



Members Report October 2020

The Best Laid Plans...



Business As Usual in Unusual Times



Q2 2020 Financials



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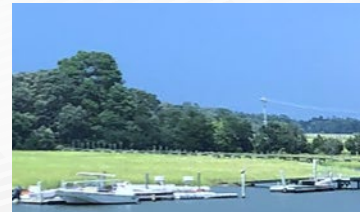
Welcome
Megan Ogden



An Update on the Insurance Advisory Committee



All Moved In and Going Places



Welcome New Members



Celebrating a Combined 30 Years of Service





Robert Burns wrote that, “The best laid plans of mice and men often go awry,” advising that even the best intentioned forecasts can be subject to change. Sometimes that change is incremental over time and, in other instances, it is sudden and dramatic. Once the breadth and depth of the COVID-19 pandemic became apparent, we revisited EIM’s three-year strategic plan, first announced at the

February 2020 Risk Managers Information Meeting (RMIM), to determine the impact on our initial forecast. To date, the plan has shown great resiliency, flexing to the new realities of our business, financial and operational activities. While we would be hard-pressed to report that the strategic plan remains unchanged, we are pleased that the core vision, mission, and underlying tenets that have characterized EIM for more than three decades remain solidly in place.

THE ORIGINAL PLAN

At the February RMIM, I reported that the updated three-year strategic plan would continue to focus on our member companies through responsive risk management solutions, timely claims administration, a consistent return on capital, and stable financial performance.

In the face of our ongoing pandemic concerns, these four key elements of our strategic vision remain unchanged. Since February, EIM has worked in tandem with our mutual partners to provide expanded excess casualty and property limits, filling an ever-widening gap in available capacity obtainable from the commercial marketplace. In addition, Energy Insurance Services (EIS) continues to work with member companies to fashion tailored solutions designed to meet emerging risk management needs. EIM’s underwriting team has worked exhaustively to review and underwrite requests for expanded limits, as well as evaluate new membership applications.

Similarly, EIM remained committed to claims administration, paying more than \$130 million in losses in the first two quarters of 2020 and expecting to pay more in the second half of the year. While newly reported claim activity has been modest in the first half of 2020, EIM understands and embraces the notion that claim payments are the bedrock of EIM’s mutual promise to our members.

Despite a volatile equity market, both in the U.S. and internationally, EIM has remained true to its commitment on return of capital, distributing \$50 million to members in March of this year. We will continue to monitor EIM’s financial position throughout the remainder of the year and will work diligently to review the possibility of a supplemental distribution before year-end, all the while balancing the risk financing needs of the membership against maintenance of a stable capital base. A final decision on this action will be made by the Board of Directors at the November 2020 meeting, where we will also review the 2020 annual distribution to be paid in March 2021.



We have been fortunate to see a rebound in financial markets, which has driven a recovery of almost all EIM’s investment losses from the first quarter 2020. This recovery, coupled with a net loss ratio under 100%, resulted in surplus of \$1.16 billion through the end of June 2020. Third quarter financial performance has been positive, leaving EIM in a sound financial position.

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With an election around the corner and an ongoing concern about the continuing impact of COVID-19, EIM remains cautious about financial results for the second half of the year. As the pandemic has taught us, it is the unexpected that has become routine – so, we remain on guard. Financial stability remains the cornerstone of EIM’s long-term strategic approach.

WHAT HAS CHANGED

The EIM strategic plan focuses on four key goals: Engaging Progress; Protecting the Core; Relationships; and Our People, all of which contribute to the ultimate objective of an exceptional Member Experience. While these goals remain intact, the approach that we have taken to ensure continued progress has changed somewhat due to the collective pandemic effects felt by EIM, our member companies, and business partners.

As noted above, we have continued to successfully “Protect the Core” through our underwriting, claims, operations, and financial efforts over the last three quarters. The pandemic fallout has impacted our approach to “Engaging Progress” by shifting our focus from the development of new and advanced technology tools to ensuring that remote communication platforms are up and running and sufficiently maintained to support increased demand. Applications such as Zoom, Teams and WebEx have become the new “meeting place” for virtually (no pun intended) all business activities.

