

Energy Insurance Mutual Limited

Audited Financial Statements

*Years ended December 31, 2020 and 2019
with Report of Independent Auditors*

Energy Insurance Mutual Limited
Audited Financial Statements
Years ended December 31, 2020 and 2019

Contents

Report of Independent Auditors.....1 - 2

Audited Financial Statements

Balance Sheets3
Statements of Income.....4
Statements of Changes in Policyholders' Surplus5
Statements of Cash Flows6
Notes to Financial Statements.....7 - 18

Required Supplementary Information

Incurred and Cumulative Paid Losses and Allocated Loss Adjustment Expenses,
Net of Reinsurance (unaudited).....20 - 21
Average Annual Percentage Payout of Incurred Claims by Age (unaudited).....22

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, 2020 and 2019 and the related statements of 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; 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. 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 as of December 31, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note A to the financial statements, on January 1, 2019, the Company adopted Accounting Standards Update 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, and also reclassified its fixed maturity security portfolio to trading. Our opinion is not modified with respect to these matters.

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 20-22 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, 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.

A handwritten signature in cursive script that reads "Johnson Lambert LLP". The signature is written in black ink and is positioned above the typed name and date.

Jacksonville, Florida
February 19, 2021

Energy Insurance Mutual Limited

Balance Sheets

(Expressed in Thousands of U.S. Dollars)

	As of December 31,	
	2020	2019
<u>Assets</u>		
Fixed maturity securities, trading	\$ 1,068,040	\$ 992,515
Equity securities	459,100	420,589
Alternative investments	252,841	241,707
Investment in subsidiaries	<u>5,170</u>	<u>4,949</u>
Total investments	1,785,151	1,659,760
Cash and cash equivalents	58,644	19,774
Reinsurance recoverables on unpaid losses	397,838	379,649
Reinsurance recoverables on paid losses	64,092	57,922
Prepaid reinsurance premiums	53,754	37,434
Accrued investment income	6,328	6,811
Receivables for securities sold	2,069	1,445
Premiums receivable	20,109	15,113
Deferred policy acquisition costs	2,052	1,728
Income taxes recoverable	27,162	21,120
Due from subsidiaries	299	266
Other assets	<u>835</u>	<u>1,387</u>
Total assets	<u>\$ 2,418,333</u>	<u>\$ 2,202,409</u>
<u>Liabilities and policyholders' surplus</u>		
Liabilities:		
Reserve for losses and loss adjustment expenses	\$ 905,085	\$ 757,436
Unearned and advance premiums	181,141	160,581
Reinsurance premiums payable and funds held for reinsurers	18,085	13,586
Net deferred tax liability	58,815	53,675
Policyholder distributions payable	50,000	50,000
Accounts payable and accrued expenses	<u>16,488</u>	<u>14,160</u>
Total liabilities	<u>1,229,614</u>	<u>1,049,438</u>
Policyholders' surplus	<u>1,188,719</u>	<u>1,152,971</u>
Total liabilities and policyholders' surplus	<u>\$ 2,418,333</u>	<u>\$ 2,202,409</u>

See accompanying notes to the financial statements.

Energy Insurance Mutual Limited

Statements of Income

(Expressed in Thousands of U.S. Dollars)

