NEIL

2017 Annual Report

Nuclear Electric Insurance Limited

Consolidated Financial Statements

Contents

Independent Auditors' Report

To the Policyholders of
Nuclear Electric Insurance Limited
Hamilton, Bermuda

We have audited the accompanying consolidated financial statements of Nuclear Electric Insurance Limited and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive earnings, cash flows, and changes in policyholders' surplus for the years then ended, and the related notes to the consolidated financial statements.

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated 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 Company's internal control. 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nuclear Electric Insurance Limited and Subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the disclosure of short-duration contracts included in Note 9 to the consolidated financial statements be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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.

Deloitte & Touche LLP

March 22, 2018

Nuclear Electric Insurance Limited And Subsidiaries
Consolidated Balance Sheets

PERIODS ENDED DECEMBER 31, 2017 AND 2016

(In thousands of U.S. Dollars)

Assets	**2017**	**2016**
Investments:		
Fixed maturities, at fair value	$ 1,924,093	$1,718,365
Equity securities, at fair value	2,527,221	2,295,124
Short-term investments	257,720	198,209
Alternative investments	723,985	742,169
Total investments	**5,433,019**	**4,953,867**
Cash	16,984	18,243
Accrued interest and distributions receivable	16,047	14,177
Amounts due from policyholders	16,879	17,520
Reinsurance receivable	2,290	2,934
Income taxes receivable	23,705	—
Foreign currency forward contracts receivable, at fair value	56,205	56,924
Prepaid reinsurance premiums	17,103	18,884
Put spread collar contracts collateral	48,470	—
Prepaid expenses and other assets	9,574	16,705
Total assets	**5,640,276**	**5,099,254**

Liabilities And Policyholders' Surplus		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 300,016	$ 316,027
Unearned premiums	97,607	93,741
Ceded premiums payable	3,699	12,611
Income taxes payable	—	58,110
Amounts due to policyholders	39,776	24,891
Deferred income taxes, net	218,068	276,008
Distribution payable to policyholders	285,000	100,000
Foreign currency forward contracts payable, at fair value	56,342	56,650
Put spread collar contracts and futures, at fair value	48,407	—
Accounts payable, accrued expenses and other liabilities	56,160	62,562
Total liabilities	**1,105,075**	**1,000,600**
Policyholders' surplus:		
Reserve fund	$ 250	$ 250
Accumulated other comprehensive earnings	618,534	414,323
Surplus	3,916,417	3,684,081
Total policyholders' surplus	**4,535,201**	**4,098,654**
Total liabilities and policyholders' surplus	**$5,640,276**	**$5,099,254**

See notes to Consolidated Financial Statements.

Nuclear Electric Insurance Limited And Subsidiaries
Consolidated Statements Of Operations And Comprehensive Earnings

PERIODS ENDED DECEMBER 31, 2017 AND 2016 *(In thousands of U.S. Dollars)*

	2017	2016
Direct premiums earned	$227,119	$253,068
Reinsurance premiums assumed	61,814	61,558
Reinsurance premiums ceded, net	(57,980)	(55,585)
Net Premiums Earned	**230,953**	**259,041**
Losses and loss adjustment expenses	52,241	55,963
Administrative expenses	39,499	36,045
Commissions expense	2,690	2,063
Total underwriting expenses	**94,430**	**94,071**
Earnings From Underwriting Operations	**136,523**	**164,970**
Investment income, net	53,932	91,718
Gains on alternative investments, net	58,860	26,729
Net realized investment gains	334,117	279,761
Investment expenses	(12,707)	(10,765)
Earnings Before Distribution To Policyholders And Income Taxes	**570,725**	**552,413**
Distribution to policyholders	285,000	100,000
Earnings Before Income Taxes	**285,725**	**452,413**
Income tax (benefit) expense	(56,296)	152,699
Net Earnings	**342,021**	**299,714**
Other Comprehensive Earnings (Loss), Net Of Income Taxes		
Foreign currency translation adjustment		
(net of income taxes of $22,354 in 2017 and ($2,462) in 2016)	41,515	(4,572)
Net unrealized gain (loss) arising during the period		
(net of income taxes of $55,298 in 2017 and $20,290 in 2016)	102,697	37,682
Less: Reclassification adjustments for net investment gains included in net earnings		
(net of income taxes of $26,754 in 2017 and $50,517 in 2016)	49,686	93,817
Total net unrealized gains (losses) arising during the period	53,011	(56,135)
Other Comprehensive Earnings (Loss), Net Of Income Taxes	94,526	(60,707)
Comprehensive Earnings	**$436,547**	**$239,007**

See notes to Consolidated Financial Statements.

Nuclear Electric Insurance Limited And Subsidiaries
Consolidated Statements Of Cash Flows

PERIODS ENDED DECEMBER 31, 2017 AND 2016 *(In thousands of U.S. Dollars)*

Operating Activities	2017	2016
Net earnings	$ 342,021	$ 299,714
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Realized investment gains, including impairments, net	(334,117)	(279,761)
Amortization/accretion of premiums and discounts on investments	7,430	7,532
Losses from put spread collar contracts and futures	48,142	—
Gains on alternative investments, net of expenses	(60,721)	(26,898)
Alternative investments return on capital distributions	27,898	32,884
Deferred income taxes, net	(111,890)	60,877
Distribution to policyholders - declared	285,000	100,000
Payment of policyholders' distributions	(100,000)	(100,000)
Changes in assets and liabilities which provided (used) cash:		
Accrued interest and distributions receivable	(543)	(1,108)
Amounts due from policyholders	641	1,322
Reinsurance receivable	644	(710)
Income taxes receivable and payable	(81,815)	58,260
Foreign currency forward contracts receivable	719	260
Prepaid reinsurance	1,781	8,235
Prepaid expenses and other assets	241	4,396
Unpaid losses and loss adjustment expenses	(22,218)	(17,280)
Unearned premiums	3,866	(13,447)
Ceded premiums payable	(8,912)	(738)
Amounts due to policyholders	14,885	(100)
Foreign currency forward contracts payable	(308)	(442)
Accounts payable and accrued expenses	3,899	(2,311)
Total adjustments	**(325,378)**	**(169,029)**
Net cash provided by operating activities	**16,643**	**130,685**
Investing Activities		
Proceeds from sales and distributions of investments:		
Fixed maturities	1,117,692	893,047
Equity securities	932,239	790,681
Alternative investments	115,855	102,893
Short-term investments	948,465	722,161
Maturities of investments - fixed maturities	179,730	206,595
Maturities of investments - short-term	43,725	8,703
Purchases of investments:		
Fixed maturities	(1,497,237)	(1,179,904)
Equity securities	(689,687)	(873,273)
Alternative investments	(68,501)	(57,353)
Short-term investments	(1,100,183)	(756,647)
Net cash used in investing activities	**(17,902)**	**(143,097)**
NET INCREASE IN CASH	**(1,259)**	**(12,412)**
Cash		
Beginning of year	18,243	30,655
End of year	**$16,984**	**$18,243**
Supplemental Disclosure Of Cash Flow Information		
Cash paid during the year for interest	$ (87)	$ (72)
Net cash paid during the year for income tax	$ (137,132)	$ (33,637)

See notes to Consolidated Financial Statements.

Nuclear Electric Insurance Limited And Subsidiaries
Consolidated Statements Of Changes In Policyholders' Surplus

PERIODS ENDED DECEMBER 31, 2017 AND 2016

(In thousands of U.S. Dollars)

			Accumulated Other Comprehensive Earnings (Loss)		
	Total	Surplus	Foreign Currency Translation	Unrealized Gains (Losses) and Benefit Obligations	Reserve Fund
Balance, January 1, 2016	**$3,859,647**	**$3,384,367**	**$(49,703)**	**$524,733**	**$250**
Comprehensive Earnings:					
Net earnings	299,714	299,714	—	—	—
Other comprehensive earnings (loss), (net of income taxes)	(60,707)	—	(4,572)	(56,135)	—
Comprehensive Earnings:	239,007	299,714	(4,572)	(56,135)	—
Balance, December 31, 2016	**$ 4,098,654**	**$3,684,081**	**$(54,275)**	**$468,598**	**$250**
Comprehensive Earnings:					
Net earnings	342,021	342,021	—	—	—
Other comprehensive earnings, (net of income taxes)	94,526	—	41,515	53,011	—
Effect of TCJA tax rate reduction *(Note 2)*	—	(109,685)	(2,748)	112,433	—
Comprehensive Earnings:	436,547	232,336	38,767	165,444	—
Balance, December 31, 2017	**$4,535,201**	**$3,916,417**	**$(15,508)**	**$634,042**	**$250**

See notes to Consolidated Financial Statements.

Nuclear Electric Insurance Limited And Subsidiaries
Notes To Consolidated Financial Statements
Years Ended December 31, 2017 and 2016

01. Nature Of Business

Nuclear Electric Insurance Limited (the "Company" or "NEIL") is incorporated under the laws of Bermuda, has its place of business in Delaware, and is a registered insurer under the Bermuda Insurance Act of 1978 and the Captive Insurance Companies Act of Delaware. The Company traces its roots to 1973 and the formation of Nuclear Mutual Limited ("NML") in Bermuda, as a mutual insurance company. NML and the Company, which was formed as a mutual insurance company in 1980, were formed by groups of U.S. electric utilities as alternatives to the commercial nuclear insurance market. NML was merged into the Company in 1997. Each utility and energy company that is a Member of the Company today has, or had at the time of becoming a Member, an insurable interest in a commercial nuclear power generation plant. NEIL organized a subsidiary named NEIL Specialty Insurance Company ("NSIC"), a Delaware Corporation, which is licensed as an industrial insured captive insurer. NSIC was incorporated on March 14, 2014 and began issuing policies on April 1, 2014.

The Company insures nuclear plants and their generating units, owned by electric utilities and independent power producers (the "Members"). The Company currently provides property insurance coverage to all of the commercial nuclear power generating facilities in the United States, Belgium and Spain for: 1) the costs associated with certain long-term interruptions of electric generation, due to accidental physical damage under the Accidental Outage programs; 2) decontamination expenses incurred at such sites arising from accidental nuclear contamination under the Primary and Excess programs; 3) other risks of direct physical loss at such sites, including certain premature decommissioning costs under the Primary and Excess programs, and 4) risks associated with the construction of new nuclear power plants through the Company's Builders' Risk program.

The Company also provides certain non-nuclear property and liability coverage to existing Members. This coverage is provided in conformity with conventional property and liability programs, following the terms and conditions underwritten by the program's lead underwriter(s). This business is written directly and as assumed reinsurance.

The Accidental Outage program pays a maximum weekly indemnity limit of $4.5 million resulting from an accidental outage at any one unit. The Company's loss exposure on any single incident at a unit is limited to 100% of the weekly indemnity for 52 weeks and 80% for the subsequent 110 weeks, up to a maximum of $490 million for any one occurrence. Optional deductibles of 8, 12, 20, or 26 weeks are available as part of this program.

The Primary Property program provides property insurance coverage (nuclear and non-nuclear perils) of $1.5 billion per occurrence. The Excess program provides property insurance coverage (nuclear peril only) of up to $1.25 billion in excess of $1.5 billion per occurrence. The Excess program features an optional blanket limit structure that allows for multiple nuclear sites to share limits at reduced rates. NSIC's captive coverage provides property insurance coverage (non-nuclear peril only) of up to $750 million in excess of $1.5 billion per occurrence.

The Builders' Risk program provides property insurance coverage of up to $2.75 billion with a sublimit for delay in start-up, natural hazards, and other perils. Policy periods vary as a result of the complexity and uniqueness of each project.

02. Significant Accounting Policies

Principles of Consolidation & Basis of Presentation

The Consolidated Financial Statements include the Company, its wholly owned subsidiaries, NEIL Services, Inc., Delaware Risk Management, Inc., Nuclear Electric (Cayman) Limited, NEIL Overseas dac f/k/a Overseas NEIL dac ("NEILO") and NSIC, and variable interest entities ("VIE") for which the Company is the primary beneficiary. All intercompany transactions have been eliminated in consolidation. The financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("US GAAP").

Premiums Written/Unearned Premiums

Net premiums written reflect the premiums the Company retains after purchasing reinsurance protection, less premium credits of $47 million and $23 million at December 31, 2017 and 2016, respectively. Net premiums earned reflect the portion of net premiums written that were recorded as revenues for the period as the exposure period expires, net of discounts and premium credits. Premiums written and reinsurance premiums assumed and ceded are reflected in earnings on a pro-rata basis over the term of each policy, or in the case of Builders' Risk, written premiums and reinsurance premiums ceded are recognized over the contract period in proportion to the amount of insurance protection provided. Unearned premiums represent the portion of premiums written, which are applicable to the unexpired terms of policies in force. Unearned premiums are recorded at cost, which approximates fair value. The Company records advance payments of reinsurance premiums as Prepaid reinsurance premiums. Premiums ceded under reinsurance agreements are recorded as Ceded premiums payable, to the extent there is no right to offset with prepaid reinsurance amounts.

Policyholders' Distribution

The Company insures nuclear plants and their generating units owned by the Members, primarily in the United States. The Company provides catastrophic insurance covering low frequency, high severity events and as such requires significant resources to satisfy potential catastrophic claims. To the extent that the full amount of these resources is not required during a given year, distributions to Members may be utilized as a method of sharing favorable financial results. Distributions are determined on an annual basis at the discretion of the Board of Directors, based on the authority approved by the Membership, and allocated to the Members in accordance with NEIL's Bye-Laws. If, for any reason, a Member ceases to maintain an insurance relationship with NEIL, the Member will lose its Membership status. The Member would remain eligible, for the ensuing five-year period only, to participate in future distributions. The Member would not be eligible to participate in any liquidation distributions, even if such distributions occur within the eligibility period. The Board of Directors declared a $285 million and $100 million distribution to Policyholders on December 15, 2017 and December 11, 2016, payable to the Members by March 31, 2018 and March 31, 2017, respectively.

Investments

The Company applies the Fair Value Option for Financial Assets and Liabilities (embodied in Accounting Standards Codification ("ASC") Topic 825, *Financial Instruments*), which allows companies to make an election on an individual instrument basis to report financial assets and liabilities at fair value. The election must be made at the inception of a transaction and may not be reversed. The Company has made the election for fixed maturity and equity securities purchased on or after January 1, 2010. These securities are included in Fixed maturities and Equity securities at fair value on the Consolidated Balance Sheets, and changes in the fair value of the securities are reported in Net realized investment gains (losses) on the Statements of Operations and Comprehensive Earnings (Loss). Dividends on equity securities are recorded when declared, and interest on fixed income securities is recorded on an accrual basis. The Company believes that making the election for its portfolio of investment securities is consistent with its operating principle to manage investments for total return.

Both dividends and interest are reported in Investment income, net on the Statements of Operations and Comprehensive Earnings (Loss). Amortization and accretion of premiums and discounts on marketable securities are included in investment income, net. Realized investment gains and losses on sales of equity and fixed maturity securities are computed using the specific identification cost method and are reported in Net realized investment gains (losses) on the Statements of Operations and Comprehensive Earnings (Loss).

The Company has categorized its investments in marketable fixed maturity and equity securities as available for sale. Excluding those securities accounted for under the Fair Value Option, the Company has reported the portfolio at fair value with unrealized gains and losses, which include unrealized gains and losses due to foreign currency translation, net of tax, as a component of Accumulated Other Comprehensive Earnings (Loss), which is a separate component of Policyholders' Surplus.

Excluding those securities accounted for under the Fair Value Option, declines in the fair value of equity securities are evaluated by management for other-than-temporary impairment ("OTTI") as defined in ASC Topic 320, *Debt and Equity Securities*. For equity securities, the Company's intent and ability to retain the investment for a period of time sufficient for the anticipated recovery is not absolute, as the Company has granted the authority to its investment managers and does not direct the managers' decision making. As a result, the Company considers any equity security in a loss position to be other-than-temporarily impaired. New information and the passage of time can change this determination.

Excluding those securities accounted for under the Fair Value Option, declines in the fair value of fixed maturity securities are evaluated by management for OTTI. When an OTTI related to a fixed maturity security has occurred, if the Company intends to either sell the security or determines that it is more likely than not that it will be required to sell a security before recovery of the entire amortized cost basis or maturity of the security, the Company recognizes the entire impairment in net earnings. If the Company does not intend to sell the fixed maturity security and it determines that it is more likely than not that it will not be required to sell the security, and it does not expect to recover the entire amortized cost basis, the impairment is bifurcated into the amount attributed to the credit loss, which is recognized in net earnings, and all other causes, which are recognized in Other Comprehensive Earnings (Loss).

Short-term investments consist of income generating funds with maturities of less than one year in duration held within various externally managed portfolios. The income generated in these funds is included in Investment income, net. These investments are primarily recorded at cost, which approximates fair value.

The Company purchases a variety of derivative financial instruments for risk management and investment purposes. The Company recognizes all derivatives as either assets or liabilities at fair value as prescribed in ASC Topic 815, *Derivatives and Hedging*. Gains and losses on derivatives are recorded in Investment income, net on the Statements of Operations and Comprehensive Earnings (Loss).

Alternative investments consist of investments in real estate, private equity and hedge funds that are either carried on the equity method of accounting as prescribed in ASC Topic 323, *Investments, Equity Method and Joint Ventures*, or in limited instances are consolidated variable interest entities ("VIEs"), as prescribed in ASC Topic 810, *Consolidation*. The Company follows ASC Topic 970, *Real Estate*, General, in accounting for its real estate investments. For investments in private equity and hedge funds, the Company follows accounting as prescribed in ASC Topic 323, *Investments, Equity Method and Joint Ventures*. The Company records the activity of its private equity and real estate investments generally on a one-quarter lag or less and hedge fund investments generally on a one-month lag or less, based upon the availability of fund financial information. At December 31, the Company's alternative investments are generally reported at the Company's proportional interest per the reporting lag on a fair value basis, consistent with the underlying fund's method of accounting, and adjusted for contributions and distributions through December 31.

The Company also considers fund transactions during the last three months of the year that may indicate a significant change in fair value has occurred. Due to the inherent uncertainty of valuation, the values determined by management may differ significantly from values that would have been used had a ready market for these investments existed, and the differences could be material.

Variable Interest Entities

In the normal course of investment activities, the Company enters into relationships with entities that could be considered VIEs. For most VIEs, the entity that has both the ability to direct the most significant activities of the VIE and the obligation to absorb losses or receive benefits that could be significant to the VIE, is considered the primary beneficiary. The Company's policy is to consolidate those VIEs for which it is deemed to be the primary beneficiary. Currently, the Company consolidates one investment vehicle as a voting interest entity, which is not material to the Company's consolidated financial statements. The accounting guidance for the determination of when an entity is a VIE and when to consolidate a VIE is complex and requires significant management judgment. The determination of the VIEs primary beneficiary requires an evaluation of the contractual and implied rights and obligations associated with each party's relationship with, or involvement in, the entity, an estimate of the entity's expected losses, and expected residual returns and the allocation of such estimates to each party involved in the entity. The Company generally uses a qualitative approach to determine whether it is the primary beneficiary.

