

# Energy Insurance Mutual Limited

## Audited Financial Statements

*Years ended December 31, 2021 and 2020  
with Report of Independent Auditors*

Energy Insurance Mutual Limited

Audited Financial Statements

Years ended December 31, 2021 and 2020

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## Report of Independent Auditors

To the Audit Committee of the Board of Directors  
Energy Insurance Mutual Limited

### **Opinion**

We have audited the financial statements of Energy Insurance Mutual Limited (the Company), which comprise the balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the disclosures about short-duration insurance contracts, including incurred and cumulative paid losses and allocated loss adjustment expenses, net of reinsurance and average annual percentage payout of incurred claims by age, on pages 20 - 22 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 of America, 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 black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Jacksonville, Florida  
February 17, 2022

# Energy Insurance Mutual Limited

## Balance Sheets

(Expressed in Thousands of U.S. Dollars)

	As of December 31,	
	2021	2020
<b>Assets</b>		
Fixed maturity securities, trading	\$ 1,150,344	\$ 1,068,040
Equity securities	561,985	459,100
Alternative investments	301,069	252,841
Investment in subsidiaries	5,314	5,170
Total investments	2,018,712	1,785,151
Cash and cash equivalents	67,599	58,644
Reinsurance recoverables on unpaid losses	523,304	397,838
Reinsurance recoverables on paid losses	5,972	64,092
Prepaid reinsurance premiums	37,230	53,754
Accrued investment income	6,338	6,328
Receivables for securities sold	1,766	2,069
Premiums receivable	14,206	20,109
Deferred policy acquisition costs	1,010	2,052
Income taxes recoverable	9,111	27,162
Due from subsidiaries	332	299
Other assets	1,118	835
Total assets	\$ 2,686,698	\$ 2,418,333
<b>Liabilities and policyholders' surplus</b>		
Liabilities:		
Reserve for losses and loss adjustment expenses	\$ 1,127,868	\$ 905,085
Unearned and advance premiums	169,258	181,141
Reinsurance premiums payable and funds held for reinsurers	1,693	18,085
Net deferred tax liability	70,067	58,815
Policyholder distributions payable	50,000	50,000
Accounts payable and accrued expenses	19,800	16,488
Total liabilities	1,438,686	1,229,614
Policyholders' surplus	1,248,012	1,188,719
Total liabilities and policyholders' surplus	\$ 2,686,698	\$ 2,418,333

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,	
	2021	2020
<b>Underwriting revenue</b>		
Net premiums earned		
Direct and assumed premiums earned	\$ 331,829	\$ 305,082
Ceded premiums earned	(105,071)	(94,882)
Net premiums earned	226,758	210,200
Ceding commission income	3,450	3,516
Total underwriting revenue	230,208	213,716
<b>Underwriting expenses</b>		
Net losses and loss adjustment expenses		
Direct and assumed losses and loss adjustment expenses	362,278	390,766
Ceded losses and loss adjustment expenses	(139,132)	(162,199)
Net losses and loss adjustment expenses	223,146	228,567
Policy acquisition costs	3,235	3,451
Administrative expenses	14,719	12,243
Total underwriting expenses	241,100	244,261
Loss from underwriting	(10,892)	(30,545)
<b>Investment income</b>		
Net realized gain on investments	62,663	69,700
Net investment income	68,887	43,672
Total investment income	131,550	113,372
Income before policyholders' distribution and income taxes	120,658	82,827
Distributions to policyholders	(50,000)	(50,000)
Income tax (provision) benefit	(11,365)	2,921
Net income	\$ 59,293	\$ 35,748

*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>Policyholders' Surplus</u>
Balance at January 1, 2020	\$ 1,152,971
Net income	<u>35,748</u>
Balance at December 31, 2020	1,188,719
Net income	<u>59,293</u>
Balance at December 31, 2021	<u><u>\$ 1,248,012</u></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,	
	2021	2020
Net income	\$ 59,293	\$ 35,748
<b>Cash flows from operating activities</b>		
Add (deduct) items not affecting cash:		
Depreciation	181	275
Amortization of bond premium or discount	1,989	3,242
Net realized investment gain	(3,987)	(2,077)
Net change in fair value on securities held	(58,676)	(67,623)
Deferred income taxes	11,252	5,140
Changes in operating assets and liabilities:		
Reinsurance recoverables on unpaid and paid losses	(67,346)	(24,359)
Prepaid reinsurance premiums	16,524	(16,320)
Premiums receivable	5,903	(4,996)
Other	18,690	(5,463)
Reserve for losses and loss adjustment expenses	222,783	147,650
Unearned and advance premiums	(11,883)	20,561
Reinsurance premiums payable and funds held for reinsurers	(16,392)	4,499
Accounts payable and accrued expenses	4,468	347
Due from subsidiaries	(34)	(33)
Net cash from operations	182,765	96,591
<b>Cash flows from investing activities</b>		
Cost of investments purchased	(613,822)	(516,204)
Proceeds from sales of investments	318,156	387,774
Proceeds from maturities of investments	149,015	71,207
Change in amount due from purchase/sale of securities	(854)	1,356
Income from alternative investments	(26,090)	(1,489)
Equity in earnings of subsidiaries	(144)	(222)
Purchases of fixed assets	(71)	(143)
Net cash from investing	(173,810)	(57,721)
Net change in cash and cash equivalents	8,955	38,870
Cash and cash equivalents, beginning of year	58,644	19,774
Cash and cash equivalents, end of year	\$ 67,599	\$ 58,644
<b>Supplemental disclosure of cash flow information</b>		
Income taxes paid, net	\$ 8,700	\$ 5,450

*See accompanying notes to the financial statements.*

# Energy Insurance Mutual Limited

## Notes to Financial Statements

Years ended December 31, 2021 and 2020

### **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 cell's 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.

## Energy Insurance Mutual Limited

### Notes to Financial Statements (Continued)

#### **Note A - Organization and Significant Accounting Policies (Continued)**

##### *Investment in Subsidiaries (Continued)*

As of December 31, 2021, EIS has assets (exclusive of assets held in MBPs) of \$11.1 million, shareholder's equity of \$4.5 million, and net income of \$129,000. As of December 31, 2020, EIS had assets (exclusive of assets held in MBPs) of \$13.9 million, shareholder's equity of \$4.4 million and net income of \$210,000.

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) to provide captive management services to EIS. As of December 31, 2021, ECM has assets of \$2.0 million, member's equity of \$811,000, and net income of \$15,000. As of December 31, 2020, ECM had assets of \$1.2 million, member's equity of \$796,000 and net income of \$13,000.

On December 20, 2021, EIM formed Energy Risk Solutions SC, Inc (ERS). ERS is a sponsored captive insurance company domiciled in South Carolina. ERS will operate similarly to EIS, with operations expected to commence in 2022.

##### *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.

##### *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.

## Energy Insurance Mutual Limited

### Notes to Financial Statements (Continued)

#### **Note A - Organization and Significant Accounting Policies (Continued)**

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 or below 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.

##### *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, 2021 and 2020, no such allowances were deemed necessary.

# Energy Insurance Mutual Limited

## Notes to Financial Statements (Continued)

### **Note A - Organization and Significant Accounting Policies (Continued)**

#### *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 2021 and 2020, the Board of Directors approved the declaration of policyholder distributions in the amount of \$50 million.

#### *COVID-19 Risks and Uncertainties*

The ongoing COVID-19 coronavirus pandemic (COVID-19) continues to have a global impact creating uncertainty, volatility, and disruption across economies and financial markets. The Company's operational and financial performance will depend on certain developments, including the duration and spread of COVID-19 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.

#### *Subsequent Events*

The Company has evaluated subsequent events for disclosure and recognition through February 17, 2022, the date on which these financial statements were available to be issued.

## Energy Insurance Mutual Limited

### Notes to Financial Statements (Continued)

#### **Note B - Insurance Activity**

Premium activity for 2021 and 2020 is summarized as follows *(in Thousands of U.S. Dollars)*:

<u>2021</u>	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
Premiums written	\$ 316,742	\$ 2,681	\$ (88,547)	\$ 230,876
Change in unearned premiums	<u>10,952</u>	<u>1,454</u>	<u>(16,524)</u>	<u>(4,118)</u>
Premiums earned	<u>\$ 327,694</u>	<u>\$ 4,135</u>	<u>\$ (105,071)</u>	<u>\$ 226,758</u>
<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>

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

	<u>2021</u>	<u>2020</u>
Gross balance, beginning of year	\$ 905,085	\$ 757,436
Less: reinsurance recoverables on unpaid losses and LAE	<u>(397,838)</u>	<u>(379,649)</u>
Net balance, beginning of year	507,247	377,787
Incurred related to:		
Current year	173,107	163,074
Prior years	<u>50,039</u>	<u>65,493</u>
Total incurred	223,146	228,567
Paid related to:		
Current year	186	1,151
Prior years	<u>125,643</u>	<u>97,956</u>
Total paid	<u>125,829</u>	<u>99,107</u>
Net balance, end of year	604,564	507,247
Plus: reinsurance recoverables on unpaid losses and LAE	<u>523,304</u>	<u>397,838</u>
Gross balance, end of year	<u>\$ 1,127,868</u>	<u>\$ 905,085</u>

During 2021, incurred losses and LAE attributable to events of prior years increased by \$50.0 million. The unfavorable development of prior year losses related primarily to prior accident years 2013, 2016, 2019, and 2020, which increased by \$76 million. This was offset by favorable development of \$26 million that was related to prior accident years 2017 and 2018.