	Years ended December 31,	
	2020	2019
<u>Underwriting revenue</u>		
Net premiums earned		
Direct and assumed premiums earned	\$ 305,082	\$ 247,111
Ceded premiums earned	<u>(94,882)</u>	<u>(77,835)</u>
Net premiums earned	210,200	169,276
Ceding commission income	<u>3,516</u>	<u>2,271</u>
Total underwriting revenue	<u>213,716</u>	<u>171,547</u>
<u>Underwriting expenses</u>		
Net losses and loss adjustment expenses		
Direct and assumed losses and loss adjustment expenses	390,766	414,320
Ceded losses and loss adjustment expenses	<u>(162,199)</u>	<u>(182,129)</u>
Net losses and loss adjustment expenses	228,567	232,191
Policy acquisition costs	3,451	2,919
Administrative expenses	<u>12,243</u>	<u>13,656</u>
Total underwriting expenses	<u>244,261</u>	<u>248,766</u>
Loss from underwriting	(30,545)	(77,219)
<u>Investment income</u>		
Net realized gain on investments	69,700	145,049
Net investment income	<u>43,672</u>	<u>57,834</u>
Total investment income	<u>113,372</u>	<u>202,883</u>
Income before policyholders' distribution and income taxes	82,827	125,664
Distributions to policyholders	(50,000)	(100,000)
Income tax benefit (provision)	<u>2,921</u>	<u>(1,673)</u>
Net income	<u>\$ 35,748</u>	<u>\$ 23,991</u>

See accompanying notes to the financial statements.

Energy Insurance Mutual Limited

Statements of Changes in Policyholders' Surplus

(Expressed in Thousands of U.S. Dollars)

	<u>Accumulated Other Comprehensive Income</u>	<u>Member's Account Balance</u>	<u>Total Policyholders' Surplus</u>
Balance at January 1, 2019	\$ 186,892	\$ 948,277	\$ 1,135,169
Impact of adoption of ASU 2016-01 (Note A)	(180,703)	180,703	-
Net income - trading portfolio election (Note A)	(6,189)	6,189	-
Net income - all other sources	-	<u>17,802</u>	17,802
Net income - total	<u>-</u>	<u>23,991</u>	<u>-</u>
Balance at December 31, 2019	-	1,152,971	1,152,971
Net income	<u>-</u>	<u>35,748</u>	<u>35,748</u>
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 1,188,719</u>	<u>\$ 1,188,719</u>

See accompanying notes to the financial statements.

Energy Insurance Mutual Limited

Statements of Cash Flows

(Expressed in Thousands of U.S. Dollars)

	Years ended December 31,	
	2020	2019
Net income	\$ 35,748	\$ 23,991
Cash flows from operating activities:		
Add (deduct) items not affecting cash:		
Depreciation	275	324
Amortization of bond premium or discount	3,242	1,190
Net realized investment gain	(2,077)	(30,703)
Net change in fair value on securities held	(67,623)	(114,346)
Deferred income taxes	5,140	16,025
Changes in operating assets and liabilities:		
Reinsurance recoverables on unpaid and paid losses	(24,359)	(172,150)
Prepaid reinsurance premiums	(16,320)	(4,881)
Premiums receivable	(4,996)	(7,107)
Other	(5,463)	(12,438)
Reserve for losses and loss adjustment expenses	147,650	61,467
Unearned and advance premiums	20,561	39,271
Reinsurance premiums payable and funds held for reinsurers	4,499	5,946
Accounts payable and accrued expenses	347	1,245
Due from subsidiaries	(33)	18
Net cash from operations	96,591	(192,148)
Cash flows from investing activities:		
Cost of investments purchased	(516,204)	(536,316)
Proceeds from sales of investments	387,774	613,813
Proceeds from maturities of investments	71,207	82,013
Change in amount due from purchase/sale of securities	1,356	4,399
Income from alternative investments	(1,489)	(11,720)
Equity in earnings of subsidiaries	(222)	(682)
Purchases of fixed assets	(143)	(1)
Net cash from investing	(57,721)	151,506
Net change in cash and cash equivalents	38,870	(40,642)
Cash and cash equivalents, beginning of year	19,774	60,416
Cash and cash equivalents, end of year	\$ 58,644	\$ 19,774
Supplemental disclosure of cash flow information:		
Income taxes paid, net	\$ 5,450	\$ 1,825

See accompanying notes to the financial statements.

Energy Insurance Mutual Limited

Notes to Financial Statements

Years ended December 31, 2020 and 2019

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. On June 9, 1988, EIM was licensed by the State of Florida as an industrial insured captive insurance company. EIM operates as an eligible surplus lines insurer in all other states and the District of Columbia.

