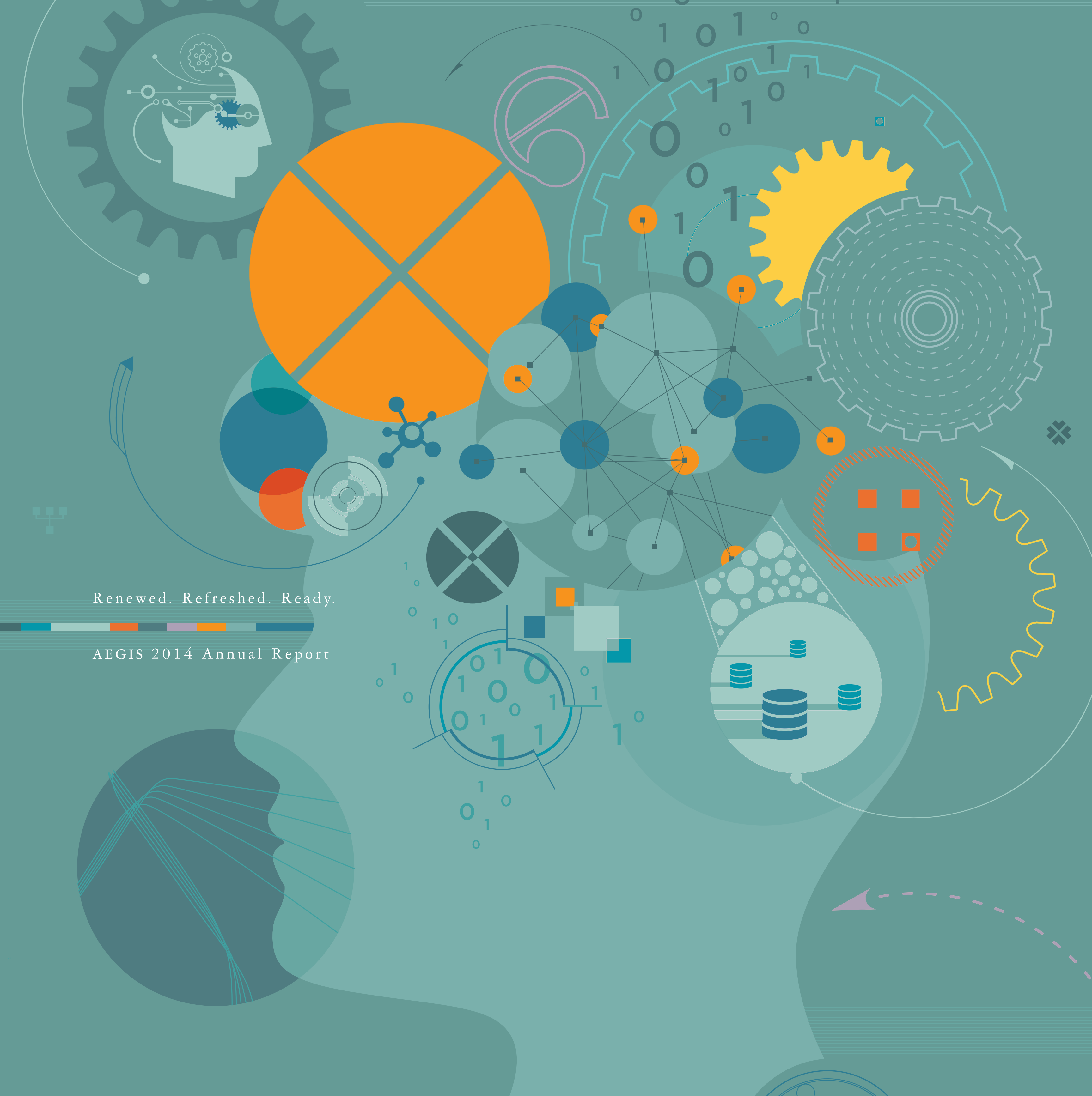


Renewed. Refreshed. Ready.

AEGIS 2014 Annual Report

Five-Year Financial Highlights

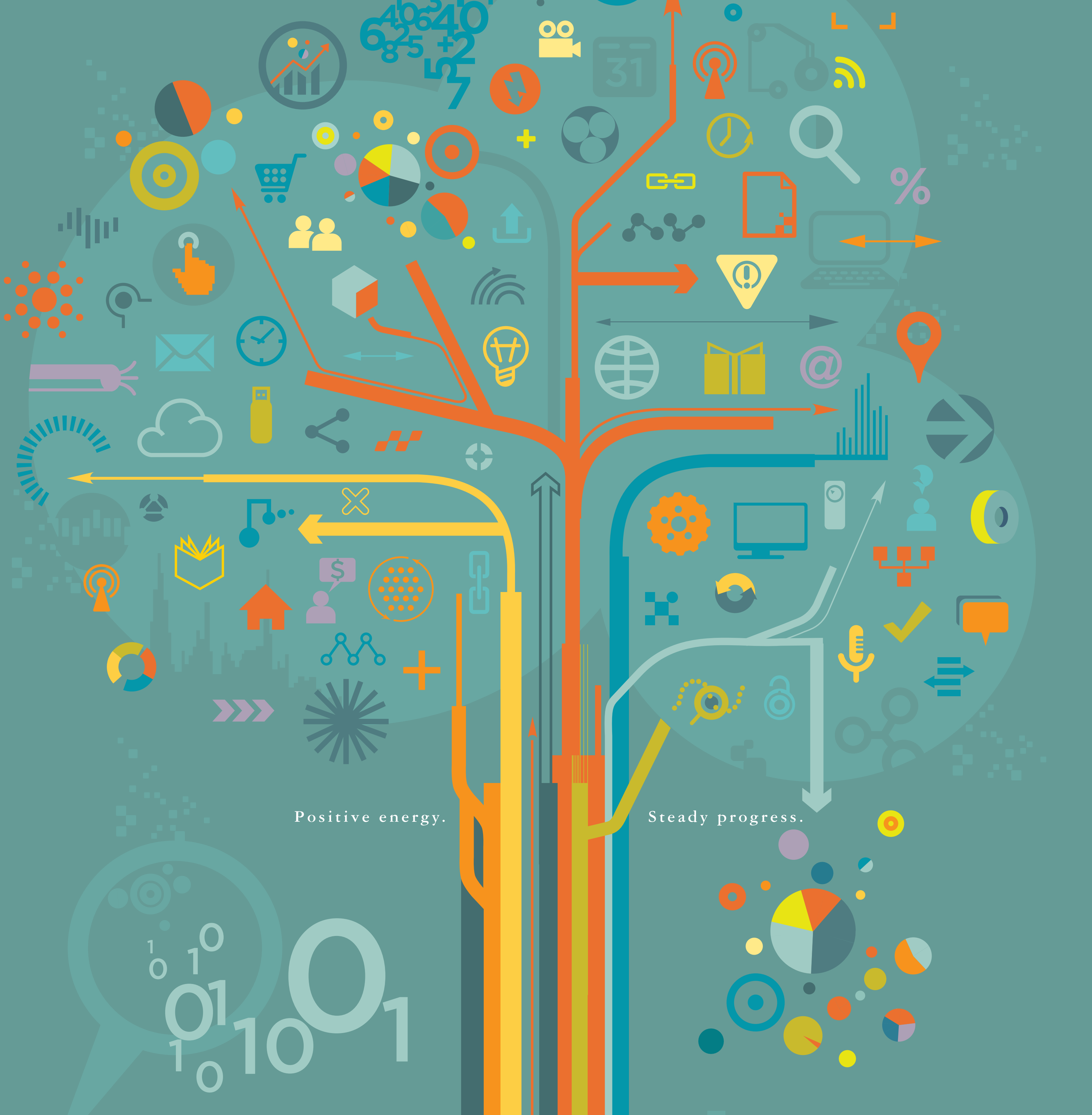
Associated Electric & Gas Insurance Services Limited

