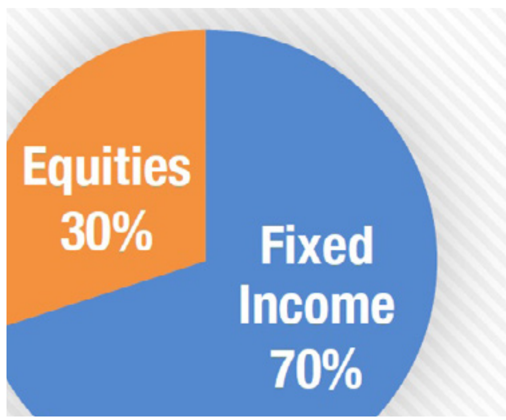
Energy Insurance Mutual

MEMBERS REPORT



EIM's current three-year strategic plan concludes in 2019, and the company is in the process of outlining its strategic direction for the upcoming three years, 2020-2022. In addition to seeking input from the underwriting, claims, finance and IT groups at EIM, EIS and ECM, the updated strategic plan includes feedback from EIM's Board of Directors and its Insurance Advisory Committee (IAC). While some elements of the most recent three-year plan will carry over, the energy and insurance arenas are clearly undergoing significant changes driven by technology advances, newly emerging risks, and expanding risk appetites. As a result, the new strategic plan will sound familiar in some respects but will also focus on several new initiatives designed to anticipate and respond to change.

What Will Not Change

One constant in EIM's strategic vision is the ongoing focus on member companies. Virtually everything that EIM undertakes is designed to deliver value to members through meaningful risk management solutions, responsive claims administration, and a consistent, predictable return on capital.

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EIM Board Authorizes Supplemental Distribution of $25 Million

At its August 2019 meeting, the EIM Board of Directors approved a $25 million supplemental distribution to be paid on or before November 15, 2019 to all EIM Member Companies of record at September 30, 2019.

The supplemental distribution is in addition to the $50 million distribution paid to Members in March 2019 and reflects EIM's strong financial performance, supported by the ongoing risk management efforts of EIM Member Companies.

EIM remains committed to its annual distribution to Members and, subject to final 2019 audited financial results and Board approval, anticipates announcing a 2019 distribution in February 2020, payable on or before March 15, 2020. The Board will review EIM's financial position throughout the upcoming 2020 fiscal year and will consider a supplemental distribution in the second half of 2020 as well.

The ability to return capital is a direct result of the membership's ongoing support of EIM. Continued Member Company loyalty is essential to maintaining EIM's excess of loss insurance capacity, its meaningful coverage terms and conditions, and the lowest cost of insurance protection over time.

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Actions that do not "ring the bell" in at least one of these areas will likely not be included in EIM's strategic roadmap. Similarly, the updated strategic plan will continue to focus on financial stability with an emphasis on a conservative, long-term investment philosophy designed to maintain the capital necessary to write substantial excess limits on existing lines of business and incorporate new or expanded coverages as needed.

To sustain the goals of member focus and financial strength, EIM must continue to capitalize on operating efficiencies; this means embracing new technologies. While EIM expects staffing to remain lean at about 27 people, it will rely on evolving technology to work smarter and more efficiently. Part and parcel of operating efficiency is a team committed to excellence, supported by ongoing training and a healthy work environment that provides opportunities for both professional and personal growth.

Changes You Can Expect To See

The updated plan incorporates specific action items designed to support changes in both the energy and insurance industries.

On the energy front, EIM expects to see continuing demand for expanded limits as existing risks in the General Liability, Directors and Officers, Cyber and Property lines become more pronounced and newly emerging risks related to renewables, distributed generation and battery storage require new-found or expanded coverages. In addition, members companies will be considering larger self-retentions and more manuscripted coverages through entities such as Energy Insurance Services, where retained risk can be flexed – increased or decreased – each year depending on pricing, risk appetite and available coverage terms and conditions. EIM members have shown an increased interest in retaining risk, particularly as pricing in the commercial marketplace rises and capacity tightens.

New technologies will not only impact member companies, but EIM as well. EIM remains committed to streamlined, electronic submissions that generate as little paper as possible while also reducing redundancies in an underwriting process that can involve multiple insurers across many layers of coverage. Similarly, EIM is working to capitalize on the substantial amounts of data generated and captured over its more than 30-year history, compiling and analyzing detailed information to better understand exposures and loss trends, and to price risks most efficiently. This includes an updated GL rating system and further exploration of InsurTech advances focused on big data analytics.

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EIM will also continue to upgrade its proprietary underwriting and claims administration system, EPIC, and to seek greater network efficiency, security and interactive capabilities through cloud-based solutions.

How Will the Next Three Years Look?

EIM will continue to focus on delivering value to its members in four ways. First, emphasizing member company risk management needs, anticipating market trends, and providing responsive solutions through both EIM and EIS. Whether it is expansion of existing coverages or working with the membership through the Board, IAC and risk managers to develop new coverages, ensuring that risk managers have the necessary tools at their disposal to best manage risk is essential.

Second, core coverages require the support of a strong capital base. While EIM expects to prudently manage surplus down to around $1 billion through annual and supplemental member distributions, it will remain conservative in the amount of surplus it holds in relation to the risks assumed in its underwriting portfolio. Risk capacity – the ability to withstand a 1:200TVar event and still maintain an “A” from A.M. Best – may be adjusted slightly, but EIM remains cognizant that it is in business to pay losses and is committed to maintaining the surplus necessary to meet this fundamental obligation while still offering meaningful limits and coverage terms.

Third, absent dramatic changes in the U.S. and global economic landscape, EIM expects to see continued annual yield on its investment portfolio of about 4%. This return, coupled with the forecasted 99% combined ratio, should provide annual surplus growth of about $64 million, which will be used to provide member distributions, expand existing coverage terms and/or limits, or support new product offerings identified by member company risk managers.

And fourth, in addition to the underwriting, financial and investment return forecasts, we expect to continue returning capital to members in the form of annual and, where prudent, supplemental distributions. If the plan runs true to form, members can anticipate aggregate distributions totaling more than $200 million between 2020 and 2022. Equally significant is the fact that this capital return can be accomplished while maintaining sufficient capital to meet evolving risk management needs and effectively responding to expected claim activity. All of this can be accomplished while maintaining EIM’s enterprise risk management framework and adhering to the 20 metrics tracking asset, strategic, operational, and insurance risk.

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STRATEGICALLY SPEAKING (CONTINUED)

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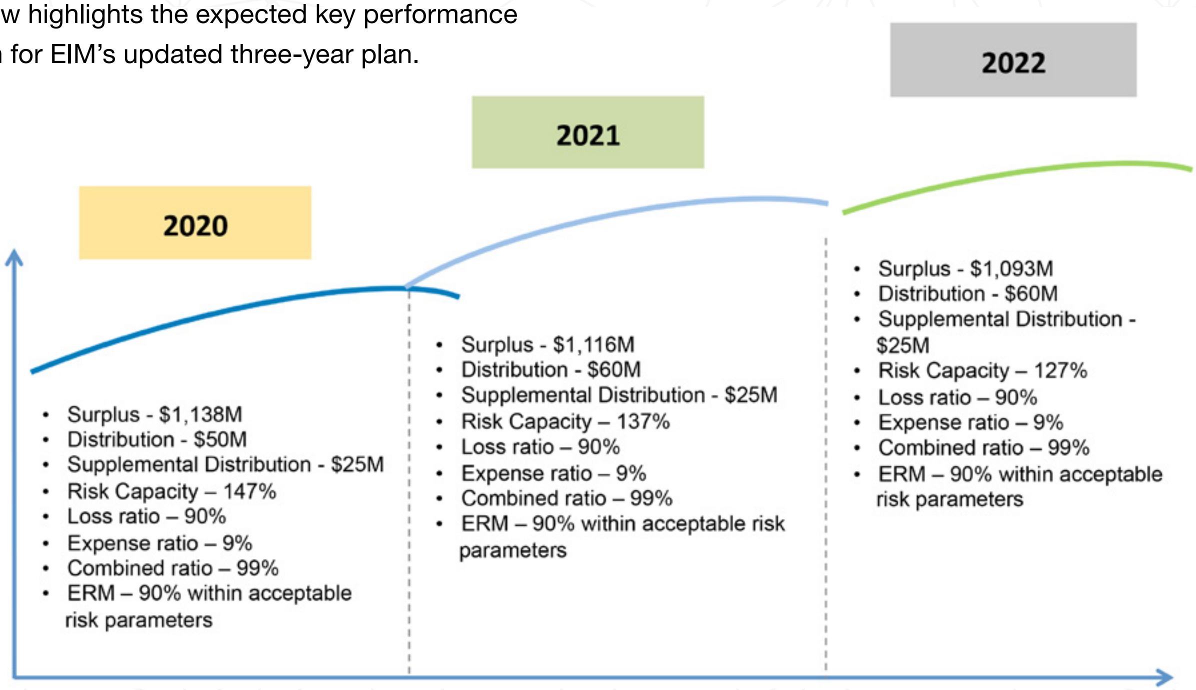
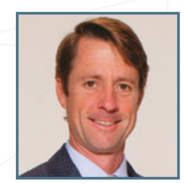
The only thing certain about strategic plans is that projections of future performance will invariably be modified as forecasts are missed or exceeded on a year-to-year basis. We are comfortable, however, that over time, EIM's performance will trend toward historical averages of a 9% expense ratio, 90% loss ratio and 4% return on investments. Subject to final Board approval, the graph below highlights the expected key performance metrics, forming the foundation for EIM's updated three-year plan.

2020-2022 Strategic Plan Metrics (preliminary)



Overall, the 2020-2022 three-year plan highlights EIM's ongoing commitment to its longstanding core values while remaining flexible to adapt to a new and changing risk landscape.

G. Thomas Bolton, III
EIM Vice President—Chief Financial Officer

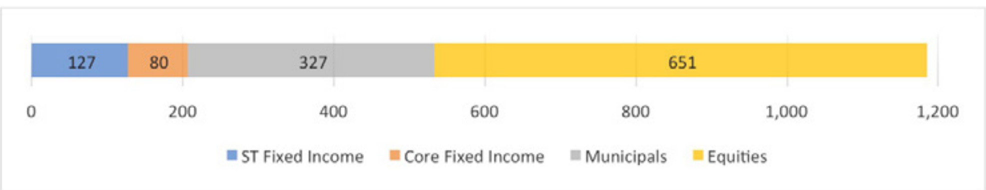


CAN 2008 HAPPEN AGAIN?

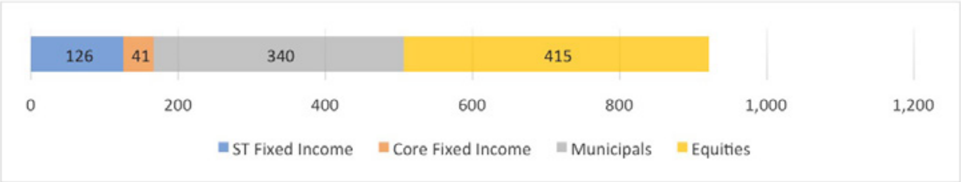
EIM faced a watershed event in 2008 as the financial crisis, the worst since the Great Depression, washed across virtually every sector of the investment market. This left the company with a 22.9% decline in its investment portfolio contributing significantly to a $200 million drop in surplus from $667 million to $467 million. As discussed below, EIM's high allocation to equities contributed significantly to the negative returns. The question that EIM asks on a regular basis is, "Can 2008 happen again?"

The answer to this question, like the answer to many questions, is "yes" and "no." A 2008-like event could certainly happen again, particularly given the volatility seen in the US and global investment markets. The impact on EIM, however, would not be nearly as severe. Hence, the answer to the question is "yes" it might happen, but "no," EIM would not experience the magnitude of negative impact that it saw in 2008.

The following chart shows the breakdown of EIM's investment portfolio at January 1, 2008 (in millions of dollars):

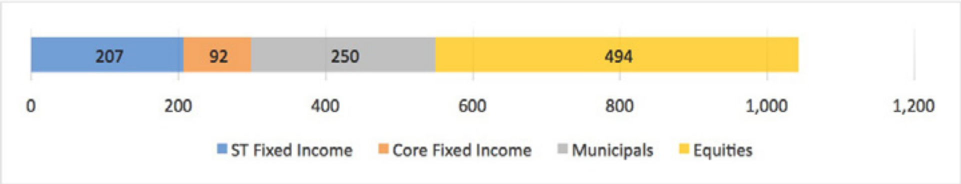


The fact that EIM held almost 60% of its investment portfolio in equities, both U.S. and international, is noteworthy. The equity weighting was not unusual for a company that saw relatively few losses in its excess layer and was more akin to a pension fund than a working layer casualty insurer. However, when the financial crisis struck in late 2008, EIM bore the brunt of the market downturn, resulting in a substantial decline in its equity portfolio. The following chart shows EIM's investment portfolio at December 31, 2008 (in millions of dollars):



One advantage EIM enjoyed as a casualty excess of loss insurer was the fact that losses were not particularly frequent and, when they occurred, they took somewhere between four and six years on average to fully develop. This meant that EIM was not in need of immediate cash and could ride out the financial storm without having to liquidate investments currently in a loss position. As a result, EIM reaped the benefits of the market recovery that began in late 2009 and continued for years to come.

The following chart highlights EIM's investment position at the end of 2009 (in millions of dollars):



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CAN 2008 HAPPEN AGAIN? (CONTINUED)

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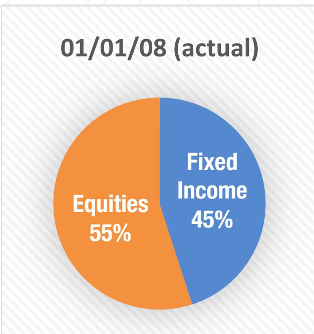
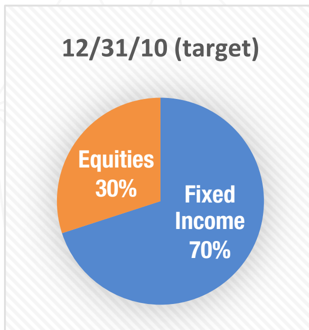
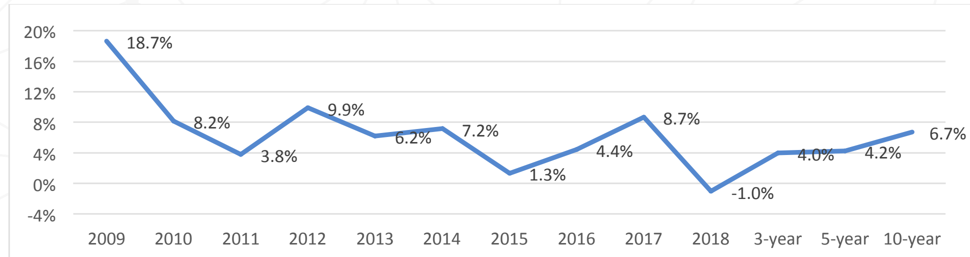
Having survived the financial turmoil and recouped more than half of its losses, EIM nonetheless recognized that the investment portfolio carried with it significant volatility that was inconsistent with EIM's risk appetite. As a result, EIM began to pare its exposure to equities, moving to more conservative investment classes.





By the end of 2010, EIM's updated investment guidelines outlined a more conservative investment portfolio designed to minimize downside risk while still enjoying the benefit of market upturns. Equity allocation dropped to 30% while fixed income increased to 70%. These investment guidelines have been updated regularly over the years to refine the ability to reap upside investment potential while reducing downside risk.

As a result of these adjustments, EIM has enjoyed strong investment returns over the last ten years while reducing volatility associated with market downturns. The following chart tracks EIM's annual investment returns over the last ten years:



Still cognizant of the potential pitfalls associated with a repeat of 2008, EIM periodically models the expected performance of its investment portfolio against the 2008 financial crisis and other economic events. This quantitative exercise is designed to ensure that the impact to EIM of a 2008-like event today would be far less dramatic than it was a decade ago.

EIM's ability to quickly recover from the 2008 financial crisis highlighted the advantages of being an excess insurer. In addition, the sound decision-making of the Board and Investment Committee enabled EIM to go beyond simply weathering the storm. While refashioning its investment portfolio to minimize the downside risk of another economic firestorm, EIM was still able to realize the benefits of a sustained bull market. So, "yes," EIM may experience an investment downturn, but "no," the impact will be far less dramatic than 2008.

Christine Freiherr, CPA
EIM Accounting Manager

BEHIND THE SCENES AT ECM – KEEPING PROTECTED CELL CAPTIVES RUNNING

In 1993, EIM formed Energy Insurance Bermuda Ltd. (EIB), a protected cell company designed to provide EIM members with access to captive solutions. Using a Mutual Business Program (MBP) format, EIB was able to provide cost-efficient, streamlined captive solutions to members seeking to retain and control risk in certain lines of business.

In 2006, EIB re-domiciled from Bermuda to South Carolina and was renamed Energy Insurance Services, Inc. (EIS). The move was driven by a desire to gain better control over the administration of the MBPs then being managed by a third party on behalf of EIS. In fact, the move from Bermuda to South Carolina highlighted the relative complexity of MBP administration and the need for regular, detailed oversight of each MBP.

MBPs are not separate companies but are operated as if they were. They are formed by a contractual relationship between EIS and the Participant (EIM member). All accounting, bank accounts and reporting are on a stand-alone basis. Results of operations inure to the benefit of the individual MBP and the net assets of the cell belong only to the Participant. Although EIS is the corporate owner of each MBP, EIS takes direction from the member Participant via each MBP's Program Advisory Committee (PAC). The PAC is staffed by knowledgeable Participant personnel who make recommendations relating to the operation of the cells. This includes recommendations on pricing, policy form, reinsurance support, claims activity and investments.

In 2015, EIM formed Energy Captive Management, LLC (ECM) as a dedicated, wholly owned subsidiary to manage the day-to-day affairs of member company MBPs. Since its formation, ECM has overseen and administered the operations of each MBP, which takes substantial time and effort.

Since its founding in 1993, EIS has formed more than 30 protected cell captives on behalf of EIM members. At present, there are 15 active MBPs, and each operates like a separate single parent captive insurance company. Each MBP has unique characteristics including distinct lines of business, claims activity and surplus requirements. Overall, EIS MBPs range in size from hundreds of thousands of dollars to hundreds of millions of dollars, with total assets of $2.3B, and annual gross premiums in excess of $250 million. Effective oversight requires the hard work and dedication of industry professionals who understand the captive framework and who can communicate well with

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member companies, state regulators and a variety of business partners, including tax, finance, law and reinsurance professionals. Much of this work goes unseen by EIM members. This is where ECM excels.

Each MBP is different from its fellows. Whether it is the line of business being written, the frequency and/or severity of claims, how premium is billed and collected, and how surplus is managed and invested, each MBP brings with it distinct challenges and characteristics. Some MBPs cede all or a portion of their business to reinsurers. This creates another layer of complexity and requires additional premium accounting, claims administration and reinsurance recoveries.

All MBPs begin with a feasibility study that incorporates not only the line(s) of business sought to be underwritten but also an actuarial assessment of the capital required to support the captive. This process includes an ongoing dialogue with the South Carolina Department of Insurance who must ultimately approve the MBP formation. The process also includes outside actuaries, financial advisors and legal counsel if the proposed new business warrants additional study. Once established, ECM administers the policy issued by EIS, including billing and collecting premium, sets required reserves for incurred but not reported losses and determines expected tax obligations. EIS reports activity using GAAP insurance accounting principles to determine if the transactions are insurance for federal income tax purposes.

The ECM team also administers claim reporting that can vary depending on the type(s) of risk included in the cell. Some cells have regular claim activity, which is reported and reconciled on a monthly basis while others insure catastrophic or extreme events where ECM sees very little claim activity. Regardless of claim frequency, ECM reconciles and closes the books for each MBP quarterly, including a year-end close for each individual protected cell.

In those instances where MBP risks, in whole or in part, are ceded to reinsurers, the premium and claims accounting process becomes slightly more complex as ceded premium gets calculated and paid while ceded losses are similarly accounting for, billed and collected.

EIS must implement PAC recommendations regarding investment of MBP assets (which can range from relatively small amounts invested in fixed income or money market instruments, to many millions of dollars invested in a broad array of investment vehicles). Not only does ECM work closely

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BEHIND THE SCENES AT ECM – KEEPING PROTECTED CELL CAPTIVES RUNNING (CONTINUED)

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with investment advisors to see that MBP investment directives are properly carried out, but ECM also tracks, reconciles and records investment activity for inclusion in each quarterly financial package.

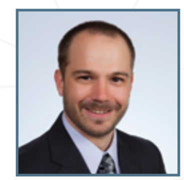
Additionally, ECM files all regulatory reports required by the state of South Carolina for MBPs and calculates and remits federal and state taxes as applicable.

To further buttress MBP confidence in ECM systems and controls, the company undergoes an annual SOC 1 review consisting of an audit of key ECM processes and procedures to ensure that adequate safeguards are in place and followed as part of ECM daily operations. The SOC 1 audit is carried out by an independent accounting firm and the results published to MBPs each year.

As market conditions change, EIS has been called upon by an increasing number of EIM members to fashion innovative solutions to risk management issues using a protected cell captive. ECM works side-by-side with EIS and member companies to help these solutions become a reality and to make certain that MBPs operate smoothly and effectively, providing important risk management support to member companies.

Tobias P. Burke,
ECM Vice President, Chief Accounting Officer

Jeffrey M. Tkacz
ECM Controller and Corporate Secretary



Kimberly Jenkins
ECM Senior Accountant

CONGRATULATIONS TO SANDRA IMBRIANI AND ANN JOSLIN ON THEIR ANNIVERSARIES

Sandra Imbriani
25 Years

From her first day as a Member Service Representative 25 years ago, to her current position as Director of Casualty Underwriting, Sandra Imbriani has been building relationships—with co-workers, members and brokers. These relationships are one of the things Sandra enjoys most about her job.

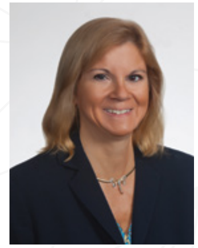
In her current position, Sandra underwrites both Excess Casualty and Excess Directors and Officers Liability. Her responsibilities include day-to-day oversight for EIM's excess casualty portfolio, along with broader responsibilities related to the EIM reinsurance program, Insurance Advisory Committee (IAC) initiatives and Board of Director projects.

According to Sandra, she learns something new every day she works at EIM. As she puts it, "I was basically a processor when I came to work here. Through training, mentorship and hard work, I now analyze catastrophic third party exposure for Fortune 500 Energy Companies."

Sandra is proud of building and maintaining a book of business through hard work, loyalty and trust. She understands the importance of the relationships she's built, and the need to be flexible in order to meet the needs of Members. As a long-term believer in the value of the mutuals, Sandra remains committed to continued learning throughout her future at EIM.

Before joining EIM, Sandra got her start in the insurance industry working for Liberty Mutual Insurance, and later, Poe & Associates, now Brown and Brown. Outside of work, she enjoys spending time boating and traveling with her family: husband, Ralph and daughter, Sara. She credits their longtime support for helping her get where she is today.

We wish Sandra all the best on this milestone anniversary with EIM.



Ann Joslin
15 Years

In 2004, Ann Joslin joined EIM as Claims Manager. Today, as Vice President-Claims, Ann manages the department she helped develop over the years. Her current responsibilities include reviewing and managing complex claims; resolving high exposure claims; managing claims expenses; collaborating with outside panel counsel; and assisting the management team in strategic planning, reinsurance renewals and actuarial claims data review.

After working with Hanover Insurance and later with AIG, Ann enjoys being part of a smaller company, where she can see her contributions. The EIM claims department, for example, began with no internal staff. Over the years, Ann helped the department grow and adapt—evolving claims administration and efficiency—with the help of her current staff of two. The department now oversees not just a greater number of claims, but more severe and complex claims, as well.

Ann recently instituted members claims meetings to familiarize members with EIM staff and operations. After working closely together on catastrophic losses, Ann hopes these meetings will become an integral part of EIM service.

Similarly, she sees panel discussions with defense counsel and members as a way of preparing EIM for the future. "By anticipating areas we need to develop, we can become better prepared to meet members' emerging issues."

Over the years, Ann's BA from the University of Connecticut and J.D. from Fordham University School of Law have served her well. Licensed to practice law in Florida, New York and Connecticut, she has relied on her legal expertise to resolve complex litigation and claims issues.

When not on the job, Ann enjoys running, fitness classes, yoga, reading, writing, cooking and boating. She lives with her husband, Frank, and their two cats, Casper and Babu.

Join us in congratulating Ann on her 15th anniversary.

Balance Sheets

(Expressed in Thousands of U.S. Dollars)

	06/30/2019	06/30/2018
Assets		
Investments	$ 1,701,786	$ 1,660,359
Cash and cash equivalents	37,676	41,348
Reinsurance recoverables on losses	301,514	218,249
Prepaid reinsurance premiums	29,952	30,319
Premiums receivable	21,556	19,282
Income taxes recoverable	2,968	-
Other assets	10,580	(2,746)
Total assets	$ 2,106,032	$ 1,966,811
Liabilities and policyholders' surplus		
Reserves for losses and loss adjustment expenses	$ 710,309	$ 602,125
Unearned premiums	121,304	104,038
Reinsurance premiums payable and funds held	8,971	7,970
Net deferred tax liability	52,503	55,707
Accounts payable and accrued expenses	9,929	11,548
Income taxes payable	-	2,050
Total liabilities	903,016	783,438
Members' account balance	1,170,319	940,835
Accumulated other comprehensive income	32,697	242,538
Total policyholders' surplus	1,203,016	1,183,373
Total liabilities and policyholders' surplus	$ 2,106,032	$ 1,966,811

Statements of Income and Comprehensive Income

(Expressed in Thousands of U.S. Dollars)

	06/30/2019	06/30/2018
Underwriting revenue		
Net premiums earned	$ 76,544	$ 77,573
Other underwriting income	1,063	1,119
Total underwriting revenue	77,607	78,692
Underwriting expenses		
Net losses and loss adjustment expenses	112,091	61,676
Policy acquisition costs	1,451	951
Administrative expenses	6,751	5,358
Total underwriting expenses	120,293	67,985
(Loss) income from underwriting	(42,686)	10,707
Investment income	93,215	32,761
Income before policyholders' distribution and income taxes	50,529	43,468
Policyholder distribution	-	-
Income before income taxes	50,529	43,468
Income tax expense	9,189	7,257
Net income	41,340	36,211
Other comprehensive income (loss)	26,506	(21,678)
Comprehensive income	$ 67,846	$ 14,533

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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