions of smart sensors nationwide to make timely decisions on how to best allocate energy resources. Additionally, the advances made from ‘deep learning’ algorithms, a system where machines learn on their own from spotting patterns and anomalies in large data sets, will revolutionize both the demand and supply side of the energy economy.”*

By identifying potential sources of failure, the number of faults and failures can be reduced, because the sources of a defect can be eliminated before the predicted failure occurs.

### **Grid Stability**

As the use of smart meters continues to grow, AI will be able to constantly monitor electricity demand and supply. This will allow operators to actively manage flow and avoid disruptions. It is conceivable that AI sensors would communicate with the grid and modify electricity use during off-peak times, better balancing the workload of the grid and lowering prices for consumers. As an example, AI could adjust smart grids to lower fossil fuels usage if algorithms detect an abundance of renewable energy on particularly windy or sunny days.

Some utilities are already using AI applications to improve awareness, efficiency and maintenance of resources, such as natural gas plants, solar farms and grid systems—all of which produce huge amounts of data. Using algorithms designed to continuously monitor output, AI can

*(continued on page 7)*



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adjust operating parameters at machine speed, making the system run more efficiently.

In September 2017, the United States Department of Energy granted a research award to researchers at Stanford University to use artificial intelligence to improve grid stability. By programming AI with past data on power fluctuations and weak spots on the grid, the new “autonomous grid” will be able to more seamlessly respond to grid interaction with different loads of energy, tweaking its adjustable parts to increase efficiency. The eventual goal is an autonomous grid that seamlessly absorbs routine power fluctuations from alternative energy sources like solar and wind, and quickly responds to disruptive events—from major storms to eclipse-induced dips in solar power—with minimal intervention from humans.

### Operational Efficiencies

One of the fastest growing segments of AI involves Robotics Process Automation (commonly known as “bots”), where software robots coordinate with existing interfaces to obtain operational efficiencies by speeding up routine processes. Companies implementing bots have seen marked improvement in productivity, accuracy and economy.

Activities conducive to bot support include high volume transactions that are repetitive and prone to human error, processes that involve searching, collating or updating information, and repeatable activities that are standardized and workflow-enabled. Bots are ideally suited for tasks such as billing and payment processing, customer information maintenance, and regularly scheduled procurement activities.

The true test of bot effectiveness is whether they will: (1) provide measurable cost savings; (2) result in material increases in quality and productivity; (3) offer reasonable implementation challenges, given human resistance to change and disruption to existing workflows; and (4) be introduced into a stable environment that is rooted in repetitive, high volume tasks.

As with any emerging technology, bots are first taking root in the simplest and most straightforward processes. Over time, however, bot support can be expected to expand to more complex tasks, impacting a broad range of utility and energy services functions.

While the introduction of bots and AI offer opportunities to streamline work processes, they also introduce risk. As human interactions are eventually taken out of the equation and replaced with computers running algorithms, risk managers must keep a close eye on their introduction so that potential risks are addressed.

Overall, many predict that power companies will turn to AI for increased reliability, safety, cyber security, efficiency and better customer experiences. Only time will tell. But for now, at least, do not give HAL control of the pod bay door.

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*Ron Rispoli is Director of Risk Management at Entergy Services, Inc. and is a member of EIM's Insurance Advisory Committee, where he serves on the Emerging Risks Task Force.*

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Significant attention has been focused this year on the rollercoaster ride provided by the equity markets, along with the ongoing wildfire activity in California. Add to this mix some natural gas explosions and electric contact claims and you might intuitively conclude that it has been a difficult year for EIM. But, while investment returns are down year on year and claims activity is up, 2018 is shaping up to be a year that will run very close to budget.

Through the first nine months of 2018, EIM saw surplus increase by \$31.5 million, driven by \$12.5 million in underwriting income and net investment income of \$43.8 million. For 2018, EIM budgeted surplus growth after Member Company distributions at 2.5%, or \$29 million, so we are a little ahead of budget in terms of EIM surplus. Keep in mind that the fourth quarter has not yet closed, and that EIM budgeted a 4.2% return on its investment portfolio for 2018 and expects to see a return closer to 1%.

