Reflecting on the past, illuminating the future.

2016 Annual Report
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APPLYING LESSONS FROM THE PAST TO CREATE A STRONGER FUTURE.

FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

At February 2017’s Risk Managers Information Meeting, EIM adopted the theme, “Reflecting on the Past, Illuminating the Future,” illustrating how experience has made the Company stronger. From the 2002-03 systemic energy industry Directors and Officers liability losses, to 2007’s unprecedented wildfire losses, to the stock market collapse in 2008, each challenge successfully met has strengthened EIM, making the Company more resilient and better prepared for the future.

Reflecting on the Past

Last year marked the completion of a three-year strategic plan incorporating many of the lessons learned throughout EIM’s 31-year history. While 2016 was a strong year from an operating, underwriting and investment perspective, it was equally satisfying to see 2014-16 performance metrics meet or exceed projections—even in the face of substantial loss activity and a volatile investment environment.

Three 2016 milestones deserve note. First, a policyholders’ surplus in excess of $1 billion was reported for the first fiscal year in Company history. The closing surplus of $1.028 billion represents a significant accomplishment when you consider that EIM started in 1986 with $75 million in capital. A second milestone was surpassing $2 billion in total inception-to-date gross claim payments. The ability and willingness to pay claims is a foundational principle, and EIM’s more than $2 billion in gross claim payments since 1986 underscores this longstanding commitment. The third 2016 milestone was the EIM Board-approved Member Company distribution of $25 million. This 20% increase over 2015 marks the fifth consecutive year that EIM has returned capital to members, bringing total distributions to more than $280 million. All three benchmarks reflect EIM’s ongoing ability to meet challenging market conditions, while continuing to provide a stable, responsive risk management vehicle for Member Companies.

In addition, seven key financial benchmarks were tracked over the course of the 2014-16 plan. EIM consistently met or exceeded five of these each year, bettering all seven over the three-year period.

Surplus: Not only did EIM’s surplus growth exceed projections each year, surplus increased by 15.5% from $890 million to $1.028 billion. This topped the plan’s original target of $964 million by $64 million, or 6.6%.
**THREE-YEAR AVERAGE SURPLUS GROWTH:**
Targeted at 4% a year, EIM’s three-year annual average surplus growth was $46 million, or 5.2% annually, 30% better than planned.

**NET PREMIUM EARNED:** Ending 2016 at $140 million or slightly above the original projection of $135 million, this benchmark exceeded budget in each of the three plan years.

**NET EXPENSE RATIO:** Net expense ratio consistently met or surpassed the 9% annual target, averaging 8%.

**RISK CAPACITY:** Risk capacity is the measure of capital needed to sustain a 1:200TVaR event while retaining sufficient surplus for an “A” rating from A.M. Best. EIM exceeded the 100% benchmark each year, closing 2016 at 135%, or 35% better than forecast.

**NET LOSS RATIO:** Above plan at 96% in 2015, the net loss ratio rebounded in 2016 to 68%. EIM achieved a three-year average net loss ratio of 77%, bettering EIM’s targeted 90% ratio by 14.4%. The net loss ratio and net expense ratio produced a three-year average combined ratio of 85%, a 14% improvement over the targeted 99% net combined loss ratio.

**INVESTMENT RETURN:** The 2015 investment return on EIM’s $1.9 billion portfolio was 2%, falling 50% short of target. In 2016, however, EIM returned 4.5% on the portfolio, bringing the average three-year investment return to 4.7%, or 17.5% better than forecast.

Much of EIM’s strong performance over the last three years is rooted in a rigorous enterprise risk management (ERM) process initiated in 2009. The process incorporates the many lessons learned from historical events. As an example, EIM’s updated investment guidelines allow for more diversification in the portfolio and minimize downside risk, while prudently capitalizing on upside opportunities. Similarly, new underwriting tools ensure that EIM product pricing better corresponds to the risk assumed. These straightforward tenets limit combined investment and underwriting risk to no more than a 10% likelihood of a 20% drop in surplus during any given year.

The ERM process positions EIM to weather not only financial hurricanes, but natural disasters and systemic losses as well. Both Energy Insurance Services, Inc. and Energy Captive Management, LLC have adopted similar ERM platforms, developing risk metrics focused on alternative risk solutions and administrative support provided to EIM members.

**ILLUMINATING THE FUTURE**
As EIM embarks on its updated 2017-2019 strategic plan, the Company will continue to build on a tradition...
of consistency and stability. The updated plan addresses anticipated short and long-term changes in the utility and energy services industries, including continued consolidation, evolving technology, and fundamental shifts in the generation, transmission and distribution infrastructure. Some of these changes may impact EIM over the next 12-36 months. Others may not be fully felt for five to 10 years.

This changing landscape will unfold amidst an ongoing competitive insurance marketplace, applying continued pressure on EIM to maintain Member Company loyalty while sustaining adequate premium levels for all lines of business. EIM firmly believes its mutual structure, Member Company commitment, and differentiated coverage terms (particularly on its excess General Liability policy) will enable it to meet these challenges.

Over the next three years, EIM will again monitor the seven key financial benchmarks that underscored the Company’s recently concluded strategic plan. Policyholders’ surplus, after Board-authorized distributions and taxes, will slowly and steadily increase at an annual rate of about 2.5%. This growth will be driven by an expected net loss ratio of 90%, coupled with a net expense ratio of 8%. Investment return is projected at 3.6%.

After remaining flat in 2017 due to ongoing industry consolidation, net premium earned will grow by 2.5-3.5% in each of the ensuing fiscal years, driven by increased cyber liability coverage, new business opportunities and a small expansion of EIM’s property portfolio.

Risk capacity will remain targeted at 100%. Any excess capital will be earmarked for either new or expanded lines of business or returned to Member Companies via distributions.

The success of EIM’s updated strategic plan depends on sustained Member Company support, continued guidance from an engaged Board of Directors, and an active Insurance Advisory Committee. Even in a competitive insurance market, EIM has benefited greatly from the contributions of each. We look forward to similar support in the future, which will be augmented by experienced and dedicated EIM, EIS and ECM staff.

Reflecting EIM’s longtime collaboration with Member Companies, this annual report highlights historical energy industry milestones, contrasting them with emerging innovations. Although separated by more than a century, these accomplishments are connected by the common thread of experience leading to a more enlightened future.

As we consider EIM’s decades-long history, there have indeed been many lessons learned. All have served to create a more effective organization—one financially stronger and better positioned to effectively respond to Member Company needs.

Although this learning process will continue, EIM’s past has undoubtedly provided the beacon for a brighter, more illuminated future.

Scott K. Goodell
President and Chief Executive Officer

REFLECTING ON THE PAST, ILLUMINATING THE FUTURE.
Although most people credit the invention of the light bulb to Thomas Alva Edison’s 1879 creation, he was far from the first to invent electric lighting. Sir Humphrey Davy, a British chemist and physicist, introduced electric arc lighting in 1808. Afterward, many others contributed to the light bulb’s development.

Edison was simply the first among them to develop an invention practical enough for commercial and residential use. For this reason, Edison and his incandescent light bulb are almost universally associated with electric lighting in the U.S.

As important as Edison’s incandescent light bulb was to the popularization of electric lighting, the part of the story that’s less well known, however, is the great lengths Edison went to gain such popularity. His brightest idea may well have been the legendary Pearl Street Generating Station, without which his incandescent bulb might have gone little further than the drawing board.

Established in 1882, the Pearl Street Station’s generation of electricity made Edison’s invention practical for nearby businesses and homes.
Established in 1882, the Pearl Street Station’s generation of electricity made Edison’s invention practical for nearby businesses and homes. Edison knew this would be the case. He’d done a great deal of marketing research beforehand.

He carefully chose the station’s location precisely for its densely populated neighborhood with an ideal mix of both commercial and residential customers. It was by no means accidental that the Pearl Street location he settled on happened to be in a one-quarter square mile stretch in the heart of lower Manhattan’s business district—which would eventually become the financial capital of the United States.

The Pearl Street Station opened at 3:00 on the afternoon of September 4, 1882, delivering a complete system for the provision of electric lighting to 82 residential and commercial customers. Edison’s choice location quickly paid off. By 1884, the power station’s customer base had grown to 508.

Many of Edison’s clever business decisions paid off as well. For starters, he replaced the station’s original Porter-Allen high-speed steam engines with new, more reliable ones from Arlington & Sims. These proved to be much more suitable for powering his dynamos.

Another smart decision was to reduce the amount of costly copper needed for a two-wire, 110-V configuration by replacing it with a 220-V, three-wire design. This resulted in significant cost savings as Edison’s power grid continued to grow. And continue to grow, it did.

The Edison Electric Illuminating Company went on to become Con Edison, which today serves both New York City and Westchester County. The company’s success is due in large part to Edison’s continued wise business decisions. As a result, his incandescent electric light bulb is widely credited with having revolutionized the American lifestyle.