For the years ended December 31,

(Expressed in thousands of U.S. dollars)

	2010	2011	2012	2013	**2014**
Revenue:					
Gross premiums written	$1,015,905	$1,140,260	$1,244,704	$1,280,125	**$1,348,493**
Net premiums written	787,127	827,915	763,257	878,492	**943,102**
Net premiums earned	806,632	810,437	802,689	805,473	**897,966**
Net investment income	144,171	104,797	146,472	111,064	**83,037**
Change in fair value of insurance and reinsurance contracts	(7,280)	(38,110)	(17,291)	38,420	**(42,587)**
Total revenue	943,523	877,124	931,870	954,957	**938,416**
Expenses:					
Losses and loss expenses incurred	559,558	583,139	628,139	572,215	**579,749**
Commission expense	103,339	116,675	113,382	97,773	**110,272**
Other underwriting expenses	100,891	116,161	127,436	114,812	**118,150**
Total expenses	763,788	815,975	868,957	784,800	**808,171**
Income before continuity and other premium credits and income taxes	179,735	61,149	62,913	170,157	**130,245**
Continuity and other premium credits	20,208	18,982	34,163	35,544	**20,796**
Income before income taxes	159,527	42,167	28,750	134,613	**109,449**
Income tax provision (benefit)	14,112	(4,894)	9,155	44,981	**42,581**
Net income	$ 145,415	$ 47,061	$ 19,595	$ 89,632	**$ 66,868**
Other comprehensive (loss) income, net of income tax	(6,469)	1,846	30,654	(33,639)	**(1,504)**
Total surplus, beginning of year	$ 862,088	$1,001,034	$1,049,941	$1,100,190	**$1,156,183**
Total surplus, end of year	$1,001,034	$1,049,941	$1,100,190	$1,156,183	**$1,221,547**
Total assets	$5,201,074	$5,290,224	$5,599,079	$5,757,767	**$6,037,151**
Reserve for losses and loss expenses	$3,012,685	$2,904,281	$2,993,698	$3,104,771	**$3,165,788**

The mission of AEGIS is to assure utility and related energy industry members consistently superior insurance and risk management products and services through a secure and stable market enabling members to achieve the lowest overall long-term cost of risk.


Positive energy.
Steady progress.

Letter to our Membership

We're pleased to report that AEGIS had one of its best years ever in 2014, and we're entering 2015 in our strongest financial condition.

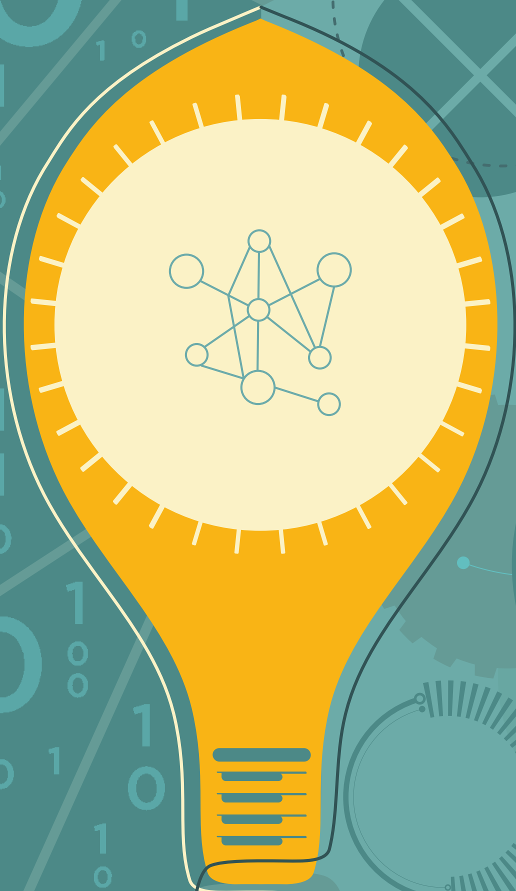
With both our U.S. and London underwriting operations performing well, gross written premiums totaled $1.348 billion, which is $68 million higher than last year, and a new high for AEGIS. In the U.S., these positive results were driven by the unwavering support of our members and brokers across all lines of business, especially our excess liability business, which is much better balanced after several years of rate increases that were necessary to match the membership's loss experience. We are pleased to report that every core utility member renewed its coverage with us in 2014, and this support forms the foundation for everything we do. Our London operations contributed significantly as well, with gross written premiums from new and established lines of business totaling $611 million, which is $40 million higher than last year, and a new high for AEGIS London.

Our combined ratio of 90% is the best we've had in the past 25 years. This was comprised of a 92% combined ratio for our U.S. operations and an 88% combined ratio for our London operations. These favorable underwriting results are especially important during a period in which the investment markets aren't generating the kind of returns that help make up the difference between premiums collected and claims paid to the membership.

Our policyholder surplus grew in 2014 by $66 million, to $1.222 billion, which is another new high for AEGIS. We've now grown surplus by $464 million since 2008. We've accomplished this by carefully balancing the inflow of premium and investment revenue with the outflow of claims and continuity credits. We've grown the strong surplus base that allows us to manage the volatile losses of the energy industry and develop new products and services for the membership, such as our new *CyberResilience Plus* coverage and our new property consortium, which adds $100 million to our existing property capacity.

These strong fundamentals were recognized in 2014 by A.M. Best when they upgraded the financial strength rating for AEGIS from "A- (Excellent)" to "A (Excellent)." Excerpts from the A.M. Best report explaining their rationale appear on page 4.