## 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 \$65.5 million. The unfavorable development of prior year losses related primarily to prior accident years 2014, 2017, and 2019, which increased by \$71 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, 2021 is as follows (*in Thousands of U.S. Dollars*):

Net liabilities for unpaid losses and allocated LAE	\$ 597,564
Reinsurance recoverables on unpaid losses and allocated LAE	523,304
Unallocated LAE	7,000
Gross liability for unpaid losses and LAE	\$ 1,127,868

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, 2021 (*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>
2012	\$ 94,949	\$ 84,233	\$ 1,254	222
2013	131,086	107,985	1,639	218
2014	56,895	13,987	1,815	206
2015	182,582	178,803	3,654	209
2016	86,190	46,063	14,957	305
2017	173,662	137,417	5,682	260
2018	223,672	197,206	19,653	212
2019	165,064	97,168	35,550	244
2020	172,240	2,364	132,703	278
2021	170,865	186	168,809	172
Total	\$ 1,457,205	\$ 865,412	\$ 385,716	

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 2021 and 2020 reinsurance treaties are \$228,000,000 and \$225,600,000 with respect to general liability and \$82,650,000 and \$81,780,000 with respect to directors and officers, general partner, and fiduciary liability, 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. The Company is liable for the first claim that reaches \$20,000,000 in excess of \$30,000,000. For directors and officers claims that occur after, NEIL is liable for 80% of the \$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.

On January 1, 2021, the Company entered into a reinsurance agreement to protect against claims relating to wildfires. The agreement is limited to states on the West Coast of the United States excluding California.

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 28%, 18%, and 15%, respectively, of the balance at December 31, 2021. At December 31, 2020, the reinsurance recoverable on paid and unpaid losses due from NEIL, National Indemnity Company, and various Lloyds of London Syndicates comprised of 30%, 18%, and 15%, respectively. The remaining balance is comprised of amounts due from various reinsurers, each not exceeding 12% of the total for 2021 and 2020.

## 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 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, 2021 (*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	\$ 1,150,344	\$ -	\$ 1,150,344	\$ -
Equity securities	<u>561,985</u>	<u>561,985</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,712,329</u>	<u>\$ 561,985</u>	<u>\$ 1,150,344</u>	<u>\$ -</u>

There were no transfers into or out of the Level 3 during 2021.

The net realized gain on investments for the years ended December 31, 2021 and 2020 is composed of the following (*in Thousands of U.S. Dollars*):

	<u>2021</u>	<u>2020</u>
Net realized (loss) gain on securities sold	\$ (23,279)	\$ 2,077
Net holding period (loss) gain on securities held, fixed maturity securities	(19)	18,545
Net holding period gain on securities held, equity securities	<u>85,961</u>	<u>49,078</u>
Net realized gain on investments	<u>\$ 62,663</u>	<u>\$ 69,700</u>

The composition of net investment income for the years ended December 31, 2021 and 2020 is composed of the following (*in Thousands of U.S. Dollars*):

	<u>2021</u>	<u>2020</u>
Interest income	\$ 30,578	\$ 29,835
Dividend income	14,686	12,510
Income from subsidiaries	144	222
Income from alternative investments	28,539	5,537
Other	<u>(24)</u>	<u>(15)</u>
Gross investment income	73,923	48,089
Investment management fees	(5,008)	(4,376)
Interest expense	<u>(28)</u>	<u>(41)</u>
Net investment income	<u>\$ 68,887</u>	<u>\$ 43,672</u>

## Energy Insurance Mutual Limited

### Notes to Financial Statements (Continued)

#### **Note C - Investments (Continued)**

At December 31, 2021 and 2020, EIM holds investments with a total fair value of \$26 million and \$25 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>2021</u>	<u>2020</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Catastrophe reinsurance	\$ 27,599	\$ 27,342	Quarterly	90 days
High-yield bank loan	117,351	106,699	Monthly	30 days
Core real estate	134,529	112,535	Quarterly	45 days
Industrial real estate	11,586	6,265	Quarterly	60 days
Trade finance	<u>10,004</u>	<u>-</u>	Quarterly	45 days
Total	<u>\$ 301,069</u>	<u>\$ 252,841</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 trade finance class consists of short-term loans that support the physical flow of goods while using those same goods within the transaction as primary security.

The fair values of all alternative investment fund classes have been estimated using the net asset value per share. As of December 31, 2021, there is \$15 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 (provision) benefit for federal income taxes for the years ended December 31, 2021 and 2020 are as follows *(in Thousands of U.S. Dollars)*:

	2021	2020
Current income tax (provision) benefit	\$ (113)	\$ 8,061
Deferred income tax provision	(11,252)	(5,140)
Total income tax (provision) benefit	\$ (11,365)	\$ 2,921

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 income and gains and losses from investments.

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 in 2020 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 2021 and 2020, 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)*:

	2021	2020
Deferred tax assets:		
Unpaid losses and LAE	\$ 8,633	\$ 7,124
Unearned premiums	5,545	5,350
Accrued expenses and other	4,892	3,479
NOL carryforward	1,474	-
Total deferred tax assets	20,544	15,953
Deferred tax liabilities:		
Fair value adjustments on securities, net	(79,141)	(68,381)
Fair value adjustments on alternatives, net	(10,003)	(4,901)
Bond amortization	(1,164)	(955)
Other	(303)	(531)
Total deferred tax liabilities	(90,611)	(74,768)
Net deferred tax liability	\$ (70,067)	\$ (58,815)

## 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, 2021 and 2020, the Company determined there are no material unrecognized tax benefits, and no adjustments to liabilities or operations were required.

#### **Note E - Related Party Transactions**

During 2021 and 2020, EIM provided reinsurance to certain EIS cells. For the years ended December 31, 2021 and 2020, premiums earned included \$262,000 and \$451,000 of premium assumed from EIS, respectively. During 2021 and 2020, EIM ceded premiums earned of \$568,000 and \$1.5 million to EIS, respectively. One of the policies ceded to EIS incurred a loss recoverable to EIM in the amount of \$5.4 million as of December 31, 2021. 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, 2021 and 2020, the balance in the trust fund was in excess of \$150,000,000. These 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 2021 and 2020, 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 2021. The assumed healthcare cost trend rate is 5.8% for 2021, trending to 4.5% by 2037. The Company recognized a liability representing the actuarially determined accumulated post-retirement benefit obligation in the amount of \$12,665,000 and \$9,679,000 as of December 31, 2021 and 2020, respectively, which is included as a component of accrued expenses on the balance sheet.

#### **Note J - Margin of Solvency**

In order to meet the requirements of the Laws of Barbados, the Company must have contributed reserves of \$22 million. The policyholders' surplus provided an excess margin of solvency of \$1.2 billion at December 31, 2021.

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*).

Accident Year	Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	\$ 118,098	\$ 98,195	\$ 114,696	\$ 101,068	\$ 89,380	\$ 87,776	\$ 86,057	\$ 97,646	\$ 96,842	\$ 94,949
2013		107,503	80,064	133,300	125,652	118,521	125,340	121,508	119,378	131,086
2014			104,082	74,447	66,923	57,845	54,037	44,411	57,989	56,895
2015				152,607	172,589	158,105	169,930	182,232	181,740	182,582
2016					101,671	87,042	69,607	59,243	58,295	86,190
2017						146,429	112,609	144,520	187,525	173,662
2018							153,984	232,998	234,396	223,672
2019								120,841	138,087	165,064
2020									158,615	172,240
2021										170,865
Total										<u>\$1,457,205</u>

Energy Insurance Mutual Limited

Required Supplementary Information (Unaudited) (Continued)

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance										
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	\$ 1,210	\$ 6,132	\$ 9,324	\$ 38,781	\$ 40,039	\$ 72,804	\$ 77,104	\$ 79,786	\$ 81,951	\$ 84,233
2013		1,527	3,036	55,626	94,806	100,665	106,280	106,890	107,221	107,985
2014			1,450	1,986	2,398	13,411	13,474	13,483	14,156	13,987
2015				695	141,523	142,183	142,445	143,574	177,661	178,803
2016					483	6,555	12,580	45,963	46,042	46,063
2017						93	2,270	55,505	117,197	137,417
2018							187	194,978	191,809	197,206
2019								1	2,434	97,168
2020									1,151	2,364
2021										186
Total										<u>\$ 865,412</u>

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

Incurring losses and allocated loss adjustment expenses, net of reinsurance	\$1,457,205
Less cumulative paid losses and allocated loss adjustment expenses, net of reinsurance	(865,412)
All outstanding liabilities before 2012, net of reinsurance	<u>5,771</u>
Liabilities for losses and loss adjustment expenses, net of reinsurance	<u>\$ 597,564</u>

Energy Insurance Mutual Limited

Required Supplementary Information (Unaudited) (Continued)

The following is the average historical claims duration as of December 31, 2021:

	Average Annual Percentage Payout of Incurred Claims by Age									
Years	1	2	3	4	5	6	7	8	9	10
	0.7 %	20.2 %	17.3 %	22.4 %	3.0 %	11.5 %	1.7 %	0.9 %	1.5 %	2.4 %