The uptick in 2018 loss activity has produced a combined ratio through October 31 of 89.3% compared to 42.9% in 2017. Although the combined ratio has more than doubled year on year, EIM budgeted a 98% combined, ratio for 2018 and expects the year to be on or slightly better than budget. It is important to remember that 2017 was a particularly benign loss year and that, over time, EIM expects the combined ratio to trend toward 98%.

In recognition of EIM's strong third quarter surplus position, the EIM Board authorized a November supplemental distribution of \$25 million. After accounting for this supplemental distribution, as well as for the 2018 annual distribution anticipated to be paid in March 2019, surplus

is forecasted to grow slightly in 2018 by about \$7 million to \$1.175 billion. This is consistent with EIM's overall philosophy of prudently returning available capital to Member Companies. Based on its ongoing dialogue with the Board and Insurance Advisory Committee, EIM expects surplus to drift downward over the next few years as available capital continues to be returned to members via annual and supplemental distributions.

EIM's recovery from the 2008 recession began in 2009 and the ensuing years delivered solid results. Surplus grew at an average annual rate of 8%, the net combined loss ratio averaged 82%, and the annual return on EIM investment portfolio averaged 6.2%. While these results are noteworthy, EIM has been, and always will be, a company that is committed to long-term performance, recognizing that, over time, results will trend back to the mean. This is a year that reflects just that phenomenon and more closely represents what we can expect over the long term—a 98% combined net loss ratio, 2-3% return on EIM's investment portfolio, and surplus growth (before distributions) of 3-4%.

While 2018 may seem at first glance to be an anomaly that is out of sync with past results, it is, in fact, more typical of the underwriting and investment performance EIM expects to see over time. So, if members ask how 2018 is shaping up, our reply would be, "It's developing as planned."

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## EIM WELCOMES NEW IAC MEMBERS, CHRIS GREGORIO AND MARIANNA MICHAEL



*Christopher (Chris) Gregorio*  
Sr. Risk Manager  
NextEra Energy, Inc.

EIM wishes to welcome new IAC Member, Chris Gregorio. Chris is currently a Sr. Risk Manager for NextEra Energy, Inc. (NEE), where he began as a Principal Risk Analyst in 2012, and then later served as a Risk Manager, before moving into his current role.

NEE is a leading clean energy company with consolidated revenues of approximately \$17.5 billion, approximately 46,400 megawatts of generating capacity and approximately 14,300 employees in 27 states and Canada.

Chris and his team are responsible for the placement and management of NEE's corporate insurance programs. Other duties include leading the insurance diligence for M&A transactions and participating in a cross-departmental risk committee to evaluate project development.

Chris began his insurance career in 2002 as a member of AIG's Professional Associate claims training program. In 2003, he took a position with Aon as a Claims Coordinator, and then transitioned into risk management in 2005, after landing a Risk Analyst role with JetBlue Airways Corporation. During his six-year tenure with JetBlue, Chris went on to hold the titles of Sr. Risk Analyst and Risk Manager.

Chris holds a bachelor's degree in Marketing and Multinational Business Operations from Florida State University. He has also earned his Associate in Risk Management (ARM) designation.

Regarding his service as an IAC Member, Chris says, "I'm excited to be part of the IAC. I see value in having input on how EIM can further benefit members in the spirit of continuous evolution." Chris also sees his new role as an opportunity for networking and providing input that helps to strengthen EIM's member partnerships.

In his spare time, Chris enjoys traveling and spending time with his wife Kimberly and their two children, Harrison (6) and Eleanor (3).



*Marianna Michael*  
Director of Insurance  
Algonquin Power  
and Utilities Corp.

Marianna Michael is one of EIM's newest IAC Members. Marianna is a second generation insurance professional. Her mother founded an oil and gas insurance company in the 1990s. Marianna later began her own career as a claims adjuster, before working for some of North America's largest multinational insurers. Her experience includes complex environmental, liability and property damage claims, as well as leading teams of internal and external litigation lawyers.

Marianna currently serves as Director of Insurance with Algonquin Power and Utilities Corp., a diversified generation, transmission and distribution utility with \$10 billion in total assets. Marianna's team is responsible for the placement and administration of the insurance program for Algonquin and its captive. Marianna also oversees insurance matters for all construction projects—including bond placement and contract reviews—and conducts risk and insurance related due diligence.

Earlier, Marianna worked as a Principal Broker for a newly established commercial insurance brokerage. After 10 years, she negotiated the brokerage's sale, securing a successful exit for its shareholders.

In 2007, Marianna was elected to the council of Registered Insurance Brokers of Ontario (RIBO), Ontario's only self-regulatory licensing body, where she helped draft several legislative amendments to the Registered Insurance Brokers Act (RIBA). Marianna has also been voted a Top 10 under 40 Insurance Broker by her peers, and was awarded the inaugural Women Creating Legacy in Insurance Scholarship from Aviva.

Marianna holds a BA in Economics from York University, as well as Chartered Insurance Professional and Canadian Risk Management designations. She is currently enrolled in the Global Professional Master of Laws (GPLLM) at the Faculty of Law, University of Toronto.

Marianna is excited about joining the IAC and looks forward to supporting EIM members in this role. In her spare time, she enjoys traveling with her husband and two daughters and is also a proud fan of the Toronto Raptors. Go Raps!

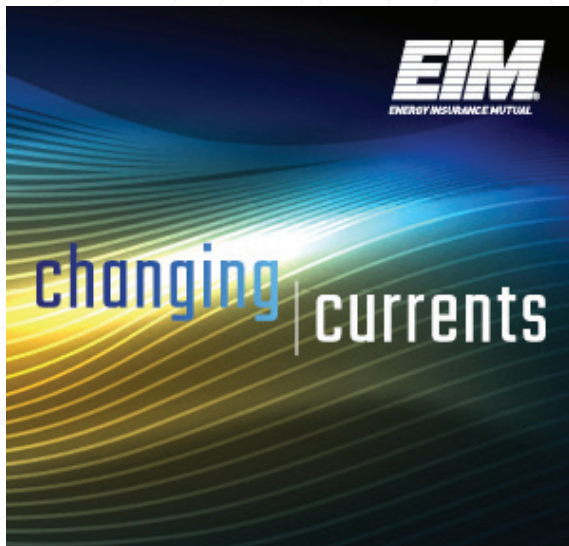


### Ameren Corporation

Please join EIM in extending a warm welcome to new Member Company, Ameren. Ameren Corporation is the parent holding company for Ameren Illinois, based in Collinsville, Illinois, and Ameren Missouri, based in St. Louis, Missouri.

As a fully rate-regulated electric and gas utility, Ameren provides reliable service at attractive customer rates to 2.4 million electric customers and 0.9 million gas customers across 64,000 square miles. The company is particularly proud of its strong financial health, which allows its utilities to meet the area's energy needs in a safe, reliable, efficient and environmentally responsible manner.

Ameren's strategy of investing in rate-regulated energy infrastructure, coupled with relentlessly improving operating performance and advocating for responsible energy policies, delivers superior customer and shareholder value. Profits go into maintaining and enhancing infrastructure and paying dividends to the shareholders who help fund the infrastructure to keep the lights on and the gas flowing.



### THE 2019 ANNUAL EIM RISK MANAGERS INFORMATION MEETING

DATE: February 24-26, 2019

LOCATION: Hyatt Regency, Grand Cypress, Orlando

Exciting News...Energy Insurance Mutual has an official app. With the app you can view all the details of the upcoming meeting, get up to the minute updates and enjoy communicating with colleagues.

1. Go to your device app store, search for Energy Insurance Mutual and download.
2. Select the 2019 RMIM event and join.
3. Sign up with your email address and the password is *insurance*.
4. Take a moment to create your profile.
5. Enjoy!

Should you have any questions or problems, please do not hesitate to contact Tanyka Ragland ([tragland@eimltd.com](mailto:tragland@eimltd.com)) or Katie Imm ([kimm@eimltd.com](mailto:kimm@eimltd.com)).

Looking forward to a great meeting! See you in Orlando.



*Daniel Nelson*  
*Software Developer*

Daniel Nelson joined EIM in December 2013 as the software developer for EIM's internal, custom-built systems. Currently, he serves as our System Developer, ensuring ongoing stability and enhancements of EIM's custom-built applications.

As part of a small technology team, Daniel has had the opportunity to tackle a wide range of projects over the past five years, including the development

of cloud-based storage systems, improved backup and recovery processes, and ongoing security enhancements.

Daniel is particularly proud of his role in reducing backup and recovery storage costs by 95%, and in meeting recovery point objectives and recovery time objectives in a recent disaster recovery test. As a result, an independent security assessment review of EIM's Critical Risk Profile placed it in the top 16% of all organizations tested in the past calendar year.

In the future, Daniel hopes to continue to evolve our custom built applications through enhanced integration, the adoption of new technology and greater in-depth visibility of system health.

Before joining EIM, Daniel worked with a mortgage due diligence company, designing and developing auditing solutions to financially evaluate mortgage loans against state and federal regulatory compliancy.

When asked what he most enjoys about working for EIM, Daniel cites the great staff and relaxed, but professional working environment. Off the job, Daniel enjoys saltwater fishing and sharing his catch with his wife, Anna, who loves eating fresh fish almost as much as he loves catching them. The two have been married for more than 20 years.



## Balance Sheets

(Expressed in Thousands of U.S. Dollars)

	09/30/2018	12/31/2017
<b>Assets</b>		
Investments	\$1,742,976	\$1,681,929
Cash and cash equivalents	52,930	8,016
Reinsurance recoverables on losses	228,573	228,673
Prepaid reinsurance premiums	18,725	40,352
Premiums receivable	6,484	9,106
Income taxes recoverable	2,218	16,690
Other assets	11,717	(1,326)
<b>Total assets</b>	<b>\$2,063,623</b>	<b>\$1,983,440</b>
<b>Liabilities and policyholders' surplus</b>		
Reserves for losses and loss adjustment expenses	\$646,918	\$563,971
Unearned premiums	121,762	126,979
Reinsurance premiums payable and funds held	7,208	8,488
Net deferred tax liability	50,647	61,383
Policyholders' distributions payable	25,000	40,000
Accounts payable and accrued expenses	11,780	13,779
<b>Total liabilities</b>	<b>863,315</b>	<b>814,600</b>
Members' account balance	956,487	904,625
Accumulated other comprehensive income	243,821	264,215
<b>Total policyholders' surplus</b>	<b>1,200,308</b>	<b>1,168,840</b>
<b>Total liabilities and policyholders' surplus</b>	<b>\$2,063,623</b>	<b>\$1,983,440</b>

## Statements of Income and Comprehensive Income

(Expressed in Thousands of U.S. Dollars)

	09/30/2018	09/30/2017
<b>Underwriting revenue</b>		
Net premiums earned	\$116,227	\$103,655
Other underwriting income	1,644	1,807
<b>Total underwriting income</b>	<b>117,871</b>	<b>105,462</b>
<b>Underwriting expenses</b>		
Net losses and loss adjustment expenses	96,421	37,214
Policy acquisition costs	1,510	1,462
Administrative expenses	7,469	7,610
<b>Total underwriting expense</b>	<b>105,400</b>	<b>46,286</b>
Income from underwriting	12,471	59,176
Investment income	64,232	46,695
Income before policyholders' distribution and income taxes	76,703	105,871
Policyholder distribution	25,000	-
Income before income taxes	51,703	105,871
Income tax expense	(159)	29,909
<b>Net income</b>	<b>51,862</b>	<b>75,962</b>
Other comprehensive (loss) income	(20,394)	34,709
<b>Comprehensive income</b>	<b>\$31,468</b>	<b>\$110,671</b>

EIM's Members Report is electronically published four times per year. Comments, questions, and suggested subjects from Members are sincerely welcomed.

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