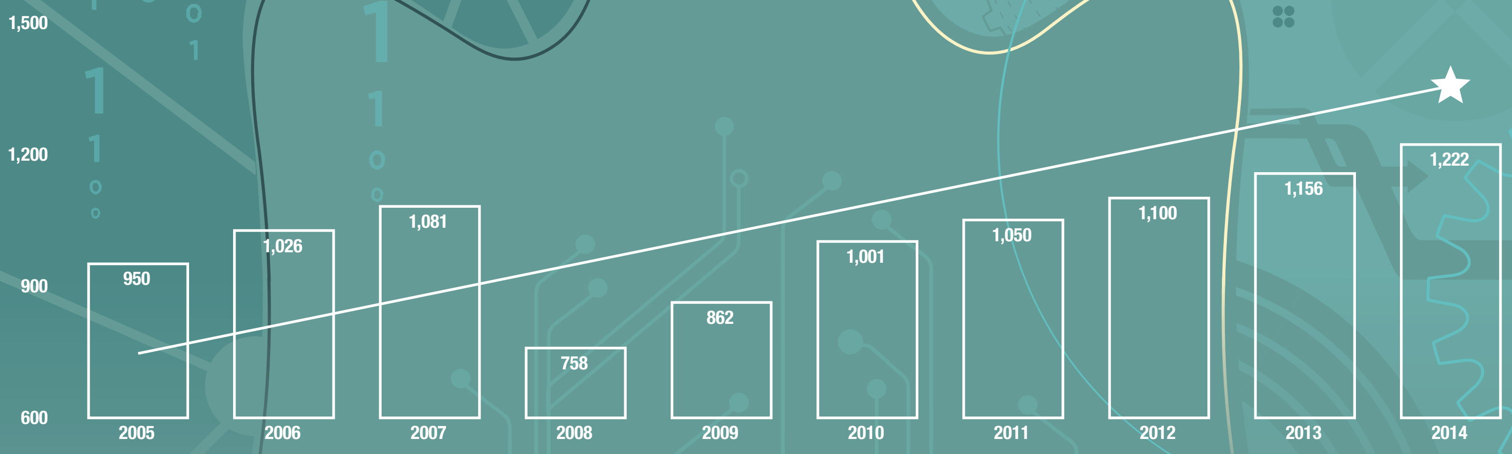
Alan J. Maguire
President and CEO



Wesley W. von Schack
Chairman of the Board

Total Surplus

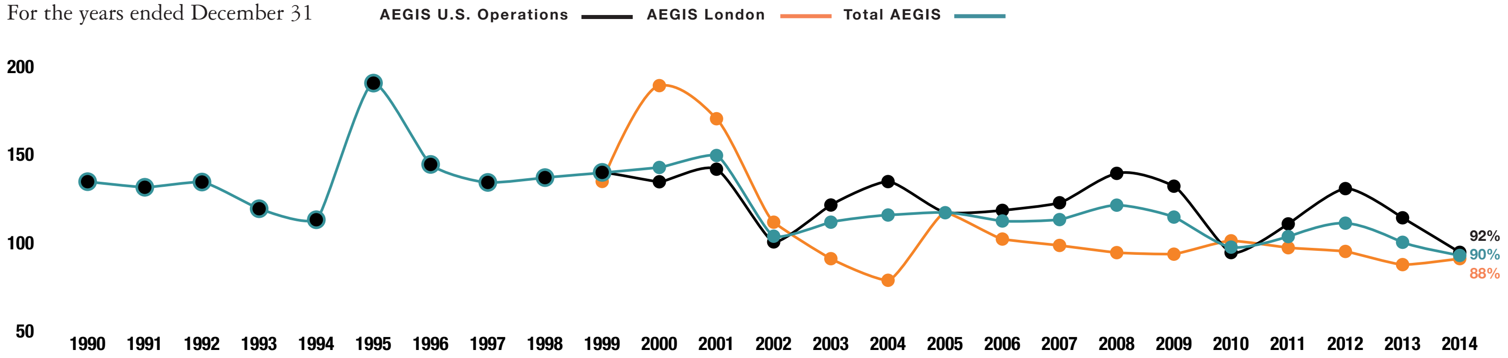
December 31 (millions of U.S. dollars)



"The rating reflects AEGIS' excellent risk-adjusted capitalization and historically strong long-term financial performance. …Management has continued to focus on improving the company's operating performance by improving its risk management strategies, including rate adjustments, continued refinement of its underwriting criteria and the judicious use of available reinsurance protection. …A.M. Best further notes AEGIS' proven track record of developing long-lasting partnerships with its members and brokers. AEGIS is guided by a board of directors and a number of advisory committees whose members come from the industries AEGIS serves and who provide a superior understanding of the risks within those sectors. AEGIS is well positioned at its current rating level." A.M. Best, June 2014

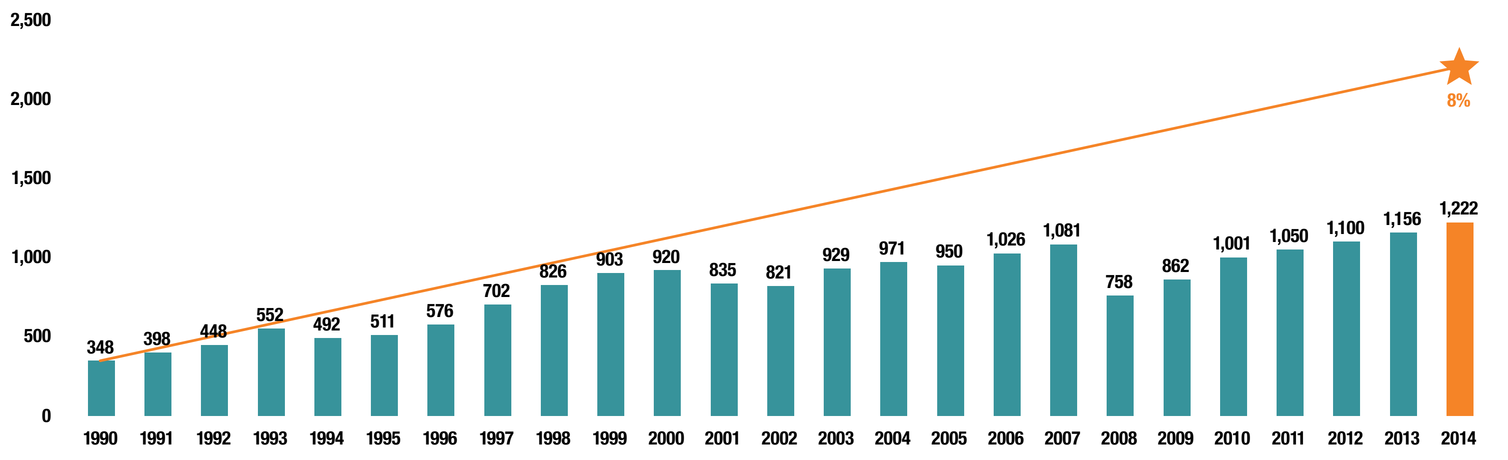
Combined Ratios

For the years ended December 31



Compound Annual Value Growth Rate and Total Surplus

December 31 (millions of U.S. dollars)



Compound Annual Value Growth Rate is defined as growth in total surplus and total credits distributed to members.

We were pleased with this positive report from A.M. Best because it acknowledges the hard work we've all done together over the past several years, and we hope it reinforces the confidence that you and your management have in our ability to pay your claims and serve your needs well into the future.

AEGIS marked the 40th anniversary of its founding in March 2015, so it's worth reflecting briefly on where we started and where we're going. We began operations in 1975 as a monoline excess liability carrier that provided $1 million in limits to a handful of natural gas operators. Today, AEGIS is a leading multi-line carrier, insuring the vast majority of the natural gas and electric industries throughout North America. AEGIS also developed and operates one of the most successful syndicates at Lloyd's of London.

Even though much has changed over the course of the past 40 years, our mission to serve our energy industry members has not. We have provided stable coverage to members, despite all the coverage "crises" that have caused commercial insurers to retreat, and we have paid claims without the drama and resistance that often characterizes the claims process in the commercial market. At the same time, AEGIS also has provided a very good investment for its member companies. The compound annual value growth rate of total policyholder surplus plus member credits (our form of dividends) for the most recent 25 years is 8%.

With our better-balanced excess liability business, new underwriting products, strong financial results and the positive A.M. Best report, you can see why our theme this year is "Renewed. Refreshed. Ready." This wave of renewal is flowing through the senior ranks at AEGIS as well as the ranks of our member and broker companies. You'll see in the Transitions section that follows that we're going through a period of change. While these changes will bring some valuable new perspectives, our challenge will be to ensure that the new people at AEGIS build the same kind of long-term partnerships with the new people at member and broker companies that have been the basis of the mutual's success from the beginning.

We hope that this year's annual report will help our newer readers understand what AEGIS has been doing and, more importantly, who AEGIS is. AEGIS holds a unique position within the energy insurance industry, and it's important that the new people are able to describe to their CEOs, CROs, CFOs, new risk managers, and new claims and loss control people that AEGIS is not a commodity. It truly is different from the commercial insurance carriers. AEGIS provides tangible, long-term value to its members in the form of continuous coverage, collaborative claims paying and deep energy industry expertise. The active role members play in developing new products and services at AEGIS helps assure them that they can indeed shape their own destiny. None of this is possible in the commercial insurance market.