The Company's VIEs consist of certain interests in hedge funds, real estate funds and private equity limited partnerships. The Company enters into the VIEs purely to diversify its investment portfolio. The VIEs are primarily financed by capital contributions from equity holders. The Company's involvement in financing the VIE is limited to its equity interest. The Company performed an economic analysis of the rights and obligations of its assets, liabilities, equity, and other contracts to identify its variable interests. On a subsequent basis, and at least annually, the Company has also performed an assessment of reconsideration events. The Company is a limited partner in its partnership investments and, as such, does not participate in the management of the entities. The limited partner agreement and the partnership entity's most current financial statements were also reviewed to determine if the investment entity required subordinate financial support to permit it to finance its activities; whether there is an obligation to absorb expected losses or receive expected residual returns; and whether there are guaranteed returns on its interest or its returns are capped.

The following tables are the carrying amount, unfunded commitment, and maximum exposure to loss relating to VIEs for which the Company is not the primary beneficiary and which have not been consolidated:

(In thousands of U.S. Dollars)

DECEMBER 31, 2017	**Carrying Value**	**Remaining Commitment**	**Maximum Exposure to Loss[1]**
Hedge Funds	$ 52,651	$ —	$ 52,651
Real Estate Partnerships	117,666	9,155	126,821
Private Equity Partnerships	50,401	8,667	59,068
	$220,718	**$17,822**	**$238,540**

1) The maximum exposure to loss is equal to the carrying amount plus any unfunded commitments of the Company.

(In thousands of U.S. Dollars)

DECEMBER 31, 2016	**Carrying Value**	**Remaining Commitment**	**Maximum Exposure to Loss[1]**
Hedge Funds	$ 59,828	$ —	$ 59,828
Real Estate Partnerships	125,655	20,267	145,922
Private Equity Partnerships	61,179	8,825	70,004
	$246,662	**$29,092**	**$275,754**

1) The maximum exposure to loss is equal to the carrying amount plus any unfunded commitments of the Company.

Unpaid Losses and Loss Adjustment Expenses

As an insurance and reinsurance company, the Company is required, by applicable laws and regulations, and by US GAAP, contained in ASC Topic 944, "*Financial Services-Insurance,*" to establish loss and loss expense reserves for the estimated unpaid portion of the ultimate liability for losses and loss expenses, under the terms of policies and agreements with its insured and reinsured Members. The estimate of liabilities includes provision for claims that have been reported but unpaid at the balance sheet date and for future obligations from claims that have been incurred but not reported ("IBNR") at the balance sheet date. The provision for unpaid losses and loss expenses is determined on the basis of management estimates based, where appropriate, on information from claims adjustors, independent consultants, and other evaluations, including estimates for IBNR. The process for establishing loss reserves can be complex and subject to considerable uncertainty, and requires the use of informed estimates and judgments based on circumstances known at the date of the accrual. The methods of making such estimates and establishing resulting liabilities are continually reviewed and updated, and any resultant adjustments are reflected in operations currently.

Contingencies

ASC Topic 450, *Contingencies*, defines a contingency as any material condition that involves a degree of uncertainty that will ultimately be resolved. Under US GAAP, the Company is required to establish reserves for contingencies when a loss is both probable and can be reasonably estimated. The Company determines the amount of reserves required for contingencies, if any, after carefully analyzing each issue using internal estimates, case level reviews by both inside and outside legal, technical, and claims experts, and other relevant information. In cases where the loss is not both probable and estimable, the Company has not established an accrual at this time. Appropriate disclosures are made in accordance with the requirements of ASC Topic 450. The required reserves may change due to new developments in information, or changes in approach to claim or loss resolution. Any such revision could result in future changes in estimates of losses or reinsurance recoverable, and would be reflected in the Company's financial statements in the period in which the estimates are changed.

Income Taxes

The Company accounts for income taxes under the asset and liability method as prescribed by ASC Topic 740, *Income Taxes*, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in earnings in the period that includes the enactment date.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. In the event the Company was to determine that it would be able to realize its deferred income tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the valuation allowance, which would reduce the provision for income taxes.

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act ("TCJA"), which made significant changes to U.S. federal income tax law. The Company expects that certain aspects of these changes will positively impact its future after-tax earnings primarily due to the lower federal statutory tax rate.

Beginning January 1, 2018, the Company's income will be taxed at a 21 percent federal corporate rate. The Company is required to recognize the effect of this rate change on its deferred tax assets and liabilities in the period the tax rate change is enacted. The Company's rate change resulted in a noncash decrease to the income tax provision (shown on its Consolidated

Statements of Operations) with a corresponding reduction in the Company's deferred income tax liability (shown on its Consolidated Balance Sheets) for December 31, 2017.

The Company accounts for its uncertain tax positions in accordance with ASC Topic 740. ASC Topic 740 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more likely than not recognition threshold to be recognized. ASC Topic 740 also provides guidance on measurement, de-recognition, classification, interest and penalties, and disclosure. The Company would recognize interest and penalties (if any) related to unrecognized tax benefits within the income tax expense line in the accompanying Statements of Operations and Comprehensive Earnings (Loss). Accrued interest and penalties (if any) would be included within the related tax liability line in the Consolidated Balance Sheets. There are no material uncertain tax positions reflected in the Company's Consolidated Financial Statements as of December 31, 2017 and 2016.

Cash

Cash includes short-term securities with maturities of three months or less at the time of purchase, primarily deposits with banks, which are generally considered part of the Company's cash management activities rather than the Company's investing activities.

Recently Adopted Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, *Income Statement-Reporting Comprehensive Income* (Topic 220), *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The guidance is effective for fiscal year beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted for reporting periods which financial statements have not yet been issued or made available for issuance. The ASU addresses the effect of TCJA on items in Accumulated Other Comprehensive Income ("AOCI"). Guidance requires the effect of the tax law and rate changes on deferred tax assets and liabilities be recognized in the year of the enactment and the change included in income from continuing operations as a tax benefit or expense, even if the deferred tax is related to items in AOCI. As a result of the guidance, AOCI items are reported at the historic tax rate ("stranded tax effect"). The ASU allows a one-time reclassification of the stranded tax effect from AOCI to Surplus. The amendment was early adopted and the effect of the TCJA's tax rate change was reclassified from AOCI to Surplus. AOCI was increased and Surplus was decreased by $109,685,000 on the Balance Sheet, respectively. The reclassification is also reflected on the Consolidated Statement of Change in Policyholders' Surplus.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows* (Topic 230), *Classification of Certain Cash receipts and Cash Payments*. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019 with permissible early adoption. The purpose of this update is to provide guidance on the classification of certain cash receipts and payments in the statement of cash flows including, but not limited to: (i) debt prepayment or debt extinguishment costs; (ii) proceeds from the settlement of corporate-owned life insurance policies including bank-owned life insurance policies; (iii) distributions received from equity method investees; and (iv) separately identifiable cash flows and application of the predominance principle. The amendment was adopted retrospectively and the effect is a reclassification of $32,884,000 from Investing to Operating activities in the Consolidated Statement of Cash Flows. The reclassification related to the prior year was made for presentation in conformity to the application with the new standard. This amendment had no effect on the Balance Sheets or the Consolidated Statement of Operations and Comprehensive Earnings. This is illustrated in the Consolidated Statements of Cash Flows on page 4.

In October 2016, the FASB issued ASU 2016-17, *Interests Held through Related Parties that are under Common Control*. The amendments in this update are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. The update impacts an entity's consolidation analysis of its variable interest entities, particularly those that have related party relationships. The amendments reduce the extent to which related party arrangements cause an entity to be considered a primary beneficiary. A single decision maker is not required to consider indirect interests held through related parties that are under common control with the single decision maker to be the equivalent of direct interests in their entirety. Instead, a single decision maker is required to include those interests on a proportionate basis consistent with indirect interests held through other related parties. Based on the evaluation performed, the application resulted in no impact as the Company does not have any related entities with an indirect interest in VIEs. The assessment of VIEs for the adoption of this pronouncement was performed in conjunction with ASU 2015-02 (discussed below).

In May 2015, the FASB issued new guidance on short-duration insurance contracts ASU 2015-09, (Topic 944): *Disclosures about Short-Duration Contracts*). The amendments in this new guidance are effective for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017. The guidance was applied retrospectively by providing comparative disclosures for each period presented, except for those requirements that apply only to the current period. The new guidance requires insurance entities to provide users of financial statements with more transparent information about initial claim estimates and subsequent adjustments to these estimates, including information on: (i) reconciling from the claim development table to the balance sheet liability, (ii) methodologies and judgments in estimating claims, and (iii) the timing, and frequency of claims. The application is further illustrated in Note 9 of the financial statements, Unpaid Losses and Loss Adjustment Expenses.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis* (Topic 810). The update amends the guidance applicable to consolidation models. The amendments in this update are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. The amendment requires an additional step to determine if the holders of equity of the limited partnerships have the power to direct the activities that significantly impact the partnership. The holders of equity "lack that power if neither 1.) nor 2.) exists: 1.) a simple majority or lower threshold of limited partners (including a single limited partner) with equity at risk is able to exercise substantive kick-out rights through voting interest over the general partner(s), 2.) limited partners with equity at risk are able to exercise substantive participating rights over the general partner(s)." The assessment of VIEs for this adoption resulted in no overall impact to the Company's consolidated financial statements. Additionally, the adoption did not result in consolidation of previously unconsolidated investment vehicles, nor in the deconsolidation of a previously consolidated investment vehicle.

New Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board ("FASB") issued (Accounting Standards Update ("ASU") 2017-12, *Derivatives and Hedging* (Topic 815): *Targeted Improvements to Accounting for Hedging Activities*. The purpose of this update is to amend ASC 815 to "better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results." FASB believes this will improve transparency and simplify the application of hedge accounting. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted. The Company is currently evaluating the potential impacts that this adoption could have on its Consolidated Financial Statements.

In March 2017, the Financial Accounting Standards Board ("FASB") issued (Accounting Standards Update ("ASU") 2017-07, *Compensation — Retirement Benefits* (Topic 715): *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The purpose of this update is to amend ASC 715 related to the income statement presentation of the components of net periodic benefit costs for certain postretirement plans. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early application is permitted at the beginning of an annual period for which financial statements have not been issued. The adoption of this update would not have a significant impact to the Consolidated Financial Statements as the program is immaterial.

In February 2017, the Financial Accounting Standards Board ("FASB") issued (Accounting Standards Update ("ASU") 2017-06, *Plan Accounting: Defined Benefit Pension Plans* (Topic 960), *Defined Contribution Pension Plans* (Topic 962), *Health and Welfare Benefit Plans* (Topic 965) *Employee Benefit Plan Master Trust Reporting a consensus of the FASB Emerging Issues Task Force*. The purpose of this update is to clarify presentation requirements for entities with interest in a master trust. The guidance is effective for fiscal years beginning after December 15, 2018. Early application is permitted and updates should be applied retrospectively. The Company is currently evaluating the potential impacts that this adoption could have on its Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses* (Topic 326), *Measurement of Credit Losses on Financial Instruments*. The purpose of this update is to introduce a new approach to estimate credit losses on certain types of financial instruments based on expected losses. It also modifies the impairment model for available-for-sale debt securities and provided for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The guidance is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Earlier application is permitted only for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the potential impacts that this new standard could have on its Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The purpose of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Company is currently evaluating the potential impacts that this new standard could have on its Consolidated Financial Statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (Subtopic 825-10). This update revises an entity's accounting related to the classification and measurement of investments in equity securities (except those accounted for under the equity method of accounting or those that result in consolidation of the investee), changes the presentation of certain fair value changes relating to instrument specific credit risk for financial liabilities and amends certain disclosure requirements associated with the fair value of financial instruments. This update is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019 with early adoption permitted after December 15, 2017. The Company is currently evaluating the potential impacts that this new standard could have on its Consolidated Financial Statements.

03. Investments

The amortized cost, gross unrealized gains and losses and estimated fair value of available for sale securities, excluding those securities accounted for under the fair value option, at December 31, 2017 and 2016 are as follows:

(In thousands of U.S. Dollars)

DECEMBER 31, 2017	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized	Estimated Fair Value
Fixed Maturities:				
Foreign government obligations	$ 779	$ 332	$ —	$ 1,111
Obligations of state and political subdivisions	987	264	—	1,251
Corporate debt securities	7,438	1,725	(3)	9,160
Mortgage-backed securities	12,486	1,751	(176)	14,061
Other debt securities	407	40	—	447
	22,097	4,112	(179)	26,030
Equities	169,576	803,508	(2,844)	970,240
	$191,673	**$807,620**	**$(3,023)**	**$996,270**

(In thousands of U.S. Dollars)

DECEMBER 31, 2016	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized	Estimated Fair Value
Fixed Maturities:				
Foreign government obligations	$ 1,075	$ 393	$ —	$ 1,468
Obligations of state and political subdivisions	988	236	—	1,224
Corporate debt securities	14,370	2,294	(36)	16,628
Mortgage-backed securities	23,654	2,705	(203)	26,156
Other debt securities	407	56	—	463
	40,494	5,684	(239)	45,939
Equities	193,027	718,050	(5,815)	905,262
	$233,521	**$723,734**	**$(6,054)**	**$951,201**

The fixed maturity securities accounted for under the fair value option had an amortized cost of $1,892,041,000 and $1,682,474,000 and an estimated fair value of $1,898,063,000 and $1,672,426,000 at December 31, 2017 and 2016, respectively. The equity securities accounted for under the fair value option had a cost of $1,200,887,000 and $1,243,782,000 and an estimated fair value of $1,556,981,000 and $1,389,862,000 at December 31, 2017 and 2016, respectively.

The Company was required to hold $31,000,000 and $53,000,000 of equity securities in trust as collateral for a reinsurance agreement at December 31, 2017 and 2016, respectively.

Gross realized gains and losses for available for sale securities, including those securities accounted for under the fair value option during 2017 and 2016, respectively, were as follows:

(In thousands of U.S. Dollars)

	2017	2016
Realized gains	$256,309	$ 257,768
Realized loss	(79,391)	(104,864)
Net gain (loss) on fair value option securities	157,455	127,029
Impairments	(256)	(172)
	$334,117	**$ 279,761**

Components of investment income, net for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of U.S. Dollars)

	2017	2016
Interest and dividends	$101,089	$ 94,908
Derivative gains (losses), net	(46,063)	3,248
Accretion and amortization	(7,430)	(7,532)
Other income	6,336	1,094
	$ 53,932	**$ 91,718**

The amortized cost and estimated fair value of fixed maturity securities by maturity date at December 31, 2017 are as follows:

(In thousands of U.S. Dollars)

	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	$ 165,901	$ 165,741
Due after one year through five years	1,007,315	1,006,645
Due after five years through ten years	283,390	286,276
Due after ten years	457,532	465,431
	$1,914,138	**$1,924,093**

The net change in unrealized investment gains (losses) arising during the period, including foreign currency translation adjustments and excluding the net change in benefit obligations and Loss Reserve foreign exchange of ($6,901,000) and $494,000 for the years ended December 31, 2017 and 2016, respectively, is as follows:

(In thousands of U.S. Dollars)

	2017	2016
Fixed maturities	$ 6,896	$ 1,629
Equity securities	149,145	(95,785)
Deferred income taxes	(54,614)	32,955
	$101,427	**$(61,201)**

The Company maintains specific restrictions on its investment portfolio based on policy guidelines as approved by the Board of Directors. These guidelines include restrictions with respect to diversification and credit quality. For equity and fixed maturity investments, exposure to a single issuer, with the exception of the U.S. Treasury and Government agencies may not exceed 1.5% of the fair value of the aggregate NEIL portfolio or 1.5% the weight of the entity in the Policy Benchmark. Asset-backed Securities, where the credit quality/rating is primarily based on specified collateral and not the issuer, are not subject to the 1.5% limit. The policy guidelines also require that no less than 90% of the fixed maturity portfolio must be rated investment grade by Fitch, Standard & Poor's or Moody's bond rating services. As of December 31, 2017, the Company's fixed maturity securities included U.S. Government obligations, Foreign Government obligations, Corporate Debt Securities, Mortgage-backed Securities and Other Debt Securities. Mortgage-backed Securities included Residential Mortgage-backed Securities ("RMBS"), Commercial Mortgage-backed Securities ("CMBS"), and Collateralized Mortgage Obligations ("CMOs"). Other debt securities included Federal Agency debt issues from the Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") and Federal Home Loan Bank ("FHLB"). 99.0% and 97.4% of the Company's fixed maturity portfolio was rated as investment grade at December 31, 2017 and 2016, respectively.

Impairment Evaluation for Fixed Maturity Securities

Government Obligations

Government obligations include U.S. Treasury and agency obligations, Foreign Government obligations, and state and municipality subdivision obligations, which were in an unrealized loss position. These securities are evaluated for credit loss using a combination of quantitative and qualitative assessments of the likelihood of credit loss considering the credit ratings of the issuers and issuer specific information. The quantitative methodology is similar in approach to that described below for Corporate Debt Securities. All of the Company's holdings in this category are investment grade securities. There was no OTTI during the years ended December 31, 2017 and 2016.

Corporate Debt Securities

The Company determines its best estimate of projected cash flows and develops these estimates on a security by security basis using information based on market observable data, issuer specific information, and available cash flow information. The Company develops its default assumption by using credit rating data and average historical spreads obtained from observable indices.

The Company uses credit ratings as an indicator of the credit quality of fixed maturity issuers, the relative likelihood that the issue may default, and issuer specific current news and other information available in the public domain. The Company identifies the securities that are investment grade and the Company generally expects to recover the entire amortized cost basis of all securities that are investment grade. The Company generally considers any fixed maturity security with an Aaa to Baa rating (Moody's) and with an AAA to BBB rating (S&P) as investment grade. There was no OTTI during the years ended December 31, 2017 and 2016.

Mortgage-Backed and Asset-Backed Securities

For Mortgage-backed Securities, credit impairment is assessed using a similar approach to corporate debt securities. The Company identifies the securities that are investment grade and the Company generally expects to recover the entire amortized cost basis of all securities that are investment grade, in the absence of any issuer specific negative information. The securities that fall below investment grade are analyzed further to calculate the credit and non-credit loss components. The Company determines its best estimate of projected cash flows and develops these estimates on a security by security basis. OTTI on Mortgage-backed Securities was de minimis in 2017 and 2016.

Equities

As described in Note 2, declines in the fair value of equity securities are evaluated by management for OTTI. The Company's intent and ability to retain the investment for a period of time sufficient for the anticipated recovery is not absolute. The Company has granted the authority to its Investment Managers and does not direct the Managers' decision making. As a result, the Company considers any equity security in a loss position to be OTTI.

Other Investments

Within the Company's fixed maturity portfolio, the exposure to subprime and Alt-A Mortgage-backed Securities as of December 31, 2017 and 2016 is $2,001,000 and $3,261,000, respectively.

The Company participates in a securities lending program managed by Northern Trust. The Company receives a fee from Northern Trust for the lending of securities that is shown in the Investment income, net component of the Statements of Operations and Comprehensive Earnings (Loss). As a requirement of the lending program, the borrower of securities must pledge collateral in excess of 100% of the value of the loaned securities to Northern Trust. The loaned securities are reclassified to securities pledged to creditors. Cash received as collateral is invested in high-quality, short-term instruments and recorded in the Consolidated Balance Sheet as an investment at estimated fair value. Non-cash collateral is not recorded in the balance sheets, since "effective control" criteria are not met. A rate of interest termed the "rebate" is guaranteed to the securities borrower for the cash collateral and the Company earns a profit through the retention of any investment returns earned on the cash collateral in excess of the rebate guarantees. While the securities lending activities are fully collateralized, market risk arises from the possibility that a borrower of securities may be unable to return the securities if a sudden material change in the market occurs. There is minimal credit risk from the failure of counterparties to perform, since the Company receives collateral in excess of 100% of the value of the loaned securities, and losses stemming from the borrower's failure to return securities are fully indemnified by Northern Trust. There were securities with a market value of $0 on loan under the program at December 31, 2017 and 2016, as the Company actively works to close the securities lending program at the end of each year. Income earned for securities lending was $383,000 and $407,000 at December 31, 2017 and 2016, respectively.

04. Fair Value Measurements And Derivatives

The Company follows ASC Topic 820, *Fair Value Measurements*, for financial assets and financial liabilities measured at fair value. The Standard defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value. The Standard also established a hierarchy that prioritizes the input used to measure fair value into three levels.

In accordance with ASC Topic 820, assets and liabilities recorded at fair value are categorized based upon a fair value hierarchy:

- Level 1 – inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 – inputs utilize other than quoted prices included in Level 1 that are observable for similar assets, either directly or indirectly.
- Level 3 – inputs are unobservable for the asset, and include situations where there is little, if any, market activity for the asset.

The following table summarizes the Company's financial assets and financial liabilities measured at fair value at December 31, 2017:

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2017 *(In thousands of U.S. Dollars)*

	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Investments Valued at NAV[2]	Total Assets/ Liabilities Measured at Fair Value	Changes in Fair Values for the Year Ended December 31, 2017, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option: Other net realized investment gains (losses)	Changes in Fair Values for the Year Ended December 31, 2017, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option: Investment Income (Loss)
Assets:							
Fixed Maturities:							
U.S. government obligations	$ —	$ 412,945	$ —	$ —	$ 412,945	$ 2,626	$ (850)
Foreign government obligations	—	68,802	—	—	68,802	(1,630)	(778)
Obligations of state and political subdivisions	—	17,677	—	—	17,677	194	(70)
Corporate debt securities	—	1,091,096	—	—	1,091,096	6,516	(4,252)
Mortgage- and asset-backed securities	—	296,737	—	—	296,737	(88)	(1,747)
Other debt securities	—	36,836	—	—	36,836	47	(21)
Total debt securities	$ —	$ 1,924,093	$ —	$ —	$1,924,093	$ 7,665	$ (7,718)
Equities	$ 2,470,848	$ —	$175	$ 56,198	$2,527,221	$149,819	$ 57
Short-term securities[1]	—	22,639	—	—	22,639	(29)	—
Alternative investments							
Hedge Funds	—	—	—	279,925	279,925	—	—
Real Estate	—	—	—	236,024	236,024	—	—
Private Equity	—	—	—	208,036	208,036	—	—
Foreign currency forward contracts	—	56,205	—	—	56,205	—	—
Total Assets	**$2,470,848**	**$2,002,937**	**$175**	**$780,183**	**$5,254,143**	**$157,455**	**$(7,661)**
Liabilities:							
Futures	$ 265	$ —	$ —	$ —	$ 265	$ —	$ —
Foreign currency forward contracts	—	56,342	—	—	56,342	—	—
Put spread collar contracts	—	48,142	—	—	48,142	—	—
Total Liabilities	**$ 265**	**$ 104,484**	**$ —**	**$ —**	**$ 104,749**	**$ —**	**$ —**

1) Short-term securities presented in the table above exclude short-term investments (e.g., time deposits, certain money market funds) of $235,081, which are not measured at fair value

2) Investments valued using Net Asset Value (NAV) as a practical expedient are listed in a separate column

The following table summarizes the Company's financial assets and financial liabilities measured at fair value at December 31, 2016:

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2016 *(In thousands of U.S. Dollars)*

	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Investments Valued at NAV[2]	Total Assets/ Liabilities Measured at Fair Value	Changes in Fair Values for the Year Ended December 31, 2016, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option	
						Other net realized investment gains (losses)	Investment Income (Loss)
Assets:							
Fixed Maturities:							
U.S. government obligations	$ —	$ 360,259	$ —	$ —	$ 360,259	$ (4,034)	$ (889)
Foreign government obligations	—	83,567	—	—	83,567	(1,070)	(876)
Obligations of state and political subdivisions	—	8,115	—	—	8,115	(38)	(18)
Corporate debt securities	1,202	971,167	—	—	972,369	8,953	(3,663)
Mortgage- and asset-backed securities	—	262,368	—	—	262,368	533	(2,580)
Other debt securities	—	31,687	—	—	31,687	(64)	(27)
Total debt securities	$ 1,202	$1,717,163	$ —	$ —	$1,718,365	$ 4,280	$ (8,053)
Equities	$2,258,386	$ 1,130	$875	$ 34,733	$2,295,124	$122,728	$ —
Short-term securities[1]	—	21,867	—	—	21,867	21	(86)
Alternative investments							
Hedge Funds	—	—	—	279,410	279,410	—	—
Real Estate	—	—	—	247,256	247,256	—	—
Private Equity	—	—	—	215,503	215,503	—	—
Foreign currency forward contracts	—	56,924	—	—	56,924	—	—
Futures	147	—	—	—	147	—	—
Total Assets	**$2,259,735**	**$1,797,084**	**$875**	**$776,902**	**$4,777,672**	**$127,029**	**$(8,139)**
Liabilities:							
Foreign currency forward contracts	$ —	$ 56,650	$ —	$ —	$ 56,650	$ —	$ —
Total Liabilities	**$ —**	**$ 56,650**	**$ —**	**$ —**	**$ 56,650**	**$ —**	**$ —**

1) Short-term securities presented in the table above exclude short-term investments (e.g., time deposits, certain money market funds) of $176,342, which are not measured at fair value

2) Investments valued using Net Asset Value (NAV) as a practical expedient are listed in a separate column

For marketable securities, the Company utilizes the services of its primary custodian to assist in the pricing of securities for the purposes of assessing fair value. The custodian collects various price types from its pricing providers. Price types include close of business, last traded, and mid-price. The prices are typically on a close of business basis; preferred price types are based on market convention. In most markets, this translates to a "last trade" price. In the event an asset does not receive its preferred price type; the custodian will consider the next highest price type received that exists in the price type hierarchy.

As is the case with all of the Company's held assets, the custodian strives to independently price as many assets as possible. For listed securities, their pricing providers deliver exchange closing prices each day. For those securities that trade over the counter, their pricing providers deliver evaluations (good faith opinion as to what a buyer in the marketplace would pay for a security – typically in an institutional round lot – in a current sale), based on broker quotes. Depending on the type of asset, those quotes or models may include inputs as supplied by the custodian for the individual issues.

Securities classified as Level 1 consist of actively traded, exchange listed U.S. and international equities, "Futures" and "Corporate Debt Securities." Valuation is based on unadjusted quoted prices for identical assets in active markets.

Securities classified as Level 2 consist of "Fixed Maturity Securities," "Short-Term Securities," "Foreign Currency Forward Contracts," and "Put Spread Collar Contracts." The market approach is used to price the Company's U.S. and foreign government obligations, and the primary inputs include bid and offer quotes from market makers or inter-dealer brokers. The Company's "Obligation of State and Political Subdivision" securities are priced using the matrix market approach where market information is used to derive a price based on similar securities. The primary inputs are spread benchmark curves, prepayment speeds, or spreads and quotes. The Company's "Corporate Debt Securities" are generally priced using the market approach and the primary inputs include U.S. Treasury curve, benchmark issues and spreads above benchmarks from market sources. "Mortgage- and Asset-backed Securities" and "Other Debt Securities" prices are derived using a combination of matrix market approach and discounted cash flow income approach. The primary inputs include discount rates obtained from benchmark yield curves and discount margins, dealer quotes, spreads and prepayment speeds from market participants and benchmark quotes from dealers. The "Short-Term Securities" consist of U.S. government and corporate debt securities. The "Foreign Currency Forward Contracts" are priced by the FX forward rate. Discounts and premiums are taken from various sources to calculate the FX forward rate, which are added directly to the spot rate.

Securities classified as Level 3 consist of "Equities." The change in fair value of Level 3 assets is immaterial to the Consolidated Financial Statements.

The valuation of the hedge funds, real estate funds and private equity funds are based on the Company's proportionate interest in the underlying funds' net asset value, which approximates fair value. Private real estate funds are not subject to redemption, and it is estimated that the investments will be liquidated in approximately one to seven years, up to ten years with extensions. The investments in hedge funds and open-end real estate funds are redeemable at quarter end or annually with up to a 95-day notice. The investment in the private equity funds are not subject to redemption and typically returned through distributions. It is estimated that the investments will be liquidated in approximately five to ten years, up to 15 years extensions.

If the inputs used to measure the financial instrument fall within different levels of the hierarchy, the categorization is based on the lowest level that is significant to the fair value measurement of the instrument. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset.

Both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within the Level 3 category. As a result, the unrealized gains and losses for invested assets within the Level 3 category presented in the tables may include changes in fair value that are attributed to both observable (e.g., changes in market interest rates) and unobservable (e.g., cash flow projections) inputs.

Certain short-term investments do not qualify as securities and are recognized at amortized cost in the Consolidated Balance Sheet. For these instruments, the Company believes that there is minimal risk of material changes in interest rates or credit of the issuer such that estimated fair value approximates carrying value. The Company monitors its short-term investments to ensure there is sufficient demand and issuer credit quality has been maintained. Short-term investments that meet the definition of a security are recognized at estimated fair value in the Consolidated Balance Sheets in the same manner described above for similar instruments that are classified within captions of other major investment classes.

Derivative Instruments

The Company uses derivatives in the normal course of business, primarily in an attempt to reduce its exposure to market risks (principally interest rate risk, equity stock price risk, and foreign currency risk) stemming from various assets and liabilities or as a temporary balancing tool to gain target market exposure. The Company's principle objective under such risk strategies is to achieve the desired reduction in economic risk. The Company does not apply hedge accounting treatment for any of its derivative instruments.

Gains and losses on derivatives are recorded in Investment income, net as follows:

Gains (losses) (In thousands of U.S. Dollars)

	2017	2016
Futures	$ 650	$ 6,564
Foreign exchange forwards	1,429	776
Put spread collar	(48,142)	—
Other	—	(4,092)
	$(46,063)	**$ 3,248**

Foreign Exchange Forwards

The Company uses foreign currency forward contracts to limit the impact of currency fluctuations and exchange rate exposure of future sales and purchases of foreign securities. Foreign currency forward contracts are not used to leverage portfolios or for any speculative purpose.

Futures

The Company uses futures contracts to manage equity and U.S. Treasury security exposures pursuant to the Company's Investment Policy. Futures contracts are not used to leverage portfolios or for any speculative purpose. Total notional exposure to U.S. Treasury securities and equity indices through futures contracts totaled $31,037,300 and $38,096,000 at December 31, 2017 and 2016, respectively. The Company recorded a payable and receivable of approximately $265,000 and $147,000 at December 31, 2017 and 2016, respectively.

Other

The Company entered into a costless put spread collar contract, consisting of put options and call options, in 2017 to provide stability to the Company's surplus by hedging against significant equity market declines. The Company uses this strategy to minimize its exposure to volatility in the equities markets. These options contracts are not linked to specific assets that appear on the Consolidated Balance Sheet or to a forecasted transaction.

The Company uses deferred settlement mortgages as a cost-efficient way to invest in Mortgage-backed securities. In this approach, the investor accepts delayed settlement on the purchase of Mortgage-backed securities in return for a modest reduction in the price paid for those Mortgage-backed securities. The price differential is directly related to the fact that the investor does not enjoy the higher yield typically offered by Mortgage-backed securities relative to the interest rate earned on cash equivalents held for the period between normal settlement and the agreed upon deferred settlement. At December 31, 2017 and 2016, these securities had an amortized cost of $35,702,000 and $39,005,000, respectively. At December 31, 2017 and 2016, these securities had a fair value of $35,718,000 and $39,058,000, respectively. The net of these amounts are included in fixed maturities on the Company's Consolidated Balance Sheets. Gains and losses on deferred settlement mortgages were immaterial to the financial statements during the years ended December 31, 2017 and 2016.

05. Line Of Credit

The Company has a $125 million and $50 million uncommitted line of credit with its investment custodian at December 31, 2017 and December 31, 2016, respectively, during the periods of March 1 through May 31 and from June 1 through February 28. Under the arrangement, the investment custodian has agreed to review the Company's Consolidated Financial Statements on a regular basis so that the Company may borrow funds for general corporate purposes or place letters of credit without the normal lengthy credit review process. The uncommitted nature of the line provides the investment custodian the flexibility to deny use of this line if it is so inclined. In 2017 and 2016, the Company borrowed and repaid $60 million and $70 million, respectively, against the Line of Credit.

06. Reserve Fund, Escrow Deposit, And Trust Assets

The Company is required to maintain assets on deposit with various regulatory authorities to support insurance and reinsurance operations. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions. The assets on deposit are available to settle insurance and reinsurance liabilities. Under the Incorporating Act of Bermuda, the Company must, at all times, maintain a reserve fund. At December 31, 2017 and 2016, the reserve fund was $250,000. In addition, the Company is required to maintain a $750,000 escrow deposit (restricted cash) in connection with being licensed in the State of Delaware. In lieu of the escrow deposit, a $750,000 letter of credit has been established to comply with the State of Delaware licensing requirement. Distributions to policyholders may not be declared out of either of these sources. The Company established a trust held by its custodian, Northern Trust, with certain investments, in the event of default of its reinsurance obligation with Energy Insurance Mutual Limited (EIM). The Company is required to maintain sufficient funds to cover 102% of reserves for claims including claim losses, loss expenses, and unearned premium under its reinsurance agreement with EIM. At December 31, 2017 and 2016, assets held in trust that are required to satisfy claim liabilities with EIM were approximately $31 million and $53 million, respectively, and are included in equity securities, at fair value on the balance sheets.

07. Retrospective Premium Adjustment

Upon the sole discretion of the Board of Directors, the Company can call upon the Members for payment of proportionate retrospective premium adjustments, in whole or in part, to cover losses and the related costs incurred by the Company with respect to a policy year to which they have subscribed.

Each Member insured is contingently liable to the Company for retrospective premium adjustments based on losses occurring in each year. Under the Primary, Accidental Outage, Excess programs, and inclusive of Builders' Risk, the maximum adjustment is equal to ten times annualized policy premiums.

The liability of the Members for the retrospective premium adjustment for any policy year ceases six years after the end of that policy year, unless prior demand has been made. If a Member terminates its relationship with NEIL, it will still retain its obligation to respond to a retrospective premium call by the Company pursuant to the terms of any nuclear insurance policy that Member had with NEIL or NEILO prior to termination.

The maximum potential retrospective premiums, which could be demanded by the Company as of December 31, from the Members of each program, with respect to the current policy year, comprise:

(In thousands of U.S. Dollars)

	2017	**2016**
Primary	$1,837,746	$1,882,806
Accidental Outage	538,390	592,371
Excess	221,663	231,136
	$2,597,799	**$2,706,313**

The Company requires its Members to maintain an investment grade credit rating or to take certain specified actions to ensure collectability of their retrospective premiums. All non-investment grade and unrated Members are required to provide security for their retrospective premium obligations in the form of one of the following mechanisms: Financial Guarantee, Letter of Credit, Deposit Premium, or Retrospective Premium Insurance. In 2017 and 2016, the retrospective premiums for non-investment grade Members represented 11.84% and 11.05% of the total, respectively. Management believes that it is unlikely that any retrospective premium adjustments will be required for policies whose terms have expired. No retrospective premium adjustments were required for the years ended December 31, 2017 and 2016.

08. Reinsurance

In the normal course of business, the Company seeks to reduce its exposure to losses that may arise by reinsuring certain levels of risk with other insurance enterprises or reinsurers. Such reinsurance does not relieve the Company from its obligations to policyholders.

In 2017, reinsurance coverage for the Primary, Excess, and Excess Non-Nuclear Programs consisted of $1.25 billion attaching excess of $750 million (for both nuclear and non-nuclear losses), Additional reinsurance coverage exists for the Excess Non-Nuclear Program, consisting of a $125 million layer attaching excess of $2.125 billion.

In 2016, reinsurance coverage for the Primary and Excess programs consisted of $1.25 billion attaching excess of $550 million (nuclear losses), and $750 million attaching excess of $750 million (non-nuclear losses). Additional reinsurance coverage existed for the Excess Non-Nuclear Program, consisting of a quota-share participation, $625 million part of $750 million, attaching excess of $1.5 billion.

Coverage for Builders' Risk programs consists of reinsurance participation at various attachment points, with or without the nuclear exposure.

The Company assumed reinsurance from non-affiliated entities for up to approximately $200,000,000 per occurrence at December 31, 2017 and 2016. The risks are primarily property damage and third-party liability for facilities involved in the nuclear industry as well as risks that are similar to the Company's direct business. Assumed premiums written in connection with these agreements in 2017 and 2016 were $43,285,000 and $42,544,000, respectively. Assumed premiums earned in connection with these agreements were $43,556,000 in 2017 and $41,093,000, in 2016.

The Company assumed reinsurance for the conventional property programs of its Members. Such assumed reinsurance was written on a quota share basis and the maximum limit was approximately $300,000,000 per occurrence. Premiums written in connection with this agreement in 2017 and 2016 were $18,166,000 and $19,788,000, respectively. Premiums earned in connection with this agreement were $19,164,000 in 2017 and $20,465,000 in 2016.

The effects of reinsurance on premiums written as of December 31, 2017 and 2016 are as follows:

(In thousands of U.S. Dollars)

	2017	2016
Direct	$240,573	$246,913
Assumed	60,286	62,332
Ceded	(56,200)	(47,329)
Net	**$244,659**	**$261,916**

09. Unpaid Losses And Loss Adjustment Expenses

(In thousands of U.S. Dollars)

	2017	2016
Gross Balance at January 1	$316,027	$334,829
Less: reinsurance recoverables	2,934	2,224
Net Balance at January 1	313,093	332,605
Incurred related to:		
Current year	176,973	123,908
Prior years	(124,732)	(67,945)
Total incurred	**52,241**	**55,963**
Paid related to:		
Current year	(263)	(25)
Prior years	(72,940)	(73,770)
Total paid	(73,203)	(73,795)
Effects of foreign exchange rates	(5,595)	(1,680)
Net Balance at December 31	$297,726	$313,093
Plus: reinsurance recoverables	2,290	2,934
Gross Balance at December 31	**$300,016**	**$316,027**

The loss and loss adjustment expenses above include losses on both direct insured and assumed reinsurance business. Based on the Company's current loss reserve position, no material losses were ceded to reinsurers during the 2017 and 2016 calendar years, with respect to any claims for which coverage and reserve determinations have been made. Loss and loss adjustment expenses for the current year were $176,973,000 as compared with $123,908,000 in 2016. For the years ended December 31, 2017 and 2016, claims and claim adjustment expenses incurred included favorable development of $124,732,000 and $67,945,000, respectively. The favorable prior year development experienced in 2017 and 2016 was the result of settlements of large claim liabilities that were less than was reserved in the prior year and a re-estimation of IBNR on prior year claims after receiving additional information. Loss payments were $73,203,000 and $73,795,000 for 2017 and 2016, respectively.

The following information is presented by significant product lines of business. The lines are aggregated by Member Nuclear, Member Conventional, and Non-Member.

When a Member Nuclear claim is reported, the claim is assigned to NEIL Services for investigation and adjustment. The Company may engage an outside adjuster to assist in the analysis of the claim. In certain instances involving complex technical issues, outside experts may be retained to help evaluate the extent and value of the loss. Once a claim has been evaluated and believed to be a covered loss, a specific loss reserve based on the best information currently available is booked for the likely loss to be incurred. As new information becomes available or payments are made on a claim, the case reserve is adjusted to reflect the revised estimate of the ultimate amount to be paid out. Estimates and assumptions pertaining to individual claims are based on complex and subjective judgments and subject to change at any time as new information becomes available.

For claims involving the Member Conventional and Non-Member insurance programs, NEIL establishes reserves based on the loss amount determined by the lead insurer and NEIL's participation percentage on the policy.

In addition to case reserves, IBNR reserves are established to provide for claims which have not been reported to the Company as of the reporting date as well as potential adverse development on known case reserves. In general, IBNR reserve estimates are derived through a number of analytical techniques. Actuarial data is analyzed by line of business, coverage and accident year. Qualitative factors are also considered in determining IBNR reserves and include such factors as changes in policy forms and underwriting changes. Reserves are reviewed biannually and any indicated adjustments are made. While the Company has used its best judgment and the most current information available in recording the reserves, there is significant uncertainty in estimation of the ultimate claims.

Due to the inherent uncertainties in establishing both case and IBNR reserves, ultimate loss experience may prove better or worse than indicated by the combined claim reserves. Adjustments to claim reserves are reflected in the period recognized and could increase or decrease earnings for the period.

The following tables present incurred and paid claims development as of December 31, 2017, net of reinsurance, as well as cumulative claim frequency and the total IBNR liabilities plus expected development on reported claims included within the net incurred claims amounts. The information about incurred and paid claims development for the years ended December 31, 2008 to 2016, is presented as supplementary information and is unaudited. For all significant lines, the number of claims presented below equals the number of occurrences reported to the Company. The number of claims reported during a given year corresponds to the number of claims records opened during the year. Frequency information is maintained on a cumulative basis by line of business.

Member Nuclear
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

AS OF DECEMBER 31, 2017

(In thousands of U.S. Dollars)

Accident Year:	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	IBNR Reserves	Cumulative Number of Reported Claims
2008	395,945	105,589	(4,142)	(4,697)	28,878	(1,458)	142	(312)	—	—	—	9
2009	—	150,960	200,245	46,648	474,104	(5,818)	(50)	—	—	—	—	11
2010	—	—	25,526	(9,328)	4,541	(1,420)	(196)	(378)	(210)	(155)	—	7
2011	—	—	—	118,792	15,436	(22,589)	(3,842)	4,203	(8,563)	(433)	—	11
2012	—	—	—	—	68,828	(20,499)	198,411	206,590	(10,897)	(5,544)	—	7
2013	—	—	—	—	—	168,399	(41,915)	(9,991)	(5,909)	739	111	10
2014	—	—	—	—	—	—	109,810	(41,568)	(2,173)	(8,653)	375	7
2015	—	—	—	—	—	—	—	51,113	(13,463)	(8,834)	1,942	8
2016	—	—	—	—	—	—	—	—	80,126	(30,478)	7,239	7
2017	—	—	—	—	—	—	—	—	—	137,924	46,862	5
Total										**$ 84,566**		

Member Nuclear
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

(In thousands of U.S. Dollars)

Accident Year:	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2008	21,376	315,423	95,356	504	4,178	80,527	—	—	—	—
2009	—	2	189,139	130,931	15,554	530,462	—	—	—	—
2010	—	—	20	3,429	13,467	1,465	—	—	—	—
2011	—	—	—	44	70,052	31,125	581	329	791	81
2012	—	—	—	—	26	1,813	19,651	401,651	10,884	2,863
2013	—	—	—	—	—	17,460	66,543	10,193	15,838	216
2014	—	—	—	—	—	—	100	23,211	17,817	20,161
2015	—	—	—	—	—	—	—	70	6,903	12,508
2016	—	—	—	—	—	—	—	—	1	16,051
2017	—	—	—	—	—	—	—	—	—	46
										$ 51,926

All outstanding liabilities relating to prior years, net of reinsurance	**147,948**
Liabilities for claims and claim adjustment expenses, net of reinsurance	**$180,588**

Member Conventional
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

AS OF DECEMBER 31, 2017

(In thousands of U.S. Dollars)

Accident Year:	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	IBNR Reserves	Cumulative Number of Reported Claims
2008	48,772	(1,854)	(1,421)	117	249	(1,125)	423	(718)	1	(421)	—	37
2009	—	20,121	(6,507)	(2,603)	(287)	(314)	(46)	(6)	(4)	681	—	30
2010	—	—	14,555	(2,670)	(2,824)	(1,409)	(284)	(27)	(42)	(11)	—	30
2011	—	—	—	44,993	2,885	12,261	(1,553)	79	525	(459)	—	42
2012	—	—	—	—	53,009	12,002	8,754	583	(8,950)	(4,270)	448	37
2013	—	—	—	—	—	14,663	(3,946)	(3,240)	(1,131)	(705)	129	15
2014	—	—	—	—	—	—	11,890	(3,752)	(4,067)	(906)	350	19
2015	—	—	—	—	—	—	—	14,399	(8,964)	(2,536)	1,482	17
2016	—	—	—	—	—	—	—	—	15,115	(1,113)	3,797	37
2017	—	—	—	—	—	—	—	—	—	14,471	9,016	24
Total										**$ 4,730**		

Member Conventional
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

(In thousands of U.S. Dollars)

Accident Year:	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2008	9,124	21,358	3,537	7,593	1,464	792	134	20	1	—
2009	—	5,645	1,441	802	721	1,746	—	—	—	681
2010	—	—	82	1,351	1,526	4,204	84	41	—	—
2011	—	—	—	1,239	20,148	19,776	10,049	5,265	2,255	—
2012	—	—	—	—	16	20,170	9,807	25,065	2,928	1,099
2013	—	—	—	—	—	3,004	1,066	877	11	524
2014	—	—	—	—	—	—	660	1,457	475	208
2015	—	—	—	—	—	—	—	206	540	129
2016	—	—	—	—	—	—	—	—	17	3,748
2017	—	—	—	—	—	—	—	—	—	213
										$ 6,602

All outstanding liabilities relating to prior years, net of reinsurance	**30,955**
Liabilities for claims and claim adjustment expenses, net of reinsurance	**$29,083**

Non-Member
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

AS OF DECEMBER 31, 2017

(In thousands of U.S. Dollars)

Accident Year:	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	IBNR Reserves	Cumulative Number of Reported Claims
2008	139,248	(14,973)	(14,688)	10,422	(1,745)	5,153	(2,418)	535	4,143	(9,674)	1,290	5
2009	—	8,801	(1,390)	(1,579)	(777)	(1,338)	(693)	(205)	(2,557)	(14)	37	2
2010	—	—	9,671	(1,073)	(874)	(714)	2,042	(691)	(535)	(4,132)	632	3
2011	—	—	—	6,896	(710)	4,838	1,651	(1,279)	(1,711)	(2,304)	3,044	7
2012	—	—	—	—	7,063	8,532	3,542	1,424	(2,251)	(1,128)	4,757	18
2013	—	—	—	—	—	12,401	2,171	13,901	(263)	(6,519)	4,515	22
2014	—	—	—	—	—	—	15,078	5,652	(4,028)	(7,989)	5,596	22
2015	—	—	—	—	—	—	—	31,348	332	(20,206)	7,456	41
2016	—	—	—	—	—	—	—	—	31,440	(9,666)	11,970	55
2017	—	—	—	—	—	—	—	—	—	24,579	21,303	46
Total										**$ (37,054)**		

Non-Member
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

(In thousands of U.S. Dollars)

Accident Year:	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2008	62,147	12,251	1,907	7,641	1,736	4,017	9,496	1,221	8,122	2,499
2009	—	—	—	7	—	199	5	—	—	—
2010	—	—	—	2,933	—	—	—	—	—	—
2011	—	—	—	—	—	1,580	496	995	64	—
2012	—	—	—	—	—	250	219	2,727	3,368	1,180
2013	—	—	—	—	—	—	1,078	2,348	2,684	6,617
2014	—	—	—	—	—	—	—	1,418	325	1
2015	—	—	—	—	—	—	—	—	753	1,623
2016	—	—	—	—	—	—	—	—	19	2,750
2017	—	—	—	—	—	—	—	—	—	4
										$ 14,676

All outstanding liabilities relating to prior years, net of reinsurance	**139,785**
Liabilities for claims and claim adjustment expenses, net of reinsurance	**$ 88,055**

The reconciliation of the net incurred and paid claims development tables to the liability for loss and loss adjustment expenses in the consolidated balance sheets is as follows:

	December 31, 2017
Net outstanding liabilities	
Member Nuclear	180,588
Member Conventional	29,083
Non-Member	88,055
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	297,726
Reinsurance recoverable on unpaid claims	
Member Nuclear	2,290
Member Conventional	—
Non-Member	—
Total reinsurance recoverable on unpaid claims	2,290
Total gross liability for unpaid claims and claim adjustment expenses	**$300,016**

The following is supplementary information to the consolidated financial statements about average historical claims duration as of December 31, 2017.

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

Years:	1	2	3	4	5	6	7	8	9	10
Member Nuclear	2.3%	36.0%	27.9%	18.7%	8.1%	2.1%	0.0%	0.0%	0.0%	0.0%
Member Conventional	17.4%	28.6%	15.1%	18.3%	5.4%	1.0%	0.0%	0.0%	0.8%	0.0%
Non-Member	0.0%	15.2%	4.3%	3.9%	18.0%	1.2%	10.2%	0.0%	0.5%	0.0%

The claims discussed below have been settled or reserved accordingly in the Company's financial statements.

In August 2014, a Member filed Property Damage and Accidental Outage claims related to an event, which resulted in significant damage to the turbine generator of one unit at its four-unit site. The unit was in normal operation when the oil level in the lube oil reservoir for the turbine-generator began to decrease rapidly. A Low-Level alarm was received, followed moments later by a Low-Low Level alarm, which resulted in a turbine trip and a reactor scram. Oil continued to drain from the lube oil reservoir resulting in the turbine-generator coasting down without lubrication. Investigation revealed that a normally locked drain valve at the bottom of the lube oil reservoir had been opened allowing the oil to drain to a remote holding tank. The lock on the drain valve had been removed, and the handle on the valve had been loosened and repositioned to make it appear that the valve was still closed.

At the time of the loss, the Member maintained Property insurance through the Company to a maximum of $2.75 billion ($1.5 billion Non-Nuclear limit of liability), with a $5 million deductible. The Member also maintained a separate Accidental Outage policy with the Company whereby, after a 20-week deductible period, the Member is entitled to weekly payments of $3.5 million per week, for the first 52 weeks following the deductible period. After the initial 52 weeks of indemnity, the policy pays $2.8 million per week for up to an additional 110 weeks to a total policy limit of $490.0 million ($327.6 million Non-Nuclear Limit of Liability). Repairs were completed and the unit returned to operation several days before expiration of the Accidental Outage deductible period. The final payment was made in November 2017. Total paid under Property damage claim was $42.5 million.

In March 2013, a Member notified the Company of a potential claim resulting from an incident that occurred while replacing a main generator stator. During a scheduled refueling outage in which the generator stator was being moved out of the turbine building for replacement with a refurbished spare, the stator, weighing approximately 500 tons, was being moved using a specially designed lifting apparatus. A failure of the lifting rig equipment resulted in the stator being dropped from the turbine deck to ground level in the rail bay, a distance of approximately 35 feet. The falling stator and lifting equipment caused significant damage to equipment in the turbine building and structural damage to the building itself.

At the time of the loss, the Member maintained Property insurance through the Company to a maximum of $1.6 billion, with a $2.5 million deductible. The policy contains a $50 million Course of Construction sublimit, which the Company views as the limit of its exposure to this claim. The Company has paid a total of $50 million and has notified the Member that it considers the claim to be paid in full based on the Course of Construction Sublimit. The Member disagrees that the sublimit should apply and there are differences of opinion regarding other coverage for certain aspects of this claim. At the request of the Member, the parties are engaged in a binding arbitration process to resolve the dispute.

10. Income Taxes

Bermuda presently imposes no income, withholding or capital gains taxes, and the Company is exempted until March 2035 from any such taxes pursuant to the Bermuda Exempted Undertakings Tax Protection Act 1966, Amendment Act 1973. The Company made an election pursuant to Internal Revenue Code Section 953(d) to be taxed as a U.S. domestic corporation.

The expense (benefit) for U.S. federal income tax is comprised of the following:

(In thousands of U.S. Dollars)

	2017	2016
Current	$ 55,424	$ 91,895
Deferred	(111,728)	60,715
Foreign	8	89
	$(56,296)	**$152,699**

The components of the net deferred tax liability as of December 31, 2017 and 2016 are as follows:

(In thousands of U.S. Dollars)

	2017	2016
Unearned premium reserve	$ 3,275	$ 5,079
Loss reserve discount	4,412	6,269
Alternative investments	10,265	—
Investment impairments	8,629	18,833
Deferred expenses	7,128	10,605
NEILO operating loss and other, net	801	2,472
Total deferred tax assets	**34,510**	**43,258**
Deferred acquisition costs	(210)	(406)
Alternative investments	(6,539)	(18,618)
Bond amortization	(800)	(1,647)
Unrealized investment gains/losses	(164,924)	(220,259)
Gain/losses on fair value option securities	(80,113)	(78,336)
Gain/losses on fair value option securities	8	—
Total deferred tax liabilities	**(252,578)**	**(319,266)**
Net deferred tax liability	**$(218,068)**	**$(276,008)**

The enactment of TCJA required the Company to recognize the effect of this rate change on its deferred tax assets and liabilities. Tax year-end 2016 reflects an accumulative 2016 deferred liability at a 35% deferred tax rate, while year-end 2017 reflects an accumulated deferred liability at the new enacted rate of 21%. Due to the nature of the remeasured amount, certain components are considered provisional. The Company has determined any provisional items included in the adjustment are immaterial to the Consolidated Financial Statements.

There was no valuation allowance recorded against the deferred tax assets at December 31, 2017 and 2016, as the Company believes it is more likely than not that the deferred tax assets would be realized.

A roll forward of the income tax receivable (payable) for the year ended December 31, 2017 and 2016 are as follows:

(In thousands of U.S. Dollars)

	2017	2016
Current tax (payable) receivable, January 1	$ (58,110)	$ 150
Current tax expense	(55,317)	(91,895)
Estimated payments	130,624	33,689
Other	6,508	(54)
Income taxes receivable (payable)	**$ 23,705**	**$(58,110)**

The provision for income taxes was determined by applying the 35% U.S. statutory federal tax rate to pre-tax net income (loss) adjusted as follows:

(In thousands of U.S. Dollars)

	2017	2016
Earnings (loss) before income taxes	$ 285,725	$ 452,413
Dividends received deduction	(18,671)	(19,026)
Other, net	7,081	7,099
Tax-basis earnings (losses)	**274,135**	**440,486**
Tax rate	**35%**	**35%**
	$ 95,947	**$154,170**
Foreign tax credits	$ (3,859)	$ (3,605)
Deferred federal tax expense - TCJA effect	(146,292)	—
Other, net	(2,092)	2,134
Income tax (benefit) expense	**$ (56,296)**	**$152,699**

The Company determined that all tax positions have been accounted for within these Consolidated Financial Statements, and that all tax positions are more likely than not to be sustained in the event the Company was audited by the federal, state, and international tax authorities, and therefore, the Company does not have any unrecognized tax benefits as of December 31, 2017 and 2016.

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. The Internal Revenue Service ("IRS") audit for the 2005 through 2009 tax years has been finalized and closed. The results of this examination had no material effect on the Company's financial condition, results of operations, or cash flows. IRS statutes have expired for years 2006 and prior. The 2010 through 2016 tax years remain open.

11. Commitments And Contingencies

As of December 31, 2017, the Company has committed to 74 private equity limited partnerships in the amount of $591,651,000. The unfunded portion of these commitments as of December 31, 2017 is $214,467,000 and is payable over the next three years. The Company has committed to 13 real estate partnerships in the amount of $355,811,000. The unfunded portion of these commitments as of December 31, 2017 is $45,261,000 payable over the next two years.

The Company leases office space under an operating lease, which expires September 2028. Future non-cancellable minimum rental commitments under the lease are as follows:

(In thousands of U.S. Dollars)

YEAR	
2018	1,308
2019	1,300
2020	1,227
2021	1,252
2022	1,277
Years thereafter	7,722
Total	**$14,086**

The Company is subject to certain legal proceedings and claims that arise in the normal course of business. In the opinion of management, the ultimate outcome of those actions will not have a material impact on the Company's Consolidated Financial Statements.

12. Statutory Accounting Information

Policyholders' Surplus and Earnings calculated in accordance with statutory accounting practices prescribed or permitted by the Insurance Department of the State of Delaware, differs from US GAAP in the reporting of investments, unsecured reinsurance recoverable amounts, fixed assets, deferred taxes, and certain other items. These differences include, but are not limited to, the investments in bonds, which the Company holds as available for sale and carries at amortized cost for statutory purposes, rather than at fair value; investments in common stocks, which are valued as prescribed by the Securities Valuation Office ("SVO") of the National Association of Insurance Commissioners ("the NAIC"); unsecured reinsurance amounts recoverable from unauthorized and certain authorized reinsurers, which are excluded from net assets by a direct charge to unassigned surplus; certain assets designated as non-admitted, which are excluded from the statutory statements of assets, liabilities, capital, and surplus by direct charge to unassigned surplus; and changes in deferred tax balances, which are recognized as a direct benefit or charge to unassigned surplus.

Differences in statutory Policyholders' Surplus from that shown on the Consolidated Balance Sheets at December 31, 2017 and 2016 are as follows:

(In thousands of U.S. Dollars)

	2017	2016
Statutory Policyholders' Surplus	$4,473,964	$4,049,012
Valuation of fixed maturities	38,897	36,767
Provision for Schedule F	12,037	1,590
Non-admitted assets	4,430	5,106
Miscellaneous	5,873	6,179
Total Policyholders' Surplus	**$4,535,201**	**$4,098,654**

Differences in statutory Net Earnings from that shown on the Consolidated Statements of Operations and Comprehensive Earnings (Loss) for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of U.S. Dollars)

	2017	2016
Statutory net earnings	$115,116	$271,935
Deferred income taxes	112,173	(60,594)
Underwriting income	4,745	(1,429)
Investment income	106,924	87,514
Miscellaneous	3,063	2,288
Net Earnings	**$342,021**	**$299,714**

13. Subsequent Events

On March 9, 2018, the Board of Directors declared a supplemental Distribution of $146 million. The supplemental Distribution has received regulatory approval from the Delaware Department of Insurance, and is expected to be paid on April 27, 2018.

Subsequent events have been evaluated through March 22, 2018, which is the date the consolidated financial statements were available to be issued.

Nuclear Electric Insurance Limited (NEIL), located in Wilmington, Delaware, insures domestic and international nuclear utilities for the costs associated with accidental interruptions, damages, contamination and related nuclear risks. NEIL was founded in 1973 with the formation of Nuclear Mutual Limited (NML) in Bermuda. NML was formed by a group of U.S. electric utilities as an alternative to the commercial nuclear insurance market. NEIL was formed in 1980 to issue excess property and accidental outage policies to complement the policies being issued by NML. In 1988, both companies moved their operations from Bermuda to Wilmington, Delaware, and, in 1997, NML was merged into NEIL.
In 1999, the Company expanded operations by launching NEIL Overseas dac in Dublin, Ireland.

NEIL

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