The Company is a mutual insurance company with membership available to any utility or member of the energy services industry that meets EIM's underwriting standards. The Company provides excess general liability, excess fiduciary liability, and excess directors and officers liability policies written on a claims first made basis. In addition, to a lesser extent, the Company writes property insurance for its members. All members have casualty policies in place, approximately one-third of those members have property policies as well. The Company also provides cyber liability coverage to its members.

Basis of Reporting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) promulgated by the Financial Accounting Standards Board Accounting Standards Codification (ASC or the guidance). Preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment in Subsidiaries

The Company is the sponsor and 100% common stockholder of Energy Insurance Services, Inc. (EIS), a sponsored cell captive insurance company domiciled in South Carolina. As a sponsored captive, EIS allows EIM members, known as Mutual Business Programs (MBPs), to insure or reinsure the risks of their sponsoring organizations, including property, general and environmental liability, asbestos, workers' compensation and retiree medical stop loss. Through participation agreements with the MBPs, the insurance risks underwritten by the MBPs are contractually limited to the funds available in the individual cells' 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 that most significantly impact their economic performance.

As of December 31, 2020, EIS has assets (exclusive of assets held in MBPs) of approximately \$13.9 million, policyholder's equity of \$4.4 million, and net income of approximately \$210,000. As of December 31, 2019, EIS had assets (exclusive of assets held in MBPs) of approximately \$11.6 million, policyholder's equity of \$4.2 million and net income of approximately \$660,000.

Energy Insurance Mutual Limited
Notes to Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

Investment in Subsidiaries (Continued)

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, 2020, ECM has assets of approximately \$1.2 million, member's equity of \$796,000, and net income of approximately \$13,000. As of December 31, 2019, ECM had assets of approximately \$954,000, member's equity of \$783,000 and net income of \$13,000.

Investments – 2019 Reclassifications and Adoption of New Accounting Standard

Effective January 1, 2019, EIM elected to reclassify its fixed maturity security portfolio to trading from available-for-sale. The reclassification did not change the carrying value of the portfolio, but resulted in prospective reporting of fair value changes as a component of net income, as opposed to the prior treatment of reporting such changes as a component of other comprehensive income. The accumulated difference between the portfolio's amortized cost and fair value at January 1, 2019 in the amount of \$7.8 million was recognized as a realized gain, along with a reduction to accumulated other comprehensive income, net of tax.

Also effective January 1, 2019, EIM adopted Accounting Standards Update (ASU) 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance requires that equity securities, with certain exceptions, be measured at fair value, with changes in fair value reported as a component of net income. The adoption did not change the carrying value of the Company's equity security portfolio, but resulted in a reclassification of \$180.7 million from accumulated other comprehensive income to Members' Account Balance at January 1, 2019.

Fixed Maturity Securities

Investments in fixed maturity securities are classified as trading and reported at fair value, with changes in fair value reported on the income statement. Purchase premium or discount is amortized to net investment income based on the scientific method.

Equity Securities

Investments in marketable equity securities are carried at fair value. The changes in fair value on equity securities held are reported on the income statement.

Energy Insurance Mutual Limited

Notes to Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

Alternative Investments

Alternative investments include interests in shares of investment funds (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. The Company has elected the fair value option with respect to the Funds, with all gains and losses associated with the Funds recorded 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.

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

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains certain cash and cash equivalent balances that are not subject to Federal Deposit Insurance Corporation. 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, the actual amount may be significantly in excess of or below than the amount recorded. Supplemental reserves (e.g., IBNR) are recorded based upon actuarial projections. Although considerable variability is inherent in these estimates, particularly due to the nature of the insured exposures, 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.

Energy Insurance Mutual Limited

Notes to Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

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, 2020 and 2019, 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 any related ceding commissions, to the extent deemed recoverable.

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 2020 and 2019, the Board of Directors approved the declaration of policyholder distributions in the amount of \$50 million and \$100 million, respectively.

COVID-19 Risks and Uncertainties

In March 2020, the World Health Organization declared a pandemic related to the rapidly spreading coronavirus (COVID-19) outbreak, which has led to a global health emergency. The Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on the Company and its policyholders, employees, and vendors. While the overall impact of the COVID-19 outbreak cannot be reasonably estimated at this time, management does not currently believe that it will have a material adverse effect on the Company's financial position or results of operations.

Energy Insurance Mutual Limited
Notes to Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

Subsequent Events

The Company has evaluated subsequent events for disclosure and recognition through February 19, 2021, the date on which these financial statements were available to be issued.

Note B - Insurance Activity

Premium activity for 2020 and 2019 is summarized as follows (*in Thousands of U.S. Dollars*):

<u>2020</u>	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
Premiums written	\$ 319,986	\$ 5,477	\$ (111,202)	\$ 214,261
Change in unearned premiums	<u>(20,944)</u>	<u>563</u>	<u>16,320</u>	<u>(4,061)</u>
Premiums earned	<u>\$ 299,042</u>	<u>\$ 6,040</u>	<u>\$ (94,882)</u>	<u>\$ 210,200</u>
<u>2019</u>	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
Premiums written	\$ 280,857	\$ 5,159	\$ (82,716)	\$ 203,300
Change in unearned premiums	<u>(38,953)</u>	<u>48</u>	<u>4,881</u>	<u>(34,024)</u>
Premiums earned	<u>\$ 241,904</u>	<u>\$ 5,207</u>	<u>\$ (77,835)</u>	<u>\$ 169,276</u>

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

	<u>2020</u>	<u>2019</u>
Gross balance, beginning of year	\$ 757,436	\$ 695,969
Less: reinsurance recoverables on unpaid losses and LAE	<u>(379,649)</u>	<u>(264,056)</u>
Net balance, beginning of year	377,787	431,913
Incurred related to:		
Current year	163,074	126,600
Prior years	<u>65,493</u>	<u>105,591</u>
Total incurred	<u>228,567</u>	<u>232,191</u>
Paid related to:		
Current year	1,151	233
Prior years	<u>97,956</u>	<u>286,084</u>
Total paid	<u>99,107</u>	<u>286,317</u>
Net balance, end of year	507,247	377,787
Plus: reinsurance recoverables on unpaid losses and LAE	<u>397,838</u>	<u>379,649</u>
Gross balance, end of year	<u>\$ 905,085</u>	<u>\$ 757,436</u>

Energy Insurance Mutual Limited
Notes to Financial Statements (Continued)

Note B - Insurance Activity (Continued)

During 2020, incurred losses and LAE attributable to events of prior years increased by approximately \$65.5 million. The unfavorable development of prior year losses related primarily to prior accident years 2014, 2017, and 2019, which increased by approximately \$71 million.

During 2019, incurred losses and LAE attributable to events of prior years increased by approximately \$105.6 million. The unfavorable development of prior year losses related primarily to prior accident years 2017 and 2018, which increased by approximately \$107.1 million. Favorable development occurred in accident year 2016, which decreased \$12.3 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, 2020 is as follows (*in Thousands of U.S. Dollars*):

Net liabilities for unpaid losses and allocated LAE	\$ 495,747
Reinsurance recoverables on unpaid losses and allocated LAE	397,838
Unallocated LAE	<u>11,500</u>
Gross liability for unpaid losses and LAE	<u><u>\$ 905,085</u></u>

The following is information about incurred and cumulative paid losses and allocated LAE, net of reinsurance, total incurred-but-not-reported (IBNR) reserves plus expected development on reported claims, net of reinsurance and the cumulative number of reported claims as of December 31, 2020 (*in Thousands of U.S. Dollars, Except Number of Claims Data*):

<u>Accident Year</u>	<u>Incurred</u>	<u>Cumulative Paid</u>	<u>IBNR Plus Expected Development on Reported Claims</u>	<u>Cumulative Number of Reported Claims</u>
2011	\$ 11,445	\$ 10,753	\$ 536	207
2012	96,842	81,951	3,155	222
2013	119,378	107,221	2,331	218
2014	57,989	14,156	2,641	206
2015	181,740	177,661	3,880	209
2016	58,295	46,042	12,228	304
2017	187,525	117,197	24,567	260
2018	234,396	191,809	36,948	212
2019	138,087	2,434	64,117	233
2020	<u>158,615</u>	<u>1,151</u>	<u>151,484</u>	200
Total	<u><u>\$ 1,244,312</u></u>	<u><u>\$ 750,375</u></u>	<u><u>\$ 301,887</u></u>	

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.

Energy Insurance Mutual Limited

Notes to Financial Statements (Continued)

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 2020 and 2019 reinsurance treaties are \$225,600,000 and \$240,000,000 with respect to general liability and \$81,780,000 and \$87,000,000 with respect to directors and officers, general partner, and fiduciary liability, respectively.

In 2019, the Company amended the 2018 treaty covering 61.5% of the risk to include extended reporting of claims related to certain wildfires. The reinsurers will be bound to the same coverage as above but the Company will pay additional premium in the amount of 25% of any ceded claim resulting from wildfire losses over \$5,000,000 up to \$25,000,000. There were no wildfire claims reported under this contract in 2020 and two reported in 2019. The Company recognized additional ceded premiums of \$0 and \$6,150,000 related to the ceded losses in 2020 and 2019, respectively.

Beginning in 2003, the Company entered into a reinsurance arrangement with Nuclear Electric Insurance Limited (NEIL) whereby NEIL provides excess of loss reinsurance on the directors and officers and general partner book of business for 80% of \$20,000,000 in excess of \$30,000,000.

The property book of business is primarily reinsured by NEIL. In addition, the Company also has an arrangement with NEIL whereby its non-nuclear property book of business is fronted by EIM. The Company writes directly and assumes certain members' cyber liability risk. A portion of this business is ceded to NEIL.

The Company writes certain excess general liability policies above its main excess of loss treaty. For these particular policies, EIM will enter into a facultative agreement with the particular policyholder that has the option to co-insure with NEIL depending on the excess limits.

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, National Indemnity Company, and various Lloyds of London syndicates, comprising 30%, 18% and 15%, respectively, of the balance at December 31, 2020. At December 31, 2019 the reinsurance recoverable on paid and unpaid losses due from NEIL, OCIL, National Indemnity Company, and various Lloyds of London Syndicates comprised of 31%, 10%, 15% and 16%, respectively. The remaining balance is comprised of amounts due from various reinsurers, each not exceeding 12% of the total for 2020 and 2019.

Energy Insurance Mutual Limited
Notes to Financial Statements (Continued)

Note C - Investments

Current accounting guidance establishes a three-level hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1), the next priority to quoted prices for identical assets in inactive markets or similar assets in active markets (Level 2) and the lowest priority to unobservable inputs (Level 3).

The following table presents the Company's investment securities within the fair value hierarchy, indicating the objectivity and reliability of the inputs used to value those securities at December 31, 2020 (*in Thousands of U.S. Dollars*):

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed maturity securities, trading	\$ 1,068,040	\$ -	\$ 1,068,040	\$ -
Equity securities	<u>459,100</u>	<u>459,100</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,527,140</u>	<u>\$ 459,100</u>	<u>\$ 1,068,040</u>	<u>\$ -</u>

There were no transfers into or out of the Level 3 during 2020.

The net realized gain on investments for the years ended December 31, 2020 and 2019 is composed of the following (*in Thousands of U.S. Dollars*):

	<u>2020</u>	<u>2019</u>
Net realized gain on securities sold	\$ 2,077	\$ 30,703
Gain on trading portfolio election	-	7,835
Net holding period gain on securities held, fixed maturity securities	18,545	29,272
Net holding period gain on securities held, equity securities	<u>49,078</u>	<u>77,239</u>
Net realized gain on investments	<u>\$ 69,700</u>	<u>\$ 145,049</u>

As of December 31, 2020, about 1% of all debt securities have a below investment-grade bond rating by at least one nationally recognized credit rating agency or the equivalent.

The composition of net investment income for the years ended December 31, 2020 and 2019 is composed of the following (*in Thousands of U.S. Dollars*):

	<u>2020</u>	<u>2019</u>
Interest income	\$ 29,835	\$ 35,223
Dividend income	12,510	14,422
Income from subsidiaries	222	682
Income from alternative investments	5,537	11,972
Other	<u>(15)</u>	<u>(21)</u>
Gross investment income	48,089	62,278
Investment management fees	(4,376)	(4,406)
Interest expense	<u>(41)</u>	<u>(38)</u>
Net Investment Income	<u>\$ 43,672</u>	<u>\$ 57,834</u>

Energy Insurance Mutual Limited
Notes to Financial Statements (Continued)

Note C - Investments (Continued)

At December 31, 2020 and 2019, EIM holds investments with a total fair value of approximately \$25 million and \$24 million, respectively, in issuers who are also policyholders.

Alternative investments include the following investment categories as of December 31 (*in Thousands of U.S. Dollars*):

	<u>2020</u>	<u>2019</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Catastrophe reinsurance	\$ 32,427	\$ 26,422	Quarterly	90 days
High-yield bank loan	101,699	98,078	Monthly	30 days
Core real estate	112,437	111,713	Quarterly	45 days
Industrial real estate	<u>6,278</u>	<u>5,494</u>	Quarterly	60 days
Total	<u>\$ 252,841</u>	<u>\$ 241,707</u>		

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

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

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

The fair values of all alternative investment fund classes have been estimated using the net asset value per share. As of December 31, 2020, there is \$8 million in unfunded commitments related to these investments.

Energy Insurance Mutual Limited
Notes to Financial Statements (Continued)

Note D - Federal Income Taxes

The components of the benefit (provision) for federal income taxes for the years ended December 31, 2020 and 2019 are as follows *(in Thousands of U.S. Dollars)*:

	<u>2020</u>	<u>2019</u>
Current income tax benefit	\$ 8,061	\$ 14,352
Deferred income tax provision	<u>(5,140)</u>	<u>(16,025)</u>
Total income tax benefit (provision)	<u>\$ 2,921</u>	<u>\$ (1,673)</u>

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, income from subsidiaries, and true-ups of prior year income tax accruals.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was enacted and signed into law. Amongst other provisions, the CARES Act allows Companies to carry back certain net operating loss to taxes paid in each of the five preceding taxable years. As a result, the Company recognized a \$6.9 million tax benefit resulting from the rate differential of carrying back its 2019 net operating loss to years taxed at a 35% rate.

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. In 2020 and 2019, the Company measured its deferred tax items at its effective tax rate of 21%.

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)*:

	<u>2020</u>	<u>2019</u>
Deferred tax assets:		
Unpaid losses and LAE	\$ 7,124	\$ 4,516
Unearned premiums	5,350	5,174
Accrued expenses and other	<u>3,479</u>	<u>2,112</u>
Total deferred tax assets	15,953	11,802
Deferred tax liabilities:		
Fair value adjustments on securities, net	(68,381)	(59,823)
Fair value adjustments on alternatives, net	(4,901)	(4,268)
Bond amortization	(955)	(810)
Other	<u>(531)</u>	<u>(576)</u>
Total deferred tax liabilities	<u>(74,768)</u>	<u>(65,477)</u>
Net deferred tax liability	<u>\$ (58,815)</u>	<u>\$ (53,675)</u>

Energy Insurance Mutual Limited

Notes to Financial Statements (Continued)

Note D - Federal Income Taxes (Continued)

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, 2020 and 2019, 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 2020 and 2019, EIM provided reinsurance to certain EIS cells. For the years ended December 31, 2020 and 2019, premiums earned included \$451,000 and \$981,000 of premium assumed from EIS, respectively. During 2020 and 2019, EIM ceded premiums earned of \$1.5 million and \$165,000 to EIS, respectively. EIS reimburses ECM for certain expenses incurred related to the 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 within 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% of liabilities arising from business on or after January 1, 1998. At December 31, 2020 and 2019, the balance in the trust fund was in excess of \$150,000,000. The trust funds have been included in the accompanying balance sheets within the fixed maturity securities.

Energy Insurance Mutual Limited

Notes to Financial Statements (Continued)

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. During 2020 and 2019, there were no draws or payments made under the line of credit.

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. Current and/or retired employees hired after December 31, 2011, are required to contribute 50% of the medical plan COBRA rate, upon fulfilling the eligibility requirements under the Plan. Employees hired after June 1, 2017 are not eligible under the Plan. The Plan is unfunded.

The assumed discount rate used to determine the benefit obligation is 2.65% for 2020. The assumed healthcare cost trend rate is 5.8% for 2020, trending to 4.5% by 2037. The Company recognized a liability representing the actuarially determined accumulated post-retirement benefit obligation in the amount of \$9,679,000 and \$9,079,000 as of December 31, 2020 and 2019, respectively.

Note J - Margin of Solvency

In order to meet the requirements of the Laws of Barbados, the Company must have contributed reserves of \$18 million. The policyholders' surplus provided an excess margin of solvency of approximately \$1.2 billion at December 31, 2020.

Required Supplementary Information

Energy Insurance Mutual Limited

Required Supplementary Information (unaudited)

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	\$ 74,159	\$ 70,584	\$ 44,988	\$ 40,534	\$ 16,729	\$ 15,245	\$ 11,946	\$ 11,753	\$ 11,565	\$ 11,445
2012		118,098	98,195	114,696	101,068	89,380	87,776	86,057	97,646	96,842
2013			107,503	80,064	133,300	125,652	118,521	125,340	121,508	119,378
2014				104,082	74,447	66,923	57,845	54,037	44,411	57,989
2015					152,607	172,589	158,105	169,930	182,232	181,740
2016						101,671	87,042	69,607	59,243	58,295
2017							146,429	112,609	144,520	187,525
2018								153,984	232,998	234,396
2019									120,841	138,087
2020										<u>158,615</u>
Total										<u><u>\$1,244,312</u></u>

Energy Insurance Mutual Limited

Required Supplementary Information (unaudited) (Continued)

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

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	\$ 876	\$ 5,560	\$ 8,851	\$ 9,981	\$ 10,257	\$ 10,647	\$ 10,649	\$ 10,712	\$ 10,725	\$ 10,753
2012		1,210	6,132	9,324	38,781	40,039	72,804	77,104	79,786	81,951
2013			1,527	3,036	55,626	94,806	100,665	106,280	106,890	107,221
2014				1,450	1,986	2,398	13,411	13,474	13,483	14,156
2015					695	141,523	142,183	142,445	143,574	177,661
2016						483	6,555	12,580	45,963	46,042
2017							93	2,270	55,505	117,197
2018								187	194,978	191,809
2019									1	2,434
2020										1,151
Total										<u>\$ 750,375</u>

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

Incurred losses and allocated loss adjustment expenses, net of reinsurance	\$1,244,312
Less cumulative paid losses and allocated loss adjustment expenses, net of reinsurance	(750,375)
All outstanding liabilities before 2011, net of reinsurance	<u>1,810</u>
Liabilities for losses and loss adjustment expenses, net of reinsurance	<u>\$ 495,747</u>

Energy Insurance Mutual Limited

Required Supplementary Information (unaudited) (Continued)

The following is the average historical claims duration as of December 31, 2020:

Average Annual Percentage Payout of Incurred Claims by Age										
Years	1	2	3	4	5	6	7	8	9	10
	1.5 %	24.7 %	14.3 %	26.1 %	1.6 %	12.1 %	1.5 %	1.2 %	1.2 %	0.2 %