We remain committed to “Engaging Progress” by implementing new and updated information technology platforms, both home grown and third-party related. However, this effort has moved forward at a slower pace given the enhanced COVID-19 related initiatives. Whether the pandemic impact will prove sufficiently prolonged to alter our longer-term strategic objectives is yet to be seen. However, we believe that holding fast to the current three-year forecast is prudent until pandemic issues play out.

The third constituent of the plan, “Relationships,” continues to head the list of EIM priorities. To date, we have maintained a constant dialogue with members through remote meeting venues and have done the same with our business partners. Nurturing and enhancing these relationships is paramount to success, especially in a “work from home” environment where it is challenging to hold the in-person meetings which are often central to forming and strengthening partnerships. A personal goal of mine is maintaining and continuing to strengthen all industry mutual relationships. As the energy industry evolves, we want to ensure that we are all aligned for the common purpose of providing meaningful risk financing to our members. EIM is committed to working together with our mutual peers in the best interests of our respective member companies.

Even in the face of the interruptions occasioned by the pandemic, EIM’s focus on “Our People” has not wavered. In addition to welcoming Jeff Tkacz as EIM’s chief financial officer and his successor, Megan Ogden, as controller of Energy Captive Management, we have also added an in-house accredited actuary, Legare Gresham, who will support EIM, EIS and ECM as we all work with members to identify new and expanded forms of excess coverage. EIM also remains committed to training and professional development which, today, is being addressed via remote programs.

Overall, despite Robert Burns’ warning to the contrary, the EIM strategic plan has not gone awry. We remain on course. While periodically readjusting to meet the demands of these unprecedented times, we have not strayed far from our long-term vision and strategy.

Tommy Bolton

President and Chief Executive Officer
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Having now worked remotely for more than half the year, EIM has adapted to distanced interactions with members, brokers and business partners; adopted updated underwriting processes to accommodate new business and renewal underwriting; and acclimated to an environment focused on health, safety and remote communication. It has been an unparalleled time, marked by a concerted effort to conduct business as usual. EIM staff has worked exceptionally hard to

maintain the same level of service, communication and responsiveness that are the hallmarks of our pre-COVID operations. While the way we do business has changed, the Underwriting group has adjusted and thrived in the new environment.

At a time when excess insurance limits, particularly in the casualty arena, have constricted dramatically, accompanied by substantial increases in commercial pricing, EIM has worked diligently to respond to our members' capacity needs. The end result of these efforts has been continued growth of policies issued with limits excess of \$100 million, growing from four policies to 40 since we began providing increased limits in late 2018. This growth reflects the collaborative efforts of EIM and NEIL joining forces to meet member company needs. In addition, the D&O market continues to experience a pullback in capacity with some hardening in pricing. EIM has worked with members and brokers to assist with their casualty capacity issues while at the same time addressing additional new membership submissions.

Similar dynamics highlight the property market. EIM's current property capacity remains at \$35M and has been beneficial to the membership. There have also been many new requests from members for additional capacity from NEIL to help fill voids in a member's property placement. NEIL's current overall property capacity of \$300M has been instrumental in assisting during this current hard market.

Our membership property program support, dating back to 2002, continues to grow steadily. We now provide EIM property capacity to 81 of our members, not including true NEIL fronts (14 in total). Some of these new property placements (14 year to date) can also be attributed to our participation on placements outside the US involving our Canadian domiciled members. Greater restrictions imposed by some traditional carriers on coal-fired generation have resulted in added opportunities for EIM to assist on a member's property placement. Though EIM is not a lead market carrier dictating lead terms, conditions, or pricing, we do underwrite any new coverage terms and conditions for acceptability within our guidelines.

Even with the substantial activity relating to new and expanded business, EIM has been able to renew existing business in an orderly fashion. We have a 100% retention rate through the third quarter 2020 due in no small part to the knowledgeable, responsive, and professional underwriting team that "gets it done" on a daily basis.

We have been carefully monitoring the wildfire activity out west and with the underwriting adjustments made earlier in the year, have substantially reduced EIM's exposure to California. With respect to the recent Hurricanes, Laura and Sally, that impacted the Gulf Coast, it appears EIM will see very little or no losses from either of these events.

One notable activity currently underway is renewal of EIM's excess casualty reinsurance program. As we have informed our members at each annual Risk Manager's Information Meeting, reinsurance represents one of EIM's largest assets, and EIM relies on long-term reinsurance partners to support our excess casualty limits. The reinsurance market is experiencing similar challenges faced by the direct commercial insurance marketplace. EIM and its reinsurance partners are carefully examining EIM's loss experience over the last 10 years while assessing whether the structure and pricing of our existing reinsurance program fits evolving risk appetites for energy-related exposures.

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Business As Usual in Unusual Times

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We expect this year's renewal to involve detailed discussions with our reinsurance partners. Given the longstanding support we have enjoyed from reinsurers, coupled with our commitment to a mutually beneficial reinsurance relationship that stands the test of time, we are confident that our reinsurance support will remain strong.

EIM is committed to ensuring that its solid underwriting and financial foundation remains intact for the membership, particularly when market cycles harden. This means that business not squarely fitting within EIM's risk appetite or business that cannot be adequately priced will not become a part of EIM's portfolio. While the short term consequences of this underwriting discipline may disappoint some, the long-term effects will enable EIM to continue providing much-needed core excess coverages for decades to come. EIM's ability to support increased limits and new business opportunities in the face of today's coronavirus impact is proof that the longer-term view best serves members over time.

We miss the face to face meetings with members and brokers. Nothing beats spending time together where we can have extended conversations designed to better understand member business strategy, operational focus, and insurance goals. On behalf of the underwriting team and all of us at EIM, we look forward to getting together again soon. Until then, we are committed to working through these unusual times by making it business as usual.

Jill Dominguez

Vice President, Chief Underwriting Officer
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WELCOME!

MEGAN OGDEN

Megan joined EIM subsidiary, Energy Captive Management, LLC (ECM), in April 2020 as Controller where she is responsible for the accounting and information processing of

ECM, as well as the administration of captives insured by EIM's subsidiary, Energy Insurance Services, Inc. (EIS). Prior to her current role, Megan was a Senior Vice President with Marsh Captive Solutions and, before that, the Chief Operating Officer for JLTIM USA.

She started her career in the captive insurance industry in the Cayman Islands with Marsh Management Services and has extensive experience both domestically and offshore with all types of captives in various industries.

Megan, who received her CPA designation in North Carolina, serves on the Board of Directors of the South Carolina Captive Insurance Association and is the former SCCIA Conference Committee Chairman. She received her B.S. in Accounting from the University of Alabama and is a huge 'Bama fan - Roll Tide!

Megan reports that, "I'm honored to join the EIM family and excited for the opportunity to work with the EIS team and members. EIS has an amazing reputation here in South Carolina and the ECM team is very strong. It's a challenging time in the energy and public utility industries and I look forward to serving our current and future members."

With family nearby in Charleston, Megan and her husband, Ryan, along with children MacKenzie and Jake enjoy regular get-togethers with grandparents and siblings that include boating, the beach and sports.





Mike McFarland, Director, Enterprise Risk Management at Great River Energy, was elected chairman of the Insurance Advisory Committee (IAC) in February 2020. Mike has been an IAC member since February 2016. We asked Mike to give us an update on IAC activities.

When I assumed the IAC chairmanship earlier this year, little did I know what lay ahead. Suffice it to say that I did not anticipate the life-changing impact of a worldwide pandemic that has altered the way we live, work and play. Despite the dramatic impact of COVID-19, particularly the uncertainty it delivered with respect to how we do business in a tight-knit industry marked by close working relationships and regular personal interaction, the one certainty that has remained foremost is our need to continue providing the essential services that are fundamental to our members, clients, and customers. A key element of this commitment is working closely with our mutual insurers who provide essential insurance protections.

The IAC has embraced this commitment to continuity and worked diligently to bring normalcy to an otherwise upended business world. We have met twice this year since working from home has become the norm. Despite the distance, the IAC continues to focus on its primary goals of responding to questions and assignments from the EIM Board and management, as well as providing input to the Board and EIM staff on behalf of EIM members. We remain ready to undertake special assignments and serve as a resource for EIM, particularly with respect to coverage terms and conditions for excess property and casualty policies.

Much of our work is conducted through Committee task forces that include:

CYBER: The cyber task force, chaired by Tim Underwood, Director, Insurance Risk Management, CMS Energy, continues to monitor cyber events, both globally and within the United States, highlighting cyber events not only in the energy community, but also occurrences outside the energy industry that have the potential to impact the utility sector. The task force is particularly sensitive to potential cyber incursions seeking to capitalize on pandemic-induced reliance on remote communication platforms.

REGULATORY: Stephanie Rogers, Director, Risk and Insurance, Plains All American Pipeline, L.P., task force chair, and task force members are tracking EPA regulations setting pollution standards, many of which have been loosened in response to COVID-19 considerations. Regulatory initiatives relating to; (1) PFAS (per- and polyfluoroalkyl substances) use as a firefighting foam; (2) regional pipeline approvals; (3) and renewable energy are also monitored by the task force.

EMERGING RISK: In addition to considering the impact of climate change, wildfires and hurricane activity, the task force continues to track developments in battery storage, artificial intelligence, and driverless vehicles. Task force chair Arnold Garcia, Manager, Risk Management, Duke Energy, and the team are working closely to identify and consider solutions to risks attendant to new technologies.

RENEWABLES: With a significant reliance on renewable energy equipment from foreign sources, Marianna Michael, Director, Insurance, Algonquin Power and Utility Corp., task force chair and task force members have watched the dramatic impact that COVID-19 has had on supply chain dependencies, creating significant shortages in parts and new equipment. Coupled with an overall retrenchment in renewable energy insurance capacity, the task force is tracking the pandemic impact on both pricing and coverage terms.

PANDEMIC: In recognition of the Pandemic Risk Insurance Act of 2020 (PRIA), the IAC has formed a task force, headed by Frank Stanborough, Vice President, Risk Management and Compliance Officer, Southwest Gas, to consider PRIA implications on existing insurance coverages. The task force will also monitor pandemic developments to consider the implications of new or extended pandemic issues, particularly as they relate to member company risk management considerations.

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In the face of the new normal for business operations, the IAC continues to serve as a resource, sounding board and advisor to EIM. I would be remiss if I didn't thank Edsel Carlson, Risk Manager, TECO Energy, Inc., our outgoing chairman, for his exceptional IAC leadership over the last three years. Edsel designed and implemented numerous changes during his chairmanship, each of which made us a more efficient and effective Committee. I would also like to congratulate Stephanie Rogers on her election as vice-chairman of the IAC. Stephanie has been a great contributor to the Committee and I look forward to working with her and the Committee members as we labor through these unique times.

In closing, I want to echo Edsel's February Risk Managers Information Meeting invitation to all member company risk managers to consider serving on the IAC. As a mutual, we are only as strong as the insights, experience and guidance of our members. I encourage anyone with an interest in serving on the IAC to contact me or Jill Dominguez at EIM.

Thank you for your support and feedback. I look forward to upholding the tradition of excellence established by the IAC chairs who have preceded me.



Mike McFarland
Director, Enterprise Risk
Management at Great River Energy
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CHRISTINE FREIHERR

Christine joined EIM in October 2010 from Citigroup. As Manager-Accounting, Christine oversees accounting, financial reporting, treasury, financial analysis, budgeting, investments, capital management, payroll and benefits, and insurance risk management. In addition to successfully carrying out her broad range of duties and responsibilities at EIM over the last ten years, Christine has participated in more than 20 running, swimming and biking events, including a number of triathlons as well as three relay races, each more than 100 miles. This included a 200-mile relay race between Miami and Key West. All told, Christine has logged more than 40,000 training miles involving swimming, biking and running. Congratulations on reaching your 10-year milestone. With your track record, we're sure there are many more milestones to come!

10 YEARS!





Energy Insurance Services, Inc. (EIS) and Energy Captive Management LLC (ECM) recently completed their move to new office space at 410 Mill Street, Suite 401 in Mt. Pleasant, South Carolina. We've traded a downtown Charleston address for a wonderful view on Shem Creek in Mt. Pleasant that saves us some expense, provides a more convenient commuting location for EIS and ECM staff, and gives us a more updated and technology-advanced facility. We could not

be happier with the new space and look forward to returning to work and welcoming everyone to the office.

In addition to our move, we have seen a marked uptick in new business inquiries from EIM members, driven in no small part by shrinking property and casualty capacity in the commercial marketplace, accompanied by significant pricing increases. Over the last five months we have fielded more than 20 requests for information relating to both property and casualty risks. The inquiries have come from a broad range of members that include large publicly-traded organizations as well as smaller companies. Risk managers are clearly canvassing the captive space to evaluate more cost-effective mechanisms to both structure and manage existing and emerging risks. The old adage that hard markets put the spotlight on captive solutions has been borne out in 2020 and EIS and ECM are delighted to be in a position to help EIM members in these challenging times.

In the past, we have talked about EIS' ability to work with members on preliminary modeling for alternative risk solutions. EIM has recently hired an actuary who will not only support EIM's underwriting and claims operations, but also augment EIS and ECM as they work with members to evaluate, design and implement effective protected cell and/or captive solutions. In addition, with Jeff Tkacz' transition to chief financial officer at EIM, ECM has added Megan Ogden to the team. Megan has decades of experience in the captive space and will be an invaluable resource for anyone interested in considering alternative risk solutions.

Despite the impact of the worldwide pandemic on the way we are doing business, which has forced us to work remotely with little or no face-to-face interaction, we are seeing unprecedented activity from the many member companies who are working hard to implement cost-effective, responsive risk management programs. We are poised to add new cells to EIS' consistently expanding portfolio and look forward to ongoing dialogues with the many members who are actively considering captive or protected cells alternatives.

Our EIS Mutual Business Program participants will be virtually joining the EIS/ECM team for their individual Program Advisory Committee meetings during the week of October 26, 2020. Additionally, we are working with an outside production team to prepare a pre-recorded general session to be made available on-demand to EIM members and EIS participants on October 26. We are planning the recording to be about 60 minutes. We will use this time to provide presentations on a variety of topics by ECM staff along with the South Carolina Department of Insurance and our auditing firm, Johnson Lambert LLP.

We will also have two featured guest speakers: Mary Guzman, CEO/Founder, Crown Jewel Insurance and Bruce George, Partner, P/E Investments. Mary will be presenting a novel product concept regarding cyber risk that targets the use of captives. Bruce will be providing his perspective on the economy and its implications on the investment environment. Together with commentary on our South Carolina domicile, the 2020 Johnson Lambert audit plan, and our annual captive tax update, we hope this will be a very informative presentation. We will include a live on-line session on October 28 to engage with participants and answer any questions about the material from our pre-recorded session.

EIS and ECM, working collaboratively with EIM, have never been better positioned to work with and respond to member companies as they formulate new and innovative risk management structures. We may have moved in, but we are definitely going places.

Randy Martin

President - COO of EIS

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Colonial Pipeline, owned by **Colonial Enterprises**, is a privately held company with headquarters in Alpharetta, Georgia. Originally founded by nine oil companies in 1962, Colonial Pipeline is the largest refined products pipeline in the United States, transporting more than 100 million gallons of fuel daily to meet the energy needs of consumers from Houston, Texas to the New York Harbor.



Formerly known as FirstEnergy Solutions, **Energy Harbor** is a privately held energy producer and retailer, headquartered in Akron, Ohio. The company serves nearly one million residential, commercial and industrial customers with a focus on best-in-class safety and operations. Energy Harbor operates a fleet of nuclear and fossil fuel generators in Ohio, Pennsylvania and West Virginia, employing a workforce of 2,600 employees.



Essential Utilities is one of the largest publicly traded water, wastewater and natural gas providers in the U.S., serving approximately five million people across 10 states under the Aqua and Peoples brands. Essential represents an infrastructure company uniquely positioned to have a powerful impact on improving reliability, quality of life and economic prosperity.



The **Grand River Dam Authority** is a non-profit Oklahoma agency created to control, develop, and maintain the Grand River waterway. It was created by the Oklahoma state legislature in 1935, and is headquartered in Vinita, Oklahoma. GRDA was designed to be self-funding from the sales of electricity and water.



Suburban Propane is a nationwide marketer and distributor of a diverse array of products to meet customer energy needs. The company specializes in propane, heating oil and refined fuels, as well as the marketing of natural gas and electricity in deregulated markets. With nearly 3,300 full-time employees, Suburban Propane maintains business operations in 41 states, providing service to approximately one million residential, commercial, industrial and agricultural customers.



They say that time flies when you are having fun and we hope the following colleagues, all celebrating **five-year anniversaries**, have seen their combined 20 years with EIM, EIS and ECM pass in what seems like record time. Despite how quickly time passes, each has made significant contributions to our continued success. Congratulations to all!



KIMBERLY JENKINS

Kim has been Account Manager with ECM since its founding in 2015. She has played a significant role in supporting the accounting and administrative aspects of EIS captives and has worked closely with EIM members as they consider and implement alternative risk solutions. Kim and husband, John, recently welcomed a daughter, Charlotte to keep brother, Carter company. Thanks to Kim for all her hard work and dedication.



RANDY MARTIN

As Vice President - COO of EIS, Randy succeeded Rob Schmid in 2015, joining the EIM family from American Electric Power in Columbus, Ohio. Randy's entire career has been insurance and energy related and he has capitalized on this extensive expertise to help design numerous ground breaking products for EIS members. Randy's expansive industry network has enabled EIS to anticipate risk management trends in the energy sector and provide members with meaningful solutions.



VITALY PISETSKY

Since joining EIM five years ago, Vitaly has focused on the company's D&O portfolio. The D&O market was extremely competitive in 2015 and he did an exceptional job maintaining EIM's book of business. As the market firmed in recent years, Vitaly has been an integral part of the portfolio's growth. Always a team player, we have appreciated his hard work and dedication.



MELISSA PUGLIA

When Melissa joined EIM as Claims Manager five years ago, she brought with her a wealth of experience from the private practice of law with the Tampa law firm, Butler Pappas Weihmutter Katz Craig, LLP, as well as extensive property and casualty claims consulting experience. She has put that experience to good use, working with members to resolve hundreds of millions of dollars of claims.



Balance Sheets

(Expressed in Thousands of U.S. Dollars)

	6/30/2020	12/31/2019
<u>Assets</u>		
Investments	\$ 1,597,347	\$ 1,659,784
Cash and cash equivalents	39,591	19,774
Reinsurance recoverables on losses	418,588	437,571
Prepaid reinsurance premiums	30,013	37,388
Premiums receivable	37,823	15,113
Income taxes recoverable	24,960	21,120
Other assets	9,881	10,238
Total assets	<u>\$ 2,158,203</u>	<u>\$ 2,200,988</u>
<u>Liabilities and policyholders' surplus</u>		
Reserves for losses and loss adjustment expenses	\$ 790,632	\$ 757,436
Unearned premiums	136,930	160,581
Reinsurance premiums payable and funds held	16,183	13,586
Net deferred tax liability	47,406	53,675
Policyholder distributions payable	-	50,000
Accounts payable and accrued expenses	10,753	12,740
Total liabilities	<u>1,001,904</u>	<u>1,048,018</u>
Members' account balance	<u>1,156,299</u>	<u>1,152,970</u>
Total policyholders' surplus	<u>1,156,299</u>	<u>1,152,970</u>
Total liabilities and policyholders' surplus	<u>\$ 2,158,203</u>	<u>\$ 2,200,988</u>

Statements of Income

(Expressed in Thousands of U.S. Dollars)

	6/30/2020	6/30/2019
<u>Underwriting revenue</u>		
Net premiums earned	\$ 104,150	\$ 76,544
Other underwriting income	1,537	1,062
Total underwriting revenue	<u>105,687</u>	<u>77,606</u>
<u>Underwriting expenses</u>		
Net losses and loss adjustment expenses	101,299	112,091
Policy acquisition costs	1,717	1,451
Administrative expenses	6,404	6,750
Total underwriting expenses	<u>109,420</u>	<u>120,292</u>
Loss from underwriting	<u>(3,733)</u>	<u>(42,686)</u>
Investment (loss) income	<u>(3,054)</u>	<u>126,766</u>
(Loss) income before income taxes	<u>(6,787)</u>	<u>84,080</u>
Income tax (benefit) expense	<u>(10,116)</u>	<u>16,235</u>
Net income	<u>\$ 3,329</u>	<u>\$ 67,845</u>





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, 2019	\$ 186,892	\$ 948,278	\$ 1,135,170
Impact of adoption of ASU 2016-01	(180,702)	180,702	-
Trading portfolio election	(6,190)	6,190	-
Net income	-	17,800	17,800
Balance at December 31, 2019	-	1,152,970	1,152,970
Net income	-	3,329	3,329
Balance at June 30, 2020	-	\$ 1,156,299	\$ 1,156,299

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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