Gregory E. Abel

Christopher M. Crane

Thomas F. Farrell II

Christopher P. Johns

Looking forward from the position of strength we enjoy in our 40th year, we will continue to embrace the spirit of renewal. This applies to our overall business strategy as well. We are examining our strategy to "refresh" it as appropriate. Many of our members at the risk manager and Board level have been helping us in recent months to take a fresh look at what we do, and what we can and should be doing to support you, the members, and the energy industry of the future. Thus far, there's strong consensus that our mission for the industry remains important and relevant, but as you might expect, the execution of that mission must change with the times. We look forward to updating you on these efforts at our Policyholders' Conference in July.

On our Board of Directors, **Tom Capps** and **Bill Grigg,** two of our long-serving directors, chose not to stand for reelection last year. Tom was the Chairman and CEO of Dominion Resources when he agreed to serve on the AEGIS Board in 1993. Bill, the former Chairman and CEO of Duke Energy, has served as Vice-Chairman of the AEGIS Board of Directors for the past 21 years. We thank them both for the significant contributions they've made to AEGIS. We are pleased to welcome four new individuals to the AEGIS Board of Directors:

Gregory E. Abel, Chairman, President and CEO of Berkshire Hathaway Energy, formerly MidAmerican Energy Holdings Company; **Christopher M. Crane,** President and CEO of Exelon Corporation; **Thomas F. Farrell II,** Chairman, President and CEO of Dominion Resources; and **Christopher P. Johns,** President of Pacific Gas and Electric. We look forward to their contributions and leadership.

As we hope our newer readers will soon discover, AEGIS enjoys being part of each member company's risk management team. Risk managers and their senior management have counted on us for 40 years to help finance risk in the most cost-effective way over the long term, and our commitment to the energy industry has never wavered because, as your mutual, we are part of the energy industry. As a result, we have the ability to attract a vibrant group of industry leaders to our Board of Directors, Risk Management Advisory Committee (RMAC), and various Claims and Loss Control advisory groups. These member company representatives appreciate the value of an insurer dedicated solely to their needs, and they will help us evolve in tandem with the rapidly changing energy industry. Thanks to our members, brokers, Board, member advisory groups and dedicated AEGIS professionals in the U.S. and London, 2014 was one of our best years ever, and we are "renewed, refreshed and ready" for 2015, and the future.

Wes von Schack

Wesley W. von Schack
Chairman of the Board

Alan Maguire

Alan J. Maguire
President and CEO

We welcomed a number of new members of the Risk Management Advisory Committee (RMAC), Task Forces and AEGIS staff – and gave best wishes to others who began a well-deserved retirement. With new members and staff joining our experienced teams, we're ready for the future.

RMAC

Four long-serving members stepped down from the AEGIS Risk Management Advisory Committee. **Mike Anderson,** Director of Hazard Insurance at Xcel Energy, **Gary Meggs,** Director of Risk Management at Southern Company, and **Terry Novatnack,** Senior Director, Corporate Risk & Insurance at PPL, announced their retirements and resigned from the RMAC. **Dennis Sacco,** Director of Risk Management at New York Power Authority, resigned from the RMAC, given his new job responsibilities. Mike, Gary, Terry and Dennis have contributed in countless ways to the Committee and its task forces over the years. We are very grateful for their service to AEGIS and wish them all the best in the future. With their departure, we are pleased to welcome seven new members to the RMAC:

Katherine Carbon, Director, Insurance and Risk Advisory – Sempra Energy

Cindy Fee, Senior Risk Management Analyst – Sacramento Municipal Utility District (SMUD)

John Frank, Manager of Risk and Insurance – Basin Electric Power Cooperative

David Layne, Senior Treasury and Risk Manager – The Empire District Electric Company

Joe Meaney, Vice President, Global Insurance and Risk Engineering – The AES Corporation

Cheri Murray, Director, Insurance Risk Management – CenterPoint Energy

Wayne Soza, Vice President, Compliance and Chief Risk Officer – El Paso Electric Company

Claims Task Force

William Burch, Esq., Claims Manager at Exelon, announced his retirement and stepped down from the Task Force after serving more than eight years. We thank Bill for his contributions and wish him a happy and productive retirement. We're pleased to welcome **Bryony Hodges, Esq.,** Associate General Counsel at SCANA, to the Task Force and look forward to working with her.

Loss Control Task Force

Dan Giovanni, Senior Vice President, Energy Delivery at Hawaiian Electric, **Jeremy Stephens,** Manager, Insurance and Risk Management at Citizens Energy Group, and **Rod Roberts,** Managing Director, Generation Support at Pacificorp Energy, stepped down from the Task Force given their new job responsibilities. We thank them for their many contributions and wish them all the best in the future. We're pleased to welcome **Sandy Meyers,** Director, Risk Management at City Utilities of Springfield, and **Cindy Stevens,** Insurance Risk Manager at Colorado Springs Utilities, to the Task Force and look forward to working with them.

New RMAC members

Pictured above, left to right:
David Layne
Joe Meaney
Cheri Murray
Wayne Soza

Not pictured:
Katherine Carbon
Cindy Fee
John Frank

AEGIS Staff

Gil Gould retired from his position as Senior Vice President in the Underwriting Division. Gil came to AEGIS in 1998 after a career in risk management at Edison International in Southern California, which included his service as a member of the AEGIS RMAC. Gil contributed to the success of the mutual in countless ways for more than 25 years. We will all remember Gil particularly for the "humor" he added to our Policyholders' Conferences. We thank him for his service to AEGIS and our members, and wish him all the best in retirement. **George Keefe** assumed most of Gil's responsibilities for member relations, and he was promoted to the position of Senior Vice President, Member Relations. George has been a tireless advocate for our members since joining AEGIS in 1992, and he's been instrumental in the development of new coverages and services, as well as our successful expansion into Canada. Prior to joining AEGIS, George served as the risk manager for New Jersey Natural Gas.

Bill Hillman joined AEGIS as Senior Vice President in the Underwriting Division. Bill comes to us from Guy Carpenter & Company, where he served as a Managing Director responsible for a portfolio of major property and casualty reinsurance clients, including AEGIS. Bill has worked closely with AEGIS for 15 years, and as its lead reinsurance broker, he knows the company very well. In his new position, Bill will be leading a number of strategic functions and initiatives, including reinsurance and enterprise risk management, and working with Bill Cullen on various underwriting matters.

Bruce Roznowski retired from his position as Senior Vice President in the Claims Division. Bruce joined AEGIS in 1992, and led the Claims Division since 1994. We thank Bruce for his many years of superior claims management, his continuous efforts to advance the technological capabilities of the Division, and his dedicated service to AEGIS and our members. We wish Bruce all the best in retirement. **Jeff Schupack** was promoted to Senior Vice President, and he assumed Bruce's responsibilities as the Claims Division Head. Jeff joined AEGIS in 1988 as a Claims attorney and, since 1996, has served as Vice President/Senior Counsel.

Tony Calega retired from his position as Senior Vice President in the Loss Control Division. Tony joined AEGIS in 1995, and served as the Loss Control Division Head since 2009. During his tenure, the number of Loss Control services, educational events and publications grew significantly. We thank Tony for his many years of dedicated service to AEGIS and our members, and we wish him all the best in retirement. **Howard Somers,** a Senior Utility Consultant in the Loss Control Division, was promoted to Vice President, and he assumed Tony's Loss Control Division Head responsibilities. Howard is a licensed professional engineer who is well versed in power plant and utility operations, and prior to joining AEGIS, he served in a number of management capacities with Con Edison in New York.