Although the Pearl Street Station has long since been demolished, those in the know still recognize it as the true source behind America’s love affair with electric lighting. It could easily be argued, therefore, that Edison’s greatest light bulb moment was not so much his invention of the incandescent bulb, but rather the generating station he built to power it.

The Pearl Street Generating Station not only ensured the light bulb’s popularity. It earned Edison a place in American history.
One of the first hydroelectric plants in the U.S., the Schoellkopf Power Plant was built on land purchased by Jacob Friedrich Schoellkopf in 1877. Schoellkopf paid $71,000 for the water, power rights and hydraulic canal land situated above Niagara Gorge, just 1,600 feet downriver from the Rainbow Bridge on the American Falls.

An astute businessman, Schoellkopf quickly recognized the potential for electricity and harnessed the power of Niagara Falls to supply the area’s needs. He adapted current technology to create one of the first hydroelectric generating stations in the world. The plant gained fame in 1881 when Schoellkopf offered power from his water turbines to generate the first electric lighting used for the “Illumination of Niagara Falls.”

Thanks to a growing need for electricity, Schoellkopf’s venture continued to expand. After his death in 1903, his sons took over the power business, building a second power station in 1904. In 1918, the Schoellkopf plant merged with Niagara Falls Power Company and became known by that name.

The original Schoellkopf Power Plant has since become best known for the events of June 7, 1956. This was the day much of the plant came tumbling down into the Niagara River below. Two-thirds of the plant was destroyed, one worker was killed, and an entire city of 100,000 was left without power.
Early that morning, workers had noticed water leaking from the power station’s walls. After working feverishly throughout the day to stop the leak, most evacuated around 5:30 that afternoon. Soon after, a loud roar was heard, the wall opened up, and debris rained down the side of the gorge. Two other roars followed in rapid succession, leaving white smoke billowing into the air.

Of the approximately 40 workers who had been inside, miraculously, all but one survived. Foreman Richard Draper was thrust from the building at the time of the collapse and found dead in the water days later. All other workers managed to escape or were rescued from the river below.

The disastrous events also hurled six turbine generators down the side of the 220 foot gorge. Only one of three plant sections survived. Total damages were estimated at more than $100 million dollars.

The cause? Apparently, cuts in the rock face made over the years had allowed gradual erosion, leaving the wall vulnerable.

Thankfully, the power loss was quickly offset by the Ontario Hydro Electric Commission, which provided electricity to the area left without power. The remaining section of the original Schoellkopf plant remained in production at reduced volume until 1961. At that time, a new plant was commissioned.

Today, the only remnant of the original Schoellkopf Power Plant is the stone beautification wall, now listed in the National Register of Historic Places. At certain times of the year, however, the river’s flow reveals glimpses of the old plant beneath its surface, including a few twisted steel girders and a wrecked generator turbine.
In 1886, not long after Thomas Edison lit up New York City with his power plant, an engineer by the name of William Stanley was tasked with finding a way to distribute electricity to the widespread population. Backed by the generous resources of George Westinghouse, and relying on previous work in Paris by Lucien Gaulard and John D. Gibbs, Stanley set out to develop a prototype distribution system.

The problem he needed to solve was that the direct current (DC) used to generate electricity at the time was difficult to transmit over long distances. Although the current produced by the power plants was generated at a low voltage, a much higher voltage was needed to send electricity through wires to customers farther away from a power plant.

To overcome this obstacle, the current not only had to be stepped up to make the long trip, but it would need to be stepped down again before it could enter its final destination. Otherwise, the high voltage would create a safety hazard, blowing out the appliances it was meant to power.

Westinghouse astutely purchased the rights to the early transformer Gaulard and Gibbs had developed in Paris. Working with this design, and inspired by Charles F. Brush’s work on batteries, Stanley came up with an E-shaped core that placed induction cells in parallel rather than in series.

An expert in electromagnetic fields, Stanley designed his transformer with wrapped coils to alternate the voltage from...
low to high for transmittal through the wires. His system then used a reverse design on the opposite end to safely lower the voltage back down again. The result is what we know today as alternating current or AC power.

Most significantly, what Stanley invented, and successfully demonstrated in Great Barrington in March, 1886, was the first complete distribution system for electrical current. This gave Westinghouse the confidence to financially back the AC system with his significant resources. Soon after, General Electric came on the scene, and the rest is history.

Stanley’s initial prototype led to further advances and improvements in the distribution system, making AC the generally accepted current over DC and the perfectly adequate ZBD system developed in Hungary around the same time. Stanley’s Great Barrington transformer has since evolved into the power distribution system still in general use today.

Westinghouse astutely purchased the rights to the early transformer Gaulard and Gibbs had developed in Paris.

Had it not been for Andrew Carnegie, however, the Great Barrington Electrification would have likely been known by a much different name. Stanley’s initial work took place in Pittsburgh, Pennsylvania, until he developed a breathing problem due to the air pollution generated by Carnegie’s steel mills. Advised by his doctor to relocate, Stanley moved his lab, his equipment and, ultimately, his history-making moment to Great Barrington, Massachusetts.
For anyone looking to live in the city of the future, the wait is nearly over. Thanks to a partnership between Xcel Energy, Panasonic, the City of Denver and others, construction on Peña Station NEXT is well underway.

When completed, this futuristic city, located near Denver International Airport and connected to downtown Denver by light rail, will be home to an apartment complex, hotel, parking, and road and transportation infrastructure. Even more impressive, it will feature smart street lighting, ultra-fast, community Wi-Fi, electric vehicle charging stations, autonomous vehicles, a smart bus shelter, environmental sensing, interactive digital signage and a solar-plus-storage microgrid.

Peña Station NEXT will also be home to the technology and operations hub for Panasonic Enterprise Solutions Company and Panasonic CityNOW. Through a public/private partnership, Xcel Energy and Panasonic have installed a multi-use Younicos battery storage system at Panasonic that also can act as a microgrid. In case of a grid outage, the battery can be switched to a microgrid function to support critical Panasonic functions.

This unique opportunity is funded through the utility’s Innovative Clean Technology (ICT) program. Initially approved by the Colorado Public Utilities in 2009, Xcel Energy’s ICT program allows it to test and evaluate an emerging technology’s cost, reliability and environment performance on a small, demonstration scale to determine if it is cost effective and ready to be deployed more widely for Xcel Energy customers. The program also
aims to lower greenhouse gas emissions and provide other environmental benefits, such as lowering carbon emissions. “After the two-year microgrid pilot is complete, the battery will be set at its optimal settings for the rest of its 10-year life span,” said Beth Chacon, Xcel Energy’s Director of Grid Storage and Emerging Technologies.

“All partners involved in the project look forward to learning how to leverage this type of battery storage to increase electric grid reliability,” Chacon continued. “We look forward to understanding how this technology can support a more modern grid with high amounts of renewable energy on the system,” Chacon continued.

For now, the battery storage system shows great promise of becoming a nimble, growing and potentially price-competitive resource. As battery prices fall and more is learned about the technology, there will be additional applications, all providing benefits to the utility and its customers.

Meanwhile, Panasonic and Xcel Energy continue to advance solutions to speed grid integration, making Peña Station NEXT a proving ground for bringing an aging power grid into the future. These solutions coincide with broader efforts to modernize the power grid.

If nothing else, innovative solutions such as these are making futuristic cities like Denver’s Peña Station NEXT a fast-emerging reality. They are also proving that the future of our current power grid system may be brighter than initially anticipated. And quite possibly, a lot smarter, too.
DOMINION TRANSMISSION, INC.’S USE OF ULTRASONIC SENSING TECHNOLOGY FROM SENSOR NETWORKS, INC.

ILLUMINATING THE FUTURE USING SENSOR TECHNOLOGY TO BYPASS DOWNTIME

A recent Dominion Transmission, Inc. (DTI) inline inspection (ILI) report showed internal corrosion indications at two (2) separate locations on a 24” natural gas transmission pipeline in Central Pennsylvania. Dominion excavated the sites, and secured a third-party vendor to perform digital X-ray and ultrasonic (UT) C-scan mapping on the affected areas. An engineering assessment confirmed that the pipeline was safe to operate under current operating parameters. DTI elected to install ultrasonic sensors from Sensor Networks, Inc. (SNI), in order to proactively monitor these indications of internal corrosion. Future ILI inspections will compare the ILI data to the sensor information, providing another method of confirming the accuracy of the ILI assessment.

At Site #1, a smartPIMS Modbus was installed with eight (8) dual element sensor probes. At Site #2, one (1) smartPIMS Modbus was installed with four (4) dual element sensor probes. One (1) matPIMS 1x15 mat was also installed. These sensor probes were permanently attached to the pipeline. The pipeline was then backfilled along with the sensors. The sensors allow DTI to monitor the internal corrosion indications as identified by the ILI data. A DTI Corrosion Technician will visit the site each month to download pipe-wall thickness data readings onto a tablet, using proprietary software from SNI. These monthly wall thickness readings will determine whether there is ongoing corrosion, and if so, the rate of corrosion.

SNI is a U.S.-based technology company that designs and manufactures ultrasound-based sensors. These sensors can be attached to assets and infrastructure such as DTI’s
pipelines. Installation can be either permanent or temporary. Once installed, the sensors can monitor known areas of internal corrosion to evaluate ongoing integrity. The sensors can also be used to evaluate potentially problematic areas. Prior to this technology, asset owners gathered data manually in order to plan maintenance and make critical decisions about asset integrity. Today, sensors can be installed not only in locations where corrosion is suspected, but in areas where the manual gathering of data is difficult, expensive or unsafe. Access to high quality, timely data allows the owner to monitor the asset like never before, enhancing the ability to develop better, predictive-based maintenance schedules.

“Sensor Networks Inc. is very pleased and proud to have this unique opportunity to work with Dominion and deploy our Ultrasonic IoT corrosion monitoring system on their infrastructure” said Dr. James Barshinger - Company President & CTO. “Remotely tracking the growth of these individual pits and general corrosion rates in a buried pipeline is a perfect application for our technology coupled with remote client access to the data through our web portal.”

Sensors have been installed in refineries and petrochemical plants; pipelines for storage, transmission, distribution, midstream and liquids; and power generation facilities. Once installed, these sensors monitor metal loss on a specified interval, either manually or wirelessly. These sensors can generate a corrosion rate by measuring wall thickness values over a time period, and can alert the operator when desired thresholds are reached. The data helps the owner’s process control and inspection teams assess risks and extend the life of the asset. Adopters of sensor technologies are able to monitor their facilities in a way that saves time, money and downtime.
Established in 1903, PSEG is a diversified energy company that has long held a key role in powering New Jersey’s economy and supporting the Garden State’s quality of life. In addition to being New Jersey’s largest electricity provider, PSEG is among the nation’s leading solar developers.

PSEG has long been recognized for its environmentally responsible operations. It has been included in the Dow Jones North American Sustainability list for nine consecutive years. PSEG’s two largest subsidiaries, Public Service Electric & Gas (PSE&G) and PSEG Power, each have a solar development business.

The company’s regulated electric and gas utility, PSE&G, either owns or has helped finance more than 215 megawatts-dc of solar capacity in New Jersey through its Solar Loan and Solar 4 All® programs. The Solar Loan effort helps finance the installation of solar systems for homes and businesses in the utility’s electric service territory. Solar 4 All® develops grid-connected, universal solar projects that provide solar power to all PSE&G electric customers. Solar 4 All® has been recognized with awards from the Solar Electric Power Alliance, New Jersey Business and Industry Association, PowerGrid International Magazine, and the New Jersey Association of Energy Engineers.

Solar 4 All® currently has more than 174,000 pole-attached solar units and 31 centralized solar facilities in service throughout New Jersey. These centralized solar projects are built on rooftops, parking lots, landfills and brownfields. In fact, of the 31 centralized solar projects currently in service, nine are built on reclaimed landfills or brownfields, giving new
life to more than 190 acres of space that would otherwise have very limited development opportunities.

In addition to being New Jersey’s largest electricity provider, PSEG is among the nation’s leading solar developers.

On the unregulated side of the company’s business, PSEG Solar Source develops, constructs, owns and operates large-scale solar facilities outside of PSE&G’s service territory. The company focuses on developing large-scale solar facilities and has 19 solar facilities in operation in 13 states that have a total capacity of 350 megawatts. PSEG Solar Source facilities range in size from 2.2 megawatt to the massive 62.7 megawatt PSEG Pavant II Solar Center in Utah.
FINANCIALS AND NOTES TO THE FINANCIALS

THE FINANCIAL STATEMENTS TO THIS ANNUAL REPORT HAVE BEEN APPROVED BY THE BOARD OF DIRECTORS OF ENERGY INSURANCE MUTUAL LIMITED.

Marian M. Durkin | Chairman of the Board
March 1, 2017

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, 2016 and 2015 and the related statements of income and comprehensive income, changes in policyholders' surplus and cash flows for the years then ended and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Energy Insurance Mutual Limited at December 31, 2016 and 2015, 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.

Jacksonville, Florida
March 1, 2017
Energy Insurance Mutual Limited
Balance Sheets
(Expressed in Thousands of U.S. Dollars)

### As of December 31, 2016

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<th>Assets</th>
<th>2016</th>
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<tr>
<td>Investments, available-for-sale</td>
<td>$1,355,647</td>
<td>$1,361,051</td>
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<td>Alternative investments</td>
<td>164,040</td>
<td>150,141</td>
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<td>Investment in subsidiaries</td>
<td>3,295</td>
<td>3,159</td>
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<td><strong>Total investments</strong></td>
<td><strong>1,522,982</strong></td>
<td><strong>1,514,351</strong></td>
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<td>Cash and cash equivalents</td>
<td>39,696</td>
<td>76,025</td>
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<tr>
<td>Reinsurance recoverables on unpaid losses</td>
<td>338,780</td>
<td>402,203</td>
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<tr>
<td>Reinsurance recoverables on paid losses</td>
<td>15,707</td>
<td>37</td>
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<tr>
<td>Prepaid reinsurance premiums</td>
<td>39,444</td>
<td>43,634</td>
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<tr>
<td>Accrued investment income</td>
<td>7,236</td>
<td>7,953</td>
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<td>Receivables for securities sold</td>
<td>2,685</td>
<td>3,543</td>
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<td>Premiums receivable</td>
<td>8,186</td>
<td>7,446</td>
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<td>Deferred policy acquisition costs</td>
<td>1,105</td>
<td>1,051</td>
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<tr>
<td>Income taxes recoverable</td>
<td>726</td>
<td>1,837</td>
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<tr>
<td>Other assets</td>
<td>809</td>
<td>621</td>
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<tr>
<td><strong>Total assets</strong></td>
<td><strong>$1,977,356</strong></td>
<td><strong>$2,058,701</strong></td>
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### Liabilities and policyholders’ surplus

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<tr>
<th>Liabilities</th>
<th>2016</th>
<th>2015</th>
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<tr>
<td>Reserve for losses and loss adjustment expenses</td>
<td>$673,877</td>
<td>$839,222</td>
</tr>
<tr>
<td>Unearned and advance premiums</td>
<td>121,825</td>
<td>120,975</td>
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<tr>
<td>Reinsurance premiums payable and funds held for reinsurers</td>
<td>8,574</td>
<td>20,131</td>
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<tr>
<td>Net deferred tax liability</td>
<td>72,365</td>
<td>67,697</td>
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<tr>
<td>Policyholder distributions payable</td>
<td>25,000</td>
<td>20,000</td>
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<tr>
<td>Accounts payable and accrued expenses</td>
<td>12,588</td>
<td>12,210</td>
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<tr>
<td>Line of credit</td>
<td>16,500</td>
<td>-</td>
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<tr>
<td>Payables for securities purchased</td>
<td>10,470</td>
<td>5,891</td>
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<tr>
<td>Due to subsidiaries</td>
<td>7,790</td>
<td>129</td>
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<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>948,989</strong></td>
<td><strong>1,086,255</strong></td>
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<thead>
<tr>
<th>Policyholders’ surplus</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated other comprehensive income</td>
<td>167,068</td>
<td>164,930</td>
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<tr>
<td>Members’ account balance</td>
<td>861,299</td>
<td>807,516</td>
</tr>
<tr>
<td><strong>Total policyholders’ surplus</strong></td>
<td><strong>1,028,367</strong></td>
<td><strong>972,446</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total liabilities and policyholders’ surplus</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$1,977,356</strong></td>
<td><strong>$2,058,701</strong></td>
<td></td>
</tr>
</tbody>
</table>
Energy Insurance Mutual Limited  
Statements of Income and Comprehensive Income  
(Expressed in Thousands of U.S. Dollars)

<table>
<thead>
<tr>
<th></th>
<th>Years ended December 31,</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net premiums earned</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct and assumed premiums earned</td>
<td>$222,951</td>
<td>$209,306</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ceded premiums earned</td>
<td>(83,124)</td>
<td>(72,680)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net premiums earned</td>
<td>139,827</td>
<td>136,626</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ceding commission income</td>
<td>2,421</td>
<td>2,121</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total underwriting revenue</td>
<td>142,248</td>
<td>138,747</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underwriting expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net losses and loss adjustment expenses</td>
<td>123,118</td>
<td>238,871</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross and assumed losses and loss adjustment expenses</td>
<td>(28,161)</td>
<td>(107,726)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ceded losses and loss adjustment expenses</td>
<td>94,957</td>
<td>131,145</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net losses and loss adjustment expenses</td>
<td>2,273</td>
<td>1,823</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>10,559</td>
<td>10,681</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total underwriting expenses</td>
<td>107,789</td>
<td>143,649</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income (loss) from underwriting</td>
<td>$34,459</td>
<td>$ (4,902)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net realized gain on investments sold</td>
<td>$12,426</td>
<td>$6,767</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other-than-temporary impairments</td>
<td>(126)</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment income</td>
<td>49,295</td>
<td>41,572</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total investment income</td>
<td>61,595</td>
<td>48,339</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income before policyholders’ distribution and income taxes</td>
<td>96,054</td>
<td>43,437</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributions to policyholders’</td>
<td>(25,000)</td>
<td>(20,000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>71,054</td>
<td>23,437</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax (expense) benefit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current income tax (expense) benefit</td>
<td>(13,691)</td>
<td>696</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred income tax (expense) benefit</td>
<td>(3,580)</td>
<td>2,486</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total income tax (expense) benefit</td>
<td>(17,271)</td>
<td>3,182</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$53,783</td>
<td>$26,619</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$53,783</td>
<td>$26,619</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unrealized gains (losses) on available-for-sale securities, net of income taxes of $5,456 and $(4,348), respectively</td>
<td>10,133</td>
<td>(8,074)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: reclassification adjustment for net gains realized in net income, net of income taxes of $4,305 and $2,368, respectively</td>
<td>(7,995)</td>
<td>(4,399)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income (loss), net of tax</td>
<td>2,138</td>
<td>(12,473)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>$55,921</td>
<td>$14,146</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
# Energy Insurance Mutual Limited

**Statements of Changes in Policyholders’ Surplus**

*(Expressed in Thousands of U.S. Dollars)*

<table>
<thead>
<tr>
<th></th>
<th>Accumulated Other Comprehensive Income</th>
<th>Members’ Account Balance</th>
<th>Total Policyholders’ Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2015</td>
<td>$177,403</td>
<td>$780,897</td>
<td>$958,300</td>
</tr>
<tr>
<td>Other comprehensive loss, net of tax</td>
<td>(12,473)</td>
<td></td>
<td>(12,473)</td>
</tr>
<tr>
<td>Net income</td>
<td></td>
<td>-</td>
<td>26,619</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 31, 2015</td>
<td>164,930</td>
<td>807,516</td>
<td>972,446</td>
</tr>
<tr>
<td>Other comprehensive income, net of tax</td>
<td>2,138</td>
<td></td>
<td>2,138</td>
</tr>
<tr>
<td>Net income</td>
<td></td>
<td>-</td>
<td>53,783</td>
</tr>
<tr>
<td>Balance at December 31, 2016</td>
<td>$167,068</td>
<td>$861,299</td>
<td>$1,028,367</td>
</tr>
</tbody>
</table>

*See accompanying notes to the financial statements.*
Energy Insurance Mutual Limited
Statements of Cash Flows
(Expressed in Thousands of U.S. Dollars)

<table>
<thead>
<tr>
<th></th>
<th>Years ended December 31,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$ 53,783</td>
<td>$ 26,619</td>
<td></td>
</tr>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>150</td>
<td>179</td>
<td></td>
</tr>
<tr>
<td>Amortization of bond premium or discount</td>
<td>4,141</td>
<td>6,179</td>
<td></td>
</tr>
<tr>
<td>Net realized investment gain</td>
<td>(12,300)</td>
<td>(6,767)</td>
<td></td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>3,580</td>
<td>(2,486)</td>
<td></td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reinsurance recoverables on unpaid and paid losses</td>
<td>47,753</td>
<td>(70,627)</td>
<td></td>
</tr>
<tr>
<td>Premiums receivable</td>
<td>(740)</td>
<td>(1,437)</td>
<td></td>
</tr>
<tr>
<td>Reserve for losses and loss adjustment expenses</td>
<td>(165,345)</td>
<td>126,906</td>
<td></td>
</tr>
<tr>
<td>Unearned and accrued premiums</td>
<td>850</td>
<td>6,759</td>
<td></td>
</tr>
<tr>
<td>Reinsurance premiums payable and funds held for reinsurers</td>
<td>(11,557)</td>
<td>(11,360)</td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>979</td>
<td>84</td>
<td></td>
</tr>
<tr>
<td>Due to subsidiaries</td>
<td>7,661</td>
<td>(3,071)</td>
<td></td>
</tr>
<tr>
<td>Policyholder distribution payable</td>
<td>5,000</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Income taxes recoverable</td>
<td>1,111</td>
<td>(15,093)</td>
<td></td>
</tr>
<tr>
<td>Net cash from operations</td>
<td>$ (60,744)</td>
<td>$ 52,473</td>
<td></td>
</tr>
</tbody>
</table>

Cash flows from investing activities:
- Cost of investments purchased $ (548,234) $ (500,504)
- Proceeds from sales of investments 542,854 409,136
- Proceeds from maturities of investments 18,152 28,255
- Change in amount due from purchase/sale of securities 5,437 3,095
- Income from alternative investments (9,882) (4,341)
- Equity in earnings of subsidiaries (136) (852)
- Purchases of fixed assets (276) (94)
- Net cash from investing 7,915 (65,305)

Cash flows from financing activities:
- Draws on line of credit 46,500 13,800
- Repayments on line of credit (30,000) (13,800)
- Net cash from financing 16,500 -

Net change in cash and cash equivalents (36,329) (12,832)
- Cash and cash equivalents, beginning of year 76,025 88,857
- Cash and cash equivalents, end of year $ 39,696 $ 76,025

Supplemental disclosure of cash flow information:
- Income taxes paid, net of refunds $ 2,877 $ 27,050

See accompanying notes to the financial statements.
Note A - Organization and Significant Accounting Policies

Organization

Energy Insurance Mutual Limited (the “Company” or “EIM”) was incorporated under the Companies Act of Barbados on June 13, 1986. EIM obtained a license to engage in exempt insurance business in accordance with the provisions of the Exempt Insurance Act of Barbados, 1983. On August 12, 2003, the Company applied for, and was granted a license to operate as a Qualifying Insurance Company under the Insurance Act 1992-2 of Barbados.

The Company is a mutual insurance company with membership available to any utility or member of the energy services industry that meets EIM’s underwriting standards. The Company provides excess general liability, excess fiduciary liability and excess directors and officers liability policies written on a claims first made basis. In addition, to a lesser extent the Company writes property insurance for its members. All members have casualty policies in place, approximately one-third of those members have property policies as well. During 2015, the Company started providing cyber liability coverage to its members.

Basis of Reporting

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

Investment in Subsidiaries

The Company is the sponsor and 100% common stockholder of Energy Insurance Services, Inc. (“EIS”), a sponsored cell captive insurance company domiciled in South Carolina. As a sponsored captive, EIS allows EIM members, known as Mutual Business Programs (“MBPs”), to insure or reinsure the risks of their sponsoring organizations, including property, general and environmental liability, asbestos, workers’ compensation and retiree medical stop loss. Through Participation Agreements with the MBPs, the insurance risks underwritten by the MBPs are contractually limited to the funds available in the individual cell’s account and neither EIS nor EIM has any obligation to absorb losses of the MBP’s. Likewise, EIS has no right to the capital and accumulated profits of the MBP cells. EIM does not have the power to direct the activities of the MBP’s which most significantly impact economic performance.

Energy Insurance Mutual Limited
Notes to Financial Statements
Years ended December 31, 2016 and 2015

As of December 31, 2016, EIS has assets (exclusive of assets held in MBPs) of approximately $10.6 million, shareholder’s equity of $2.5 million and net income of approximately $277,000. As of December 31, 2015, EIS had assets (exclusive of assets held in MBPs) of approximately $3.4 million, shareholder’s equity of $2.3 million and a net loss of approximately $(36,000).

The Company considers EIS a variable interest entity, which is not consolidated due to the lack of obligations, rights and powers described above. EIM accounts for its investment in EIS using the equity method of accounting because EIM is not the primary beneficiary of EIS’ operations.

During 2015, EIM formed Energy Captive Management, LLC (“ECM”) in the State of South Carolina to provide captive management services to EIS. As of December 31, 2016, ECM has assets of approximately $915,000, member’s equity of $747,000 and net income of $25,000. As of December 31, 2015, ECM had assets of approximately $1,010,000, member’s equity of $722,000 and net loss of approximately $(166,000).

Investments

Management determines the appropriate classification of marketable fixed-maturity and equity securities at the time of purchase. The Company’s policy is to hold securities for investment purposes and, as such, has reported all securities as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in a separate component of policyholders’ surplus. Interest and dividends on securities classified as available-for-sale are included in net investment income. Declines in value judged to be other-than-temporary are included as realized losses in the statement of income. The cost of securities sold is based on the specific identification method.

Alternative investments include interests in shares of investment funds, limited partnership funds, and real estate funds (“the Funds”), which are considered non-marketable. Alternative investments are structured such that the Company holds interest in the Funds and not the underlying holdings of such Funds. The Company’s ownership does not provide for control over the related investees, and financial risk is limited to the funded and unfunded commitment for each investment. These Funds are stated at fair value, which is from the most recently reported net asset value as reported by their investment managers or administrators. The Company has elected the fair value option with respect to the Funds, with all gains and losses associated with the Funds recorded directly to the statement of income and comprehensive income, as a component of net investment income. The use
of net asset value as an estimate of the fair value for investments in certain entities that calculate the net asset value is a permitted practical expedient.

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

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

**Cash and Cash Equivalents**
The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains certain cash and cash equivalent balances that are not subject to FDIC insurance. Management does not believe these balances represent a significant credit risk to the Company.

**Losses And Loss Adjustment Expense Reserves**
The reserve for losses and loss adjustment expenses represents the estimated ultimate gross cost of all reported and unreported losses unpaid through December 31. Since the Company provides principally high level excess of loss coverage to its members, it is exposed to severe but infrequent claims. Therefore, standard actuarial methods, such as paid loss development, are inappropriate to use. Losses are determined based on an evaluation of coverage provisions, review of underlying exposures and an analysis of EIM member loss experience.

Case reserves represent the estimated future payments on reported losses. Case reserves are continually reviewed and updated; however, given the uncertainty regarding the extent of the Company’s ultimate liability, a significant additional liability could develop. Supplemental reserves (e.g., IBNR) are recorded based on actuarial projections. Although considerable variability is inherent in these estimates, particularly due to the limited number of claims to date, management believes that the aggregate reserve for losses and loss adjustment expenses is adequate. These estimates are periodically reviewed and adjusted as experience develops or new information becomes known. Such adjustments are included in current operations.

**Premiums**
Direct and assumed premiums are recognized as revenue on a pro-rata basis over the policy term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums. The Company pays commissions on assumed business, which is initially capitalized and expensed over the life of the policy.

**Reinsurance**
In the normal course of business, the Company seeks to reduce the loss that may arise from large claims, catastrophes or other events by reinsuring certain levels of risk in various areas of exposure with other insurance companies. Reinsurance premiums, ceding commissions, loss reimbursement and reserves related to reinsured claims are accounted for on a basis consistent with that used in accounting for the original policies or claims.

**Deferred Policy Acquisition Costs**
Commissions and other costs of acquiring insurance that are directly related to the successful acquisition of new and renewal business are deferred and amortized over the life of the policy to which they relate. These costs are deferred, net of related ceding commissions, to the extent recoverable, and are amortized over the period during which the related premiums are earned.

**Income Taxes**
Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated based on separate return calculations.

**Policyholder Distributions**
As a mutual insurer, EIM is owned by its policyholders. Policyholder distributions are released from excess surplus and are charged to income when declared by the Board of Directors. During 2016 and 2015, the Board of Directors approved the declaration of policyholder distributions in the amount of $25 million and $20 million, respectively.

**Subsequent Events**
The Company has evaluated subsequent events for disclosure and recognition through March 1, 2017, the date on which these financial statements were available to be issued.
## Note B - Insurance Activity

Premium activity for 2016 and 2015 is summarized as follows *(in Thousands of U.S. Dollars)*:

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct</th>
<th>Assumed</th>
<th>Ceded</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums written</td>
<td>$217,863</td>
<td>$4,831</td>
<td>$(87,314)</td>
<td>$135,380</td>
</tr>
<tr>
<td>Change in unearned premiums</td>
<td>1,570</td>
<td>(1,313)</td>
<td>4,190</td>
<td>4,447</td>
</tr>
<tr>
<td>Premiums earned</td>
<td>$219,433</td>
<td>$3,518</td>
<td>$(83,124)</td>
<td>$139,827</td>
</tr>
<tr>
<td><strong>2015</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums written</td>
<td>$213,999</td>
<td>$2,449</td>
<td>$(69,269)</td>
<td>$147,179</td>
</tr>
<tr>
<td>Change in unearned premiums</td>
<td>(7,296)</td>
<td>154</td>
<td>(3,411)</td>
<td>(10,553)</td>
</tr>
<tr>
<td>Premiums earned</td>
<td>$206,703</td>
<td>$2,603</td>
<td>$(72,680)</td>
<td>$136,626</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross balance, beginning of year</td>
<td>$839,222</td>
<td>$712,316</td>
</tr>
<tr>
<td>Less: reinsurance recoverables on unpaid losses</td>
<td>(402,203)</td>
<td>(330,856)</td>
</tr>
<tr>
<td>Net balance, beginning of year</td>
<td>437,019</td>
<td>381,460</td>
</tr>
<tr>
<td>Incurred related to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current year</td>
<td>106,091</td>
<td>155,727</td>
</tr>
<tr>
<td>Prior years</td>
<td>(11,134)</td>
<td>(24,582)</td>
</tr>
<tr>
<td>Total incurred</td>
<td>94,957</td>
<td>131,145</td>
</tr>
<tr>
<td>Paid related to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current year</td>
<td>483</td>
<td>695</td>
</tr>
<tr>
<td>Prior years</td>
<td>196,396</td>
<td>74,891</td>
</tr>
<tr>
<td>Total paid</td>
<td>196,879</td>
<td>75,586</td>
</tr>
<tr>
<td>Net balance, end of year</td>
<td>335,097</td>
<td>437,019</td>
</tr>
<tr>
<td>Plus: reinsurance recoverables on unpaid losses</td>
<td>338,780</td>
<td>402,203</td>
</tr>
<tr>
<td>Gross balance, end of year</td>
<td>$673,877</td>
<td>$839,222</td>
</tr>
</tbody>
</table>
Energy Insurance Mutual Limited
Notes to Financial Statements (Continued)

Note B - Insurance Activity (Continued)

During 2016, incurred losses and loss adjustment expenses attributable to events of prior years decreased by approximately $11.1 million. The favorable development of prior year losses relates to prior accident years exclusive of 2003, 2005 and 2015 of approximately $39.6 million. Accident years 2003, 2005 and 2015 experienced unfavorable development totaling approximately $28.5 million.

For the year ended December 31, 2015, incurred losses and loss adjustment expenses attributable to events of prior years decreased by approximately $24.6 million. The favorable development relates to accident years 2009, 2011, 2012, and 2014, which decreased by approximately $79.4 million. Remaining favorable development of approximately $9.9 million was due to all other accident years with varying redundancies with the exception of accident years 2005 and 2013 which experienced unfavorable development of approximately $64.7 million due to case development on six general liability claims.

The Company uses excess of loss reinsurance to protect the Company from 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 2016 and 2015 reinsurance treaties is $240,000,000, with respect to general liability and $87,000,000 with respect to directors and officers, general partner and fiduciary liability.

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

The Company also has an arrangement with NEIL whereby its non-nuclear property book of business is fronted by EIM.

During 2009, EIM entered into a Reinsurance Treaty Trust Account Agreement ("Trust") with NEIL to collateralize the losses and loss adjustment expenses due to EIM under reinsurance agreements. EIM has been listed as the beneficiary of the Trust. As of December 31, 2016 and 2015, the total fair value of the assets held in the Trust were $901,682,000 and $1,097,368,000, which collateralized $72,378,000 and $85,858,000 in reinsurance recoverables on losses and loss adjustment expenses, respectively.

During 2016 and 2015, EIM entered into a reinsurance agreement with Oil Casualty Insurance Limited ("OCIL") whereby OCIL provides coverage for 60% of $25,000,000 in excess of $75,000,000 for all general liability policies issued during the year. During 2016, OCIL secured its obligations through a trust arrangement. As of December 31, 2016, the total fair value of the assets held in the trust was $52,081,000 and collateralized $68,977,000 in reinsurance recoverables on losses and loss adjustment expenses.

During 2015, OCIL secured its obligations through funds held and trust arrangements. As of December 31, 2015, the total amount of the funds held account was approximately $13,291,000 and the total fair value of the assets held in the trust was $30,055,000. Together, the funds held and trust collateralized $46,024,000 in reinsurance recoverables on losses and loss adjustment expenses.

The Company writes directly and assumes certain members’ cyber liability risk. A portion of this business is ceded to NEIL.

Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured to the extent that the reinsurer does not meet the obligations assumed under the reinsurance agreement. The reinsurance recoverable on paid and unpaid losses is substantially due from NEIL, OCIL and various Lloyds of London syndicates, comprising 21%, 20%, and 19%, respectively, of the balance at December 31, 2016 and 21%, 11%, and 22%, respectively, at December 31, 2015. The remaining balance is comprised of amounts due from various reinsurers, each not exceeding 12% of the total for 2016 and 2015.

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, 2016 and 2015, no such allowances were deemed necessary.
**Note C - Investments**

As of December 31, 2016, the cost, gross unrealized gains, gross unrealized losses, other-than-temporarily impaired and fair value of marketable fixed-maturity and equity securities are summarized as follows (in Thousands of U.S. Dollars):

<table>
<thead>
<tr>
<th>2016</th>
<th>Cost or Amortized Cost</th>
<th>Other-than-temporarily Impaired</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury &amp; agencies</td>
<td>$ 79,066</td>
<td></td>
<td>$ 336</td>
<td>($1,384)</td>
<td>$ 79,018</td>
</tr>
<tr>
<td>U.S. state and municipal obligations</td>
<td>488,654</td>
<td></td>
<td>18,796</td>
<td>(698)</td>
<td>506,752</td>
</tr>
<tr>
<td>Corporate debt securities</td>
<td>103,682</td>
<td></td>
<td>1,819</td>
<td>(976)</td>
<td>104,525</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>248,551 (10,927)</td>
<td>3,690</td>
<td>(2,413)</td>
<td></td>
<td>238,901</td>
</tr>
<tr>
<td>Foreign government debt</td>
<td>3,234</td>
<td></td>
<td>23</td>
<td></td>
<td>3,207</td>
</tr>
<tr>
<td>Domestic equities</td>
<td>99,795 (1,347)</td>
<td>193,737</td>
<td>(787)</td>
<td></td>
<td>291,398</td>
</tr>
<tr>
<td>Foreign equities</td>
<td>88,553 (202)</td>
<td>54,326</td>
<td>(10,831)</td>
<td></td>
<td>131,846</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td><strong>$ 1,111,535</strong></td>
<td><strong>(12,476)</strong></td>
<td><strong>272,727</strong></td>
<td><strong>(16,139)</strong></td>
<td><strong>$ 1,355,647</strong></td>
</tr>
</tbody>
</table>

As of December 31, 2015, the cost, gross unrealized gains, gross unrealized losses, other-than-temporarily impaired and fair value of marketable fixed-maturity and equity securities are summarized as follows (in Thousands of U.S Dollars):

<table>
<thead>
<tr>
<th>2015</th>
<th>Cost or Amortized Cost</th>
<th>Other-than-temporarily Impaired</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury &amp; agencies</td>
<td>$ 35,357</td>
<td></td>
<td>$ 91</td>
<td>($1,273)</td>
<td>$ 34,175</td>
</tr>
<tr>
<td>U.S. state and municipal obligations</td>
<td>452,532</td>
<td></td>
<td>28,784</td>
<td>(205)</td>
<td>481,111</td>
</tr>
<tr>
<td>Corporate debt securities</td>
<td>141,496</td>
<td></td>
<td>2,056</td>
<td>(2,396)</td>
<td>141,156</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>333,480 (11,194)</td>
<td>4,993</td>
<td>(2,395)</td>
<td></td>
<td>324,884</td>
</tr>
<tr>
<td>Domestic equities</td>
<td>103,064 (1,347)</td>
<td>177,615</td>
<td>(831)</td>
<td></td>
<td>278,501</td>
</tr>
<tr>
<td>Foreign equities</td>
<td>54,136 (211)</td>
<td>54,077</td>
<td>(6,778)</td>
<td></td>
<td>101,224</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td><strong>$ 1,120,065</strong></td>
<td><strong>(12,752)</strong></td>
<td><strong>267,616</strong></td>
<td><strong>(13,878)</strong></td>
<td><strong>$ 1,361,051</strong></td>
</tr>
</tbody>
</table>
Energy Insurance Mutual Limited
Notes to Financial Statements (Continued)

Note C - Investments (Continued)

The Company’s investment guidelines require that no more than 5% of all debt securities may have a below investment-grade bond rating by at least one nationally recognized credit rating agency or the equivalent to the extent possible to determine.

The Company’s investment objective for equities is to emulate the returns of the S&P 900 and the MSCI EAFE index for its domestic and international equity portfolios, respectively.

The cost and estimated fair value of fixed-maturity securities at December 31, 2016, by contractual maturity, are summarized below (in Thousands of U.S. Dollars). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities have been aged by their respective maturity dates.

<table>
<thead>
<tr>
<th>Maturity:</th>
<th>Cost or Amortized Cost</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 2017</td>
<td>$29,059</td>
<td>$29,152</td>
</tr>
<tr>
<td>In 2018-2021</td>
<td>147,786</td>
<td>148,979</td>
</tr>
<tr>
<td>In 2022-2026</td>
<td>200,327</td>
<td>202,702</td>
</tr>
<tr>
<td>Due after 2026</td>
<td>546,015</td>
<td>551,570</td>
</tr>
<tr>
<td>Total fixed-maturity securities</td>
<td>$923,187</td>
<td>$932,403</td>
</tr>
</tbody>
</table>

Gross gains of approximately $26,187,000 and $13,174,000 and gross losses of ($13,761,000) and ($6,407,000), during 2016 and 2015 respectively, were realized on sales.

The Company regularly reviews its fixed-maturity and equity securities portfolios to evaluate the necessity of recording impairment losses for other-than-temporarily declines in the fair value. In evaluating potential impairment, management considers, among other criteria: (i) the current fair value compared to amortized cost or cost, as appropriate; (ii) the length of time the security’s fair value has been below amortized cost or cost; (iii) specific credit issues related to the issuer such as changes in credit rating,

... reduction or elimination of dividends or non-payment of scheduled interest payments; (iv) management’s intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in value to cost; (v) specific cash flow estimations for certain mortgage-backed securities; and (vi) current economic conditions.

Impaired securities are assessed when the decline in fair value is below the amortized cost basis for a specified duration. OTTI losses are recorded in the statement of income and comprehensive income as net realized losses on investments, and result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process, and different judgments and assumptions could affect the timing of loss realization. For the year ended December 31, 2016, the Company determined that one fixed-maturity security of approximately $126,000 was other-than-temporarily impaired. For the year ended December 31, 2015, the Company determined that no investments were other-than-temporarily impaired.
Note C - Investments (Continued)

The following tables show gross unrealized losses and fair values of investments, aggregated by investment category, and the length of time that individual investments have been in a continuous unrealized loss position, at December 31 (in Thousands of U.S. Dollars):

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

<table>
<thead>
<tr>
<th></th>
<th>2015 Fair Value</th>
<th>Unrealized Losses</th>
<th>2015 One year or more Fair Value</th>
<th>Unrealized Losses</th>
<th>2015 Total Fair Value</th>
<th>Unrealized Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury &amp; agencies</td>
<td>$31,947</td>
<td>$(1,273)</td>
<td>$ -</td>
<td>$( -)</td>
<td>$31,947</td>
<td>$(1,273)</td>
</tr>
<tr>
<td>U.S. state and municipal obligations</td>
<td>19,237</td>
<td>(67)</td>
<td>2,936</td>
<td>(138)</td>
<td>22,173</td>
<td>(205)</td>
</tr>
<tr>
<td>Corporate debt securities</td>
<td>64,202</td>
<td>(2,321)</td>
<td>3,738</td>
<td>(75)</td>
<td>67,940</td>
<td>(2,396)</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>160,753</td>
<td>(1,502)</td>
<td>35,959</td>
<td>(893)</td>
<td>196,712</td>
<td>(2,395)</td>
</tr>
<tr>
<td>Domestic equities</td>
<td>7,806</td>
<td>(680)</td>
<td>963</td>
<td>(151)</td>
<td>8,769</td>
<td>(831)</td>
</tr>
<tr>
<td>Foreign equities</td>
<td>77,783</td>
<td>(5,279)</td>
<td>23,441</td>
<td>(1,499)</td>
<td>101,224</td>
<td>(6,778)</td>
</tr>
<tr>
<td>Total temporarily impaired securities</td>
<td>$361,728</td>
<td>$(11,122)</td>
<td>$67,037</td>
<td>$(2,756)</td>
<td>$428,765</td>
<td>$(13,878)</td>
</tr>
</tbody>
</table>
Note C - Investments (Continued)

As of December 31, 2016, the Company had 568 fixed-maturity securities with unrealized losses. This included five with aggregate unrealized losses of $88,600, which were 20% or greater than the cost. As of December 31, 2015, the Company had 470 fixed-maturity securities with unrealized losses. This included nine with aggregate unrealized losses of $831,000, which were 20% or greater than the cost.

The Company has evaluated these fixed-maturity securities and believes the unrealized losses are due primarily to temporary market and sector-related factors rather than to issuer specific-factors. Management does not intend to sell, and it is more likely than not that the Company will not be required to sell the securities before recovery. The Company does not consider these securities to be other-than-temporarily impaired.

Of the 716 equity securities with unrealized losses, 86 with unrealized losses of $3,382,000 were 20% or greater than the cost and have been in a continuous loss position for longer than a year at December 31, 2016. Of the 1,807 equity securities with unrealized losses, 659 with unrealized losses of $5,115,000 were 20% or greater than the cost and have been in a continuous loss position for longer than a year at December 31, 2015. The Company has evaluated these securities based on past earnings trends, analysts’ reports and analysts’ earnings expectations. Management does not intend to sell, and it is more likely than not that the Company will not be required to sell the securities before recovery. The Company does not consider these securities to be other-than-temporarily impaired.

The composition of net investment income is summarized below (in Thousands of U.S. Dollars):

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>$29,721</td>
<td>$29,084</td>
</tr>
<tr>
<td>Dividend income</td>
<td>13,490</td>
<td>10,847</td>
</tr>
<tr>
<td>Income from subsidiary</td>
<td>71</td>
<td>(89)</td>
</tr>
<tr>
<td>Income from alternative investments</td>
<td>10,401</td>
<td>6,262</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>(495)</td>
</tr>
<tr>
<td>Gross investment income</td>
<td>53,690</td>
<td>45,609</td>
</tr>
<tr>
<td>Investment management fees</td>
<td>(4,218)</td>
<td>(3,853)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(177)</td>
<td>(184)</td>
</tr>
<tr>
<td>Net investment income</td>
<td>$49,295</td>
<td>$41,572</td>
</tr>
</tbody>
</table>

The Company’s estimates of fair value for financial assets and financial liabilities are based on the framework established in the Fair Value Measurements and Disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company’s significant market assumptions. The three levels of the hierarchy are as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets. Included are those investments traded on an active exchange, such as the NASDAQ Global Select Market.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs. Included are investments in U.S. Treasury securities and obligations of U.S. government agencies, together with municipal bonds, corporate debt securities, commercial mortgage and asset-backed securities, certain residential mortgage-backed securities that are generally investment grade and certain equity securities.

Level 3 - Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement. Material assumptions and factors considered in pricing investment securities may include projected cash flows, collateral performance including delinquencies, defaults and recoveries, and any market clearing activity or liquidity circumstances in the security or similar securities that may have occurred since the prior pricing period.
Note C - Investments (Continued)

Fair values are based on quoted market prices when available (Level 1). The Company receives the quoted market prices from a third party, nationally recognized pricing service (“pricing service”). When market prices are not available, the Company utilizes a pricing service to determine an estimate of fair value, which is mainly used for its fixed-maturity investments’ fair value. The fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). In instances where there is little or no market activity for the same or similar instruments, the Company estimates fair value using methods, models and assumptions that management believes are relevant to the particular asset or liability. This may include discounted cash flow analysis or other income based approaches (Level 3). These valuation techniques involve some level of management estimation and judgment. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used and are reflective of the assumptions that market participants would use in valuing assets or liabilities.

The following table presents the Company’s investment securities within the fair value hierarchy, and the related inputs used to measure those securities at December 31, 2016 (in Thousands of U.S. Dollars):

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed-maturity</td>
<td>$932,403</td>
<td>$-</td>
<td>$932,403</td>
</tr>
<tr>
<td>Equities</td>
<td>$423,244</td>
<td>$423,244</td>
<td>$-</td>
</tr>
<tr>
<td>Total</td>
<td>$1,355,647</td>
<td>$423,244</td>
<td>$932,403</td>
</tr>
</tbody>
</table>

There were no transfers between fair value levels during 2016 and 2015.

Several of EIM’s policyholders are companies represented in the S&P 900. Consequently, at December 31, 2016 and 2015, EIM holds investments with a total fair value of approximately $46.3 and $37.4 million, respectively, in issuers who are also policyholders.

The alternative investment funds include the following as of December 31 (in Thousands of U.S. Dollars):

<table>
<thead>
<tr>
<th>Fund Class</th>
<th>2016 Fair Value</th>
<th>2015 Fair Value</th>
<th>Redemption Frequency</th>
<th>Redemption Notice Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catastrophe reinsurance</td>
<td>$10,825</td>
<td>$8,198</td>
<td>Quarterly</td>
<td>45 days</td>
</tr>
<tr>
<td>High yield bank loan</td>
<td>69,926</td>
<td>64,339</td>
<td>Monthly</td>
<td>30 days</td>
</tr>
<tr>
<td>Real estate</td>
<td>83,289</td>
<td>77,604</td>
<td>Quarterly</td>
<td>45 days</td>
</tr>
<tr>
<td>Total</td>
<td>$164,040</td>
<td>$150,141</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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

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

The fair values of all alternative investment fund classes have been estimated using the net asset value per share of investments. As of December 31, 2016 and 2015, the Company did not have any unfunded commitments.
Energy Insurance Mutual Limited  
Notes to Financial Statements (Continued)

Note D - Federal Income Taxes

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):

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unpaid losses and loss</td>
<td>$6,256</td>
<td>$9,420</td>
</tr>
<tr>
<td>adjustment expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unearned premiums</td>
<td>5,767</td>
<td>5,414</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>3,191</td>
<td>3,309</td>
</tr>
<tr>
<td>Other than temporary</td>
<td>4,453</td>
<td>4,550</td>
</tr>
<tr>
<td>impairment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total deferred tax assets</td>
<td>19,667</td>
<td>22,693</td>
</tr>
<tr>
<td>Deferred tax liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized capital gains</td>
<td>(89,761)</td>
<td>(88,808)</td>
</tr>
<tr>
<td>Alternative investment income</td>
<td>(859)</td>
<td>(45)</td>
</tr>
<tr>
<td>Premium amortization</td>
<td>(969)</td>
<td>(1,244)</td>
</tr>
<tr>
<td>Other</td>
<td>(443)</td>
<td>(293)</td>
</tr>
<tr>
<td>Total deferred tax liabilities</td>
<td>(92,032)</td>
<td>(90,390)</td>
</tr>
<tr>
<td>Net deferred tax liability</td>
<td>$ (72,365)</td>
<td>$ (67,697)</td>
</tr>
</tbody>
</table>

At December 31, 2016 and 2015, 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 2016 and 2015, EIM provided reinsurance to certain EIS cells. For the years ended December 31, 2016 and 2015, premiums earned included $564,000 and $736,000 of premium assumed from EIS, respectively. During 2015, EIM provided ECM with initial capital of $500,000 plus contributed additional capital of $380,000. EIS reimburses ECM for certain expenses incurred related to administration of EIS, plus a service fee.

Note F - Commitments and Contingencies

The Company is named as defendant in various legal actions arising in the normal course of business from claims made under insurance policies and contracts. These actions are considered by the Company in estimating the loss and loss adjustment expense reserves. The Company’s management believes that the resolution of these actions will not have a material adverse effect on the Company’s financial position or results of operations.

Note G - Trust Funds and Deposits

The Company has established a trust fund with a federally insured depository. This trust fund serves as security for policyholders and third-party claimants to satisfy requirements of being listed as an alien surplus lines insurer by the National Association of Insurance Commissioners. The Company is required to maintain a minimum amount of the lesser of $150,000,000 or $5,400,000 plus 30% for liabilities arising from business on or after January 1, 1998. At December 31, 2016 and 2015, the balance was in excess of $150,000,000. In addition, the State of Florida has required the Company to deposit $300,000 as security for the Company’s policyholders and creditors. The trust funds and deposit balances have been included in the accompanying balance sheets as available-for-sale investments, including both fixed-maturity securities and equities.

Note H - Line of Credit

A line of credit was established during 2011 in the amount of $50,000,000. The line of credit is used solely to fund claim payments that are subject to reinsurance recovery. As of December 31, 2016 and 2015, $16,500,000 and $0, respectively, was outstanding on the line of credit. During 2016 and
Note H - Line of Credit (Continued)

2015, draws on the line of credit amounted to $46,500,00 and $13,800,000, respectively, and subsequent repayments amounted to $30,000,000 and $13,800,000, respectively.

Note I - Retiree Medical Benefits

The Company provides employees with a Post-Retirement Medical, Dental and Vision Plan (“the Plan”). The Plan is available to retirees (upon fulfilling eligibility requirements), their spouses and dependents as a continuation of the healthcare plan available to active employees. Currently the benefits are self insured, with a third party stop-loss reinsurance arrangement. Retirees are not required to make contributions for coverage. Employees hired after December 31, 2011, are required to contribute 50% of the medical plan COBRA rate, upon fulfilling the eligibility requirements under the Plan. The Plan is unfunded.

The assumed discount rate used to determine the benefit obligation is 4.65% for 2016. The assumed healthcare cost trend rate is 6.6% for 2017, trending to 4.5% by 2037. The Company recognized a liability representing the actuarially determined accumulated post-retirement benefit obligation in the amount of $9,118,000 and $9,455,000 as of December 31, 2016 and 2015, respectively, which is included in accounts payable and accrued expenses.

Note J - Margin of Solvency

In order to meet the requirements of a Qualifying Insurance Company under the Insurance Act 1992-2 of Barbados, the Company must have contributed reserves of approximately $12 million. The policyholders’ surplus provided an excess margin of solvency of approximately $1 billion at December 31, 2016.
E I M  D I R E C T O R S
A S  O F  D E C E M B E R  3 1 ,  2 0 1 6

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

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

Marian M. Durkin, Senior Vice President, General Counsel, and Chief Compliance Officer
Avista Corporation, Spokane, Washington

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

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

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

G. Edison Holland, Jr., Chairman and Chief Executive Officer
Mississippi Power Company, Gulfport, Mississippi

Darren J. Olagues, President
Cleco Power LLC, Pineville, Louisiana

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

Carter M. Reid, SVP-Chief Administrative and Compliance Officer & Corporate Secretary
Dominion Resources Services, Inc., Richmond, Virginia

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

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

AS OF DECEMBER 31, 2016

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Brian X. Tierney (Vice Chairman)
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Darryl M. Bradford | Marian M. Durkin | Darren J. Olagues

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Darren J. Olagues (Vice Chairman)
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Joseph M. Rigby (Vice Chairman)

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Darren J. Olagues (Vice Chairman)
Darryl M. Bradford | Marian M. Durkin | Deborah S. Gaffney
James R. Hatfield. | Dean R. Jobko | Carter M. Reid | Joseph M. Rigby

REFLECTING ON THE PAST, ILLUMINATING THE FUTURE.
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AS OF DECEMBER 31, 2016

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Risk Manager
TECO Energy, Inc., Tampa, Florida

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Insurance & Risk Manager
PSE&G, Newark, New Jersey

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General Manager
Spectra Energy, Houston, Texas

Richard A. LaPeter, Manager of Risk Insurance & Claims
Pinnacle West Capital Corp., Phoenix, Arizona

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Director, Enterprise Risk Management
Great River Energy, Maple Grove, Minnesota

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

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Risk Manager Insurance Services
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EQT Corp., Pittsburgh, Pennsylvania

Cindy A. Stevens
Risk Manager
Colorado Springs Utilities, Colorado Springs, Colorado

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

D. Timothy Underwood
Director Insurance Risk Management
CMS Energy Corporation, Jackson, Michigan
Energy Insurance Mutual Limited (EIM)

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Darren J. Olagues
Vice Chairman of the Board

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Vice President - Chief Financial Officer and Corporate Secretary

Jill C. Dominguez
Vice President-Chief Underwriting Officer

Ann M. Joslin
Vice President-Claims

Taniyka D. Ragland
Assistant Corporate Secretary

Trevor A. Carmichael
Assistant Corporate Secretary
EIS AND ECM OFFICERS
AS OF DECEMBER 31, 2016

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Chairman

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Vice Chairman

Scott K. Goodell
President and CEO

G. Thomas Bolton, III
Vice President-Chief Financial Officer and Secretary

Randall L. Martin
Vice President-Chief Operating Officer

Taniyka D. Ragland
Assistant Secretary

Energy Captive Management, LLC (ECM)

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Chairman

Darren J. Olagues
Vice Chairman

Scott K. Goodell
President and CEO

G. Thomas Bolton, III
Vice President-Chief Financial Officer and Secretary

Randall L. Martin
Vice President-Chief Operating Officer

Tobias P. Burke
Vice President-Chief Accounting Officer

Jeffrey M. Tkacz
Controller and Corporate Secretary

Taniyka D. Ragland
Assistant Secretary
E I M M E M B E R S
A S O F D E C E M B E R 3 1 , 2 0 1 6

AES Corporation (The)
Algonquin Power & Utilities Corp.
ALLETE, Inc.
Alliant Energy Corporation
American Electric Power Service Corporation
American Transmission Company LLC
Apache Corporation
Associated Electric Cooperative, Inc.
Atmos Energy Corporation
Avangrid, Inc.
Avista Corporation
Basin Electric Power Cooperative
Berkshire Hathaway Energy Company
(MidAmerican Energy Holdings Co.)
Bicent Power, LLC
Black Hills Corporation
British Columbia Hydro and Power Authority
California Independent System Operator Corporation
Campine Corp.
CenterPoint Energy, Inc.
Central Arizona Water Conservation District
Chesapeake Energy Corporation
Chugach Electric Association, Inc.
Citizens Energy Group
City of Richmond, Department of Public Utilities
City Public Service of San Antonio, Texas
City Utilities of Springfield, Missouri
Cleco Corporation
CMS Energy Corporation
Colorado Springs Utilities
Consolidated Edison Company of New York, Inc.
Cooperative Energy
Crestwood Holdings Partners, LP
Dairyland Power Cooperative
Deseret Generation & Transmission Cooperative
Devon Energy Corporation
District of Columbia Water and Sewer Authority
Dominion Resources, Inc.
Deyon Utilities, LLC
DQE Holdings LLC
DTE Energy Company
Duke Energy Corporation
Dynegy Inc.
East Kentucky Power Cooperative, Inc.
Edison International
El Paso Electric Company
Electric Reliability Council of Texas, Inc.
Electric Transmission Texas, LLC
Emera Incorporated
Empire District Electric Company (The)
Empire Gen Holdings, Inc.
Enable Midstream Partners, LP
Enbridge Energy Corporation
Energy Future Holdings Corp.
Energy Transfer Equity, L.P.
Entergy Services, Inc.
EGO Resources, Inc.
EQT Corporation
Eversource Energy
Exelon Corporation
FirstEnergy Corp.
Florida Municipal Electric Authority
FortisUS Inc.
Gaz Metro Inc.
Great Plains Energy Incorporated
Great River Energy
Hawaiian Electric Industries, Inc.
Heorot Power Holdings LLC
Hoosier Energy Rural Electric Cooperative Inc.
Hydro One Limited
Hydro-Quebec
IDACORP, Inc.
Imperial Irrigation District
Intermountain Power Agency/Intermountain Power Service Corporation
Iroquois Gas Transmission System, LP
ISO New England Inc.
JEAX and FPL d/b/a St. Johns River Power Park
Kinder Morgan, Inc.
Long Island Power Authority
Los Angeles Dept. of Water and Power
Magellan Midstream Partners, LP
MDU Resources Group, Inc.
Metropolitan Water District of Southern California
MGE Energy, Inc.
Midcontinent Independent System Operator, Inc.
Missouri Basin Municipal Power Agency (Missouri River Energy Services)
Modesto Irrigation District
Mountaineer Gas Company
National Fuel Gas Company
National Grid plc
National Grid USA
New Jersey Resources Corporation
New York Power Authority
NextEra Energy, Inc.
NiSource Inc.
Northern California Power Agency
Northwest Natural Gas Company
NorthWestern Corporation
NRG Energy, Inc.
NRG Yield, Inc.
OGE Energy Corp.
Oglethorpe Power Corporation
Ohio Gas Company
Ohio Valley Electric Corporation
Old Dominion Electric Cooperative
Oncor Electric Delivery Holdings Company LLC
ONE Gas, Inc.
EQT Corporation
ONEOK, Inc.
Ontario Power Generation Inc.
Orlando Utilities Commission
Otter Tail Corporation
Pacific Gas & Electric Company
Philadelphia Gas Works
Pinnacle West Capital Corporation
PJM Interconnection, LLC
Plains All American Pipeline, L.P.
PNM Resources, Inc.
Portland General Electric Company
PowerSouth Energy Cooperative
PPL Corporation
Public Service Enterprise Group Incorporated
Public Utility District No. 2 of Grant County, WA
Public Utility District No.1 of Douglas County
Public Utility Risk Management Services Joint Self Insurance
Puget Holdings LLC
QEP Resources, Inc.
RGC Resources, Inc.
Sacramento Municipal Utility District
Salt River Project Agricultural Improvement and Power District
LDC Funding LLC
SEMCO Holding Corporation
Seminole Electric Cooperative, Inc.
Sempra Energy
Sharyland Utilities, L.P.
South Carolina Public Service Authority (Santee Cooper)
Southern Company
Southern Star Central Corp.
Southwest Gas Corporation
Southwest Power Pool, Inc.
Spectra Energy Corp
Spire Inc.
Summit Utilities, Inc.
Talen Energy Corporation
Tallgrass Energy Holdings, LLC
Targa Resources Corp.
Tennessee Valley Authority
TransCanada Corporation
Tri-State Generation and Transmission Association, Inc.
UGI Corporation
Vectren Corporation
Vermont Electric Power Company, Inc.
Vistra Energy Corporation
WEC Energy Group, Inc.
Westar Energy, Inc.
WGL Holdings, Inc.
Williams Companies, Inc. (The)
WPX Energy, Inc.
Xcel Energy Inc.
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