And a day we hoped would never come: **Sandy Johnson** retired as Vice President in the Underwriting Division. Sandy served AEGIS well for more than 34 years, earning the respect and friendship of members and brokers alike, while setting the standard for service and dedication for the next generation of AEGIS underwriters. We will never be able to thank Sandy enough for her contributions to AEGIS and our members, and we wish her all the best in retirement.

Finally, we were deeply saddened by the passing of our colleague and good friend **Jack Denman.** As most of you know, Jack was the Chief Financial Officer of AEGIS for many years, and he helped guide the company through several financial challenges. Jack was a brilliant man who was truly devoted to AEGIS. While he may have seemed tough or gruff to many, we all knew he had a big heart. He was a great mentor to many in all divisions of the company. Jack came from a large, tight-knit family, all of whom he would joke and complain about, but all of whom he loved dearly. And it seems he treated his AEGIS family the same way. Jack was a wonderful guy, and we will miss him.


welcome.

Many AEGIS members and brokers have known us for their entire working lives. Others are new to the energy and insurance business, or new to their role – if so, welcome.

AEGIS is a mutual insurer that provides the first layer of excess liability coverage to nearly every investor-owned utility in the United States and Canada. The mutual was formed in 1975 by a handful of gas utilities, and we now serve more than 300 member companies that represent virtually the entire energy infrastructure in North America, including electric and natural gas utilities, public power suppliers, cooperatives, related energy companies, oil and gas exploration & production companies, water utilities, pipeline companies, transmission & distribution companies, and others.

We provide a full range of property and casualty coverages, which we tailor to fit the individual needs of each policyholder-member. Unlike the commercial insurance market, which retreats in times of trouble, we provide stable capacity year after year, regardless of insurance market conditions or energy industry challenges. We also have a long track record of developing and adapting our products and services in response to the changing needs of our members, and our members help guide this process through their active participation on our Board of Directors, our Risk Management Advisory Committee (RMAC), our Claims and Loss Control advisory committees, and other member-focused task forces.

From the very beginning, we have been committed to improving the way claims are managed in the energy industry. In stark contrast to commercial insurers, we work with our members as partners, not adversaries, to pay claims efficiently and fairly. The process is refreshingly transparent and amicable. After 40 years of helping the energy industry manage its losses, we have become the go-to source for specialized litigation resources and data, and we readily share this information through seminars, webinars and our website throughout the year.

One of the reasons we can write the volatile risks of the energy industry so effectively is that we have better information and more energy expertise than any other insurer. The risk assessments conducted periodically by our Loss Control professionals help ensure safe and reliable operations at member companies. The assessments also improve the quality of the information that supports the underwriting process, which helps us match risk with price, making the process more equitable across the membership. We readily share our Loss Control information as well. There is an abundance of information on our website, including on-demand videos, webinars, publications and specialized services, and even more is available through the seminars and workshops we offer.

We also developed and operate AEGIS London, a Lloyd’s of London syndicate. AEGIS London writes a large and diverse portfolio of energy and non-energy risks, including cyber, marine and offshore liability, terrorism, global property, fine art and many others. Our London underwriting brings stability and balance to our U.S. energy underwriting and contributes heavily to our overall financial results. Since we began operations in 1999, AEGIS London has become one of the best-performing syndicates at Lloyd’s.

Celebrating 40 years and ready for the future

12

members in 1975

308

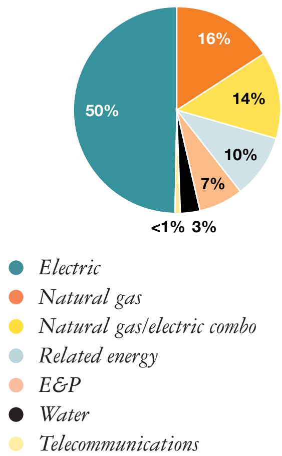
members in 2015

AEGIS wrote its first general liability policies for 12 natural gas members in 1975. In the 40 years since then, the membership and the types of coverages we offer have expanded dramatically. Not only do we now insure virtually the entire energy industry in North America, our successful Lloyd's of London syndicate, AEGIS London, insures a large and diverse portfolio of energy and non-energy risks, which brings balance, stability and profitability to our overall operations.

1975 member companies by type

2015

member companies by type



Types of coverage 1975:

General Liability

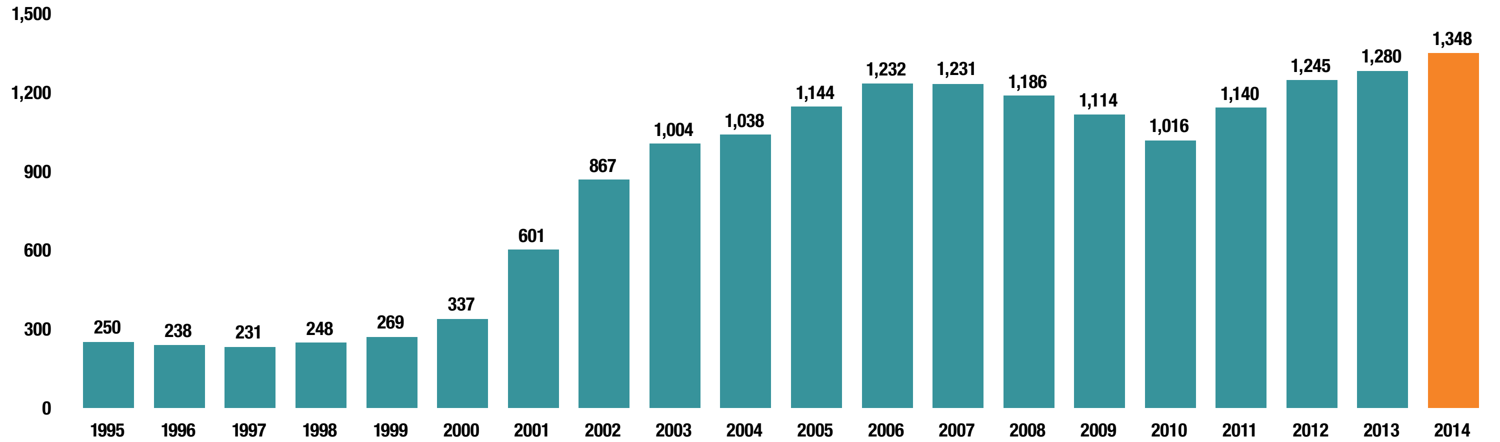
Types of coverage 2015:

- Excess Liability
- Directors & Officers Liability
- Property
- Cyber Coverage & Services
- Construction
- Renewable Energy
- Side A Directors & Officers Liability
- General Partners Liability
- Excess Workers' Compensation
- Professional Liability
- Employment Practices Liability
- Fiduciary & Employee Benefits Liability
- Railroad Protective Liability
- Financial Products

Limits: 1975 – $1 million
2015 – $35 million core coverages; up to $300 million property

Gross premiums written

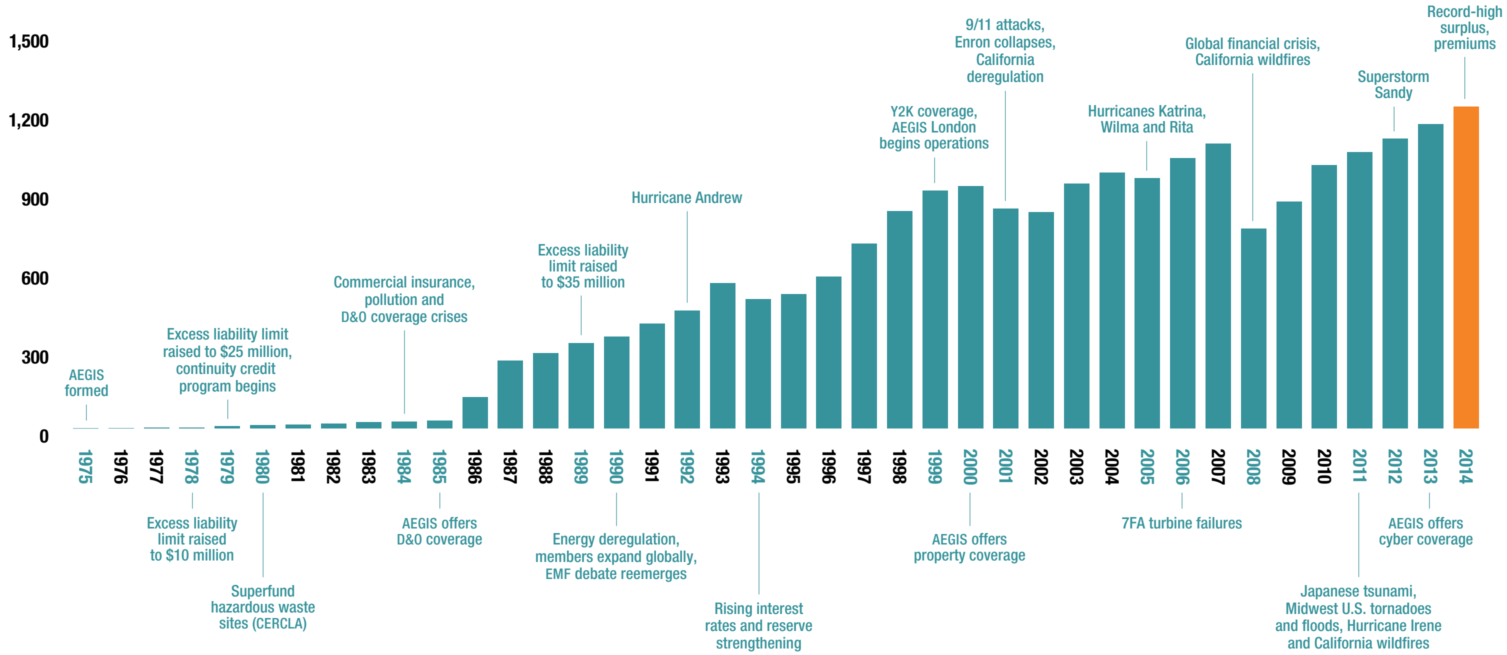
For the years ended December 31 (millions of U.S. dollars)



Unlike the commercial insurance industry, AEGIS provides stable coverage to members regardless of insurance market conditions or crises in the energy industry. Claims are paid without drama or delay. Policyholder surplus has grown steadily over the years, which provides stability as well as the platform to develop new products and services.

Total surplus

December 31 (millions of U.S. dollars)



Continuous coverage that's continuously refreshed

Over the course of 2014, we underwrote policies for 98% of the investor-owned utilities in the United States, and an ever-increasing share of the public power and cooperative providers. AEGIS members represent virtually the entire energy infrastructure in North America, ranging from electric and natural gas utilities to oil and gas exploration & production companies.

With this large scale comes great responsibility. Because virtually the entire energy industry depends on us for their first layer of excess liability coverage, as well as additional coverages that meet their unique needs, we need to balance the mutual's long-term financial stability with a flexible and creative approach to underwriting. Our underwriters worked closely with members and brokers throughout the year to improve the balance between claims paid and premiums collected, especially for our excess liability coverage. Our members know that getting the balance right between premiums and losses, particularly at a time when we can't rely heavily on investment income, is essential to everyone's long-term success. They understand our approach to writing each individual risk, and they know our financial strength enables us to provide the same broad core coverages, year after year. This strength also provides the platform for us to continuously refresh our products and services to keep pace with member needs, including new coverages like our *CyberResilience Plus* offering and our new property consortium, which offers $100 million in limits in addition to our $200 million limit.

The stability of AEGIS coverages, when coupled with our willingness to pay claims fairly and our loss control expertise, differentiates us from the commercial market, and this translates into an uncommon level of loyalty and satisfaction among AEGIS members. In 2014, but for the effects of merger activity in the energy industry, every core utility member company renewed its coverage with us.

Thanks to the loyalty of our members, premium revenues generated by our U.S. operations, when combined with premium revenues from our successful AEGIS London operations, totaled $1.348 billion, which is the highest level in the history of AEGIS.

Excess liability business is better balanced and healthy

After years of stubbornly high loss ratios, our excess liability line of business has reached a better-balanced footing over the past several years, thanks to universal support from our members and brokers for the premium increases required for this core coverage. After aligning premiums with the membership's loss experience, the combined ratio for 2014 was 94% – down from 113% in 2013. We are very grateful for this strong support. It is essential for AEGIS to get its underwriting "right" in this era where investment returns cannot make up the difference in premium shortfalls as they did in the past.

The AEGIS excess liability policy continued to form the foundation for the liability program for most member companies in 2014 because the broad $35 million coverage and the value of our collaborative claims handling are unmatched in the commercial market. Premium revenues totaled $454 million for the year, which was 9% greater than 2013. The revenue level we achieved reflected the willingness of members to pay premiums that are aligned with the loss experience of their company and their industry, as well as 23 new excess policies, including 12 new construction-related policies we wrote during the year.

Members remain loyal to directors & officers business

Despite the fierce competition from the commercial insurance market that has continued unabated since the Enron crisis, AEGIS members have remained loyal to our D&O coverage. The policy's broad $35 million coverage, our continuity credit program, our willingness to pay the industry's D&O claims, and our unwavering commitment to the energy sector in times of crisis outweigh the short-term savings offered by opportunistic commercial insurers.

Premium revenues for D&O were $77 million in 2014, which was about 3% higher than 2013. We wrote 22 new D&O policies in 2014, including 10 new Side A policies, which we offer through our alliance with Endurance Risk Solutions–U.S. In response to numerous requests from members and brokers, we are in the process of updating our very popular D&O handbook – *What Every Director and Officer Should Know* – which has offered valuable corporate governance guidance to AEGIS member companies since it was first published in 2003.

New property consortium launched in a competitive market

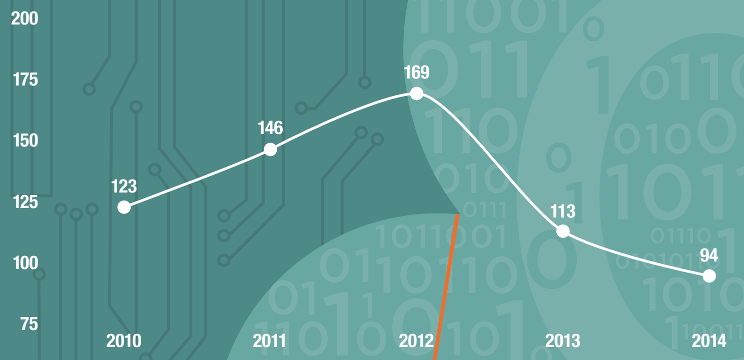
The overall underwriting results for our property line of business in the U.S. and Canada were poor in 2014, with a combined ratio of 154% – down from 230% in 2013. Even though the 2014 Atlantic hurricane season was quiet, several large event losses are still working their way through the system.

Property premiums totaled $169 million, which was about 7% lower than 2013, but most members supported our sustainable and responsible pricing. More than 180 policyholders turned to our U.S. property underwriters during 2014 to provide coverage for their operational and construction risks. Each of them appreciated our stable, consistent capacity, and more than a third took advantage of the property engineering services available through AEGIS Loss Control to prepare their underwriting packages and help improve the safety and reliability of their systems.

While there were fewer opportunities to write construction business because of energy market conditions last year, we were pleased to write a total of 31 new policies for member companies in the U.S. and Canada in 2014 – 11 for construction risk and 20 for operational risk. In 2015, we expect construction activity to pick up, and we plan to add underwriting talent in our New Jersey office to serve the growing needs of our members in the areas of construction and renewables.

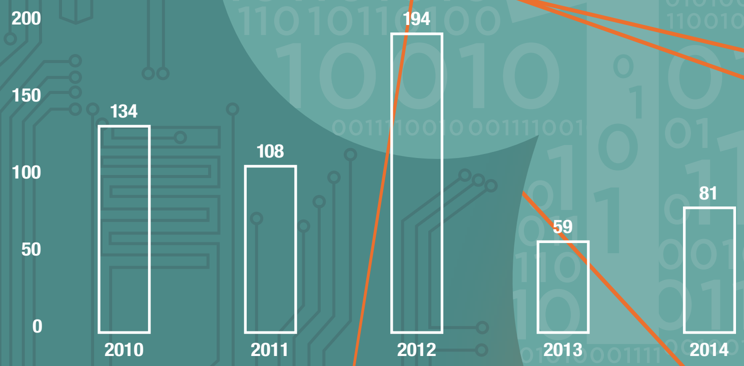
Excess liability combined ratio

For the years ended December 31



Total net investment return

For the years ended December 31 (millions of U.S. dollars)



Low interest rates and low investment returns continue to challenge insurers and reinsurers around the globe.

82%

of companies in the United States experienced at least one online attack in the last year.

In a crowded marketplace for cyber coverage, the AEGIS policy stood out. It was clearly tailored to the needs of the energy industry, and we were impressed with how quickly the coverage had evolved since they introduced their first cyber policy. After a careful review and comparison of everything that was out there for cyber, we decided that the AEGIS form fits our needs the best.

Cheri Murray, Director – Insurance Risk Management, CenterPoint Energy

$50M

CyberResilience Plus
provides a $50 million limit and Difference in Conditions (DIC) coverage.

We recently launched a new property consortium in cooperation with NEIL (Nuclear Electric Insurance Limited) and Berkshire Hathaway Specialty Insurance, which increases our total property capacity to $300 million for certain risks. Each of our consortium partners can add $50 million to our existing $200 million capacity. Many AEGIS members have expressed interest in reliable, sustainable, long-term property programs with higher limits, and we believe our new consortium will help meet this need. So far, we have bound property consortium policies for 15 member companies, and we expect that number to increase as existing property programs renew and companies undertake new projects.

Cyber coverage for energy companies gains momentum

With high-profile cyber attacks on the rise, more and more AEGIS member companies are purchasing our cyber coverage. In a departure from earlier days, when there was a lot of interest but not many purchases, more than 40 members have approached us recently for quotes on cyber coverage, and 23 policies have been bound. As the exposures and number of known claims increase, we will continue to refresh our cyber coverage and related services to keep pace.

Our new *CyberResilience Plus* coverage has evolved significantly from our first offering, which featured a $15 million limit and covered basic data loss and privacy breach risks. *CyberResilience Plus* is written through AEGIS London with up to a $50 million limit, and it was recently enhanced with Difference in Conditions (DIC) coverage. The DIC wraps around existing AEGIS property and excess liability programs to help provide back-to-back cyber protection of information technology and operational technology against cyber attacks, cyber terrorism and security breaches. A number of high-quality reinsurers support our new underwriting approach. The policy is tailored to the specific needs of each member company, and it also provides access to our in-house energy cybersecurity consultants on matters of risk management, loss control and incident response. Given the importance and rapidly evolving nature of cyber risk, we are in the process of adding additional cyber insurance underwriting talent in our New Jersey office to better serve our members.

Improved underwriting ratios balance investment returns

In the low-interest-rate investment environment that's prevailed since late 2008, improved underwriting ratios have been essential to our financial success because we are unable to make up for significant premium shortfalls with the strong investment returns we were able to generate in past markets. We have a conservative investment allocation of roughly 90% fixed-income and 10% equity and equity-like investments. This careful approach, directed by our enterprise risk management strategy, helps us protect surplus and safely generate measured surplus growth so we continue to be well prepared to handle the volatile nature of the underwriting risks we assume for the membership.

In 2014, our total net investment return was 2.3%. Solid equity returns of 8.9% were a complement to our fixed-income return of 2.2% before net returns on cash allocation. As a result, our net investment returns for the year totaled $81 million which, while modest by historic measures, was $22 million higher than last year. This increase is a direct reflection of our strategic efforts to improve investment income in a risk-appropriate manner for the company. Low interst rates and low investment returns continue to challenge insurers and reinsurers around the globe, and our investment advisors are pointing to similar levels of investment opportunity in 2015, with ongoing volatility and transitioning trends in many investment markets.

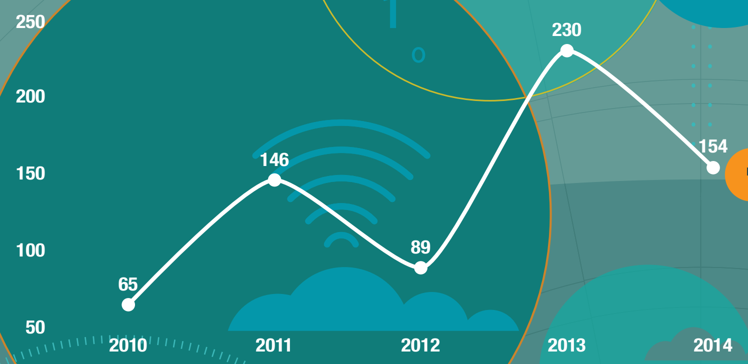
Building on success in Canada

AEGIS has served member companies in Canada since the earliest days of the mutual, when we held most of our annual Policyholders' Conferences in Toronto. Today, AEGIS members are thriving in Canada, where they operate the largest natural gas, pipeline and power generation facilities in the country. Our property coverage is supporting their significant efforts in the areas of construction and renewable energy.

The insurance market in Canada is particularly competitive, yet our members continue to demonstrate uncommon loyalty across all lines of business, and we look forward to writing even more construction business with them in 2015. We also participate actively with our members and brokers at numerous risk management events throughout the year in Canada, including RIMS Canada, where we conduct special breakout sessions for energy industry participants, and a popular series of seminars we co-sponsor in Calgary that has covered topics such as construction liability, business interruption and pollution liability.

U.S. property combined ratio

For the years ended December 31



180

More than 180 policyholders turned to our U.S. property underwriters to provide coverage for their operational and construction risks.

Many of my clients are involved with significant infrastructure projects, including power plant construction and pipeline expansion, and their coverage needs are extensive. AEGIS understands the scale and nature of the projects, and we appreciate the flexibility and expertise they bring to the underwriting process.

Will Persyn, Executive Vice President – Utility and Renewables Practice Leader, Willis North America

$300,000,000

The new AEGIS property consortium offers limits up to $300 million.

Content + contact = mutual success

Hot topics

Cyber coverage and services
Cyber insurance marketplace
Maturity and status of ERM programs
Managing workload associated with contracts
Divesting and acquiring power generation assets
The Evolving Utility Risk Matrix
Terrorism threats to physical assets
Solar storms and what they mean for utilities
Using drones to patrol electric transmission lines
Rooftop solar panels – fire-fighting safety issues
Emergency call handling at call centers
The Art of Recovery and the Transfer of Risk

AEGIS members and brokers have access to a wealth of information through our website, webinars, publications and events. As a result, they're able to stay on top of current issues, network with peers, and take a smarter approach to managing risk for the energy industry. No other insurer provides this level of content and contact.

Cybersecurity Report for the Energy and Utility Industry **provides insights into cybersecurity risks, best practices and trends of particular interest to those responsible for protecting the operating environments in the energy industry.**

Utility-Related Losses: What We've Learned and What You Should Know **explores the industry's loss history, highlights significant claims and describes the loss control measures that can help minimize these kinds of losses in the future.**

sharing

AEGIS members help guide the direction of the company and develop the coverage and services we provide. More than 60 members, representing 46 member companies, serve on the AEGIS Board of Directors, Risk Management Advisory Committee (RMAC), Claims Task Force and Loss Control Task Force. These groups foster the free exchange of information across the membership, and they help us remain constantly focused on member needs.

Our member task forces have been very busy. Results of a new ERM survey that benchmarks member company programs and identifies member needs will be announced at the Policyholders' Conference in July. An update of the popular AEGIS D&O handbook – *What Every Director and Officer Should Know* – will be published later this year.

Constant contact

AEGIS Policyholders' Conference, regional member and broker meetings, member contact pool visits, AEGIS Claims Roundtables, AEGIS Claims Seminar, AEGIS Wildfire Symposium, AEGIS Loss Control webinars, Fire Protection System Training Course, Electrical Incident and Natural Gas Incident Investigation Workshops, RIMS, RIMS Canada and PLUS.

More content. More often.

Regional member and broker meetings are an opportunity to tell us about the issues on your mind, what you need from AEGIS, and how we're doing. They're also an ideal way to involve your risk management and finance colleagues with your insurance program, discuss current energy and insurance issues, and learn more about AEGIS. At these meetings, small groups of members and brokers meet with AEGIS senior management to discuss topics such as insurance market conditions, cyber risk and ERM, as well as new initiatives at AEGIS. Most attendees find that these small meetings are conducive to comparing notes and networking with other risk managers and brokers.

2015

January 14 – Dallas, TX
45 members and brokers

February 17– Seattle, WA
28 members and brokers

March 24 – East Rutherford, NJ
16 members and brokers

2014

March 11 – Dallas, TX
31 members and brokers

November 13 – Chicago, IL
33 members and brokers

December 11 – Atlanta, GA
44 members and brokers

"It's really wonderful that you are able to put together an exceptional Policyholders' Conference every year. Commercial insurance customers tend not to share information with each other the way we do, and we are better risk managers because we all know and trust each other. AEGIS is the place for that to happen."

Liz Bancroft, Senior Risk Analyst, Southern Company

of info

93%

PHC 2014 was one of the most successful Policyholders' Conferences we've ever hosted, with 93% of members and brokers rating the conference as either "outstanding" or "exceeded expectations." More than 1,200 members, brokers and guests attended, making it the biggest and best energy insurance conference of the year. The number of members attending the conference increased for the second year in a row, which is particularly gratifying given the ongoing consolidation of companies within the energy industry. It's a strong endorsement of the quality and value of the event.

$10,000,000,000

$10 billion in claims paid and 45,000 claims managed by our U.S. operations since AEGIS was formed in 1975.

96%

96% of attendees rated the 2014 AEGIS Claims Seminar “outstanding” or “exceeded expectations.”

1,200

1,200 claims were settled and closed – and 1,125 new claims were reported to our U.S. operations in 2014.

We like to say that we work with our members as partners – not adversaries – to manage claims together. The process is a collaboration, not a battle, which is a refreshing change from the claims experience most members have with commercial carriers. We succeed by balancing our desire to pay each claim efficiently and fairly with our financial responsibility to the entire membership, who are the owners of the company. This helps our members manage their losses while we continue to maintain the financial strength we need to provide stable and sustainable coverage over the long term.

We paid $502 million in claims to members from our U.S. operations in 2014. We've now managed more than 45,000 claims since the mutual was formed, paying more than $10 billion and responding to nearly every large loss the utility industry has faced in North America. Over the course of the year, our U.S. operations received 1,125 new property and casualty claim reports. While this number is about average, we established 297 initial reserves on newly reported claims in 2014. Adding events prior to 2014, this represents a total of $348 million in reserves. For both excess liability and property, these new claims continued to come from all segments of the business. More than 1,200 property and casualty claims were settled and closed in 2014, bringing the total number of claims that we managed together during the year to more than 3,200.

One of the benefits of this claims activity is that our claims professionals develop great experience and expertise they can share with you. We hosted a wildfire claims symposium in February that was so well received by claims professionals from member companies that we held a breakout session on the same topic for the risk managers and brokers at the Policyholders' Conference. We also hosted our biennial AEGIS Claims Seminar in October, which attracted more than 170 attendees, representing 66 member companies, who gathered to learn more about the important issues facing members in the defense of their claims. And we continued to offer the AEGIS Claims Roundtable seminars in 2014, offering them for the first time as concurrent webinars. The roundtables attracted 118 attendees from 45 member companies who discussed current business ethics, including the widespread use of social media in the workplace, as well as the essentials of claims investigation. Those who attend the AEGIS seminars and webinars are eligible for Continuing Legal Education (CLE) credits.

A claims process that's refreshingly different

AEGIS Loss Control offers a new publication and webinars

Our Loss Control Division is perhaps one of the best examples of how we've renewed and refreshed for the future. With new leadership for the Division in place, we have restructured the Loss Control Task Force, updated its mission statement, published the *Utility-Related Losses: What We've Learned and What You Should Know* book, and launched a new series of monthly webinars that have quickly become the most popular educational events we've offered in many years.

Our Loss Control Division has always been a rich source of energy industry information and training. The risk assessments it conducts help members maintain safe and reliable operations, and the assessments improve the quality of the information that supports the underwriting process, which helps us equate risk with price, making the process more effective and equitable across the membership. On the AEGIS website, members take advantage of numerous Loss Control on-demand videos, webinars, publications and specialized services, and they register to attend the seminars and workshops we offer throughout the year. Over the course of 2014, 223 member companies took advantage of the information, products and services offered by AEGIS Loss Control.

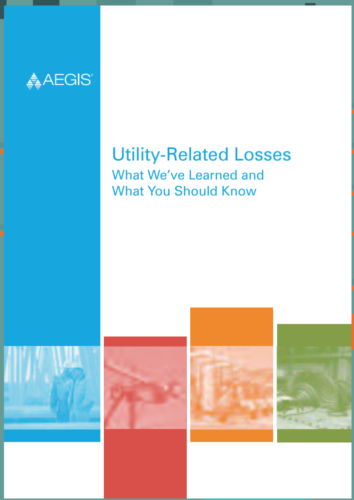
The new AEGIS Loss Control publication – *Utility-Related Losses: What We've Learned and What You Should Know* – explores the industry's loss history, and describes many of the most significant claims we've helped manage over the years. We felt it would be useful to share these findings in detail, as well as the loss control measures and other AEGIS services that can help minimize these kinds of losses in the future.

Members have been circulating the publication widely in their companies to help impress upon colleagues the importance of state-of-the-art loss control policies and procedures. The popularity of the book has triggered a second printing, and we're pleased to offer multiple copies to member companies at no cost. You may order copies at *inquiry@aegislimited.com.*

Our new monthly series of webinars is a big success. Since December 2014, up to 200 members and brokers have participated each month in the one-hour presentations, which focus on a wide variety of topics ranging from the use of drones to patrol transmission lines to handling emergency calls at utility call centers. Subject matter experts from AEGIS member companies, AEGIS Loss Control and other industry sources lead these live events and answer questions in real time. Each webinar is recorded and posted to the AEGIS Loss Control section of our website for viewing at later dates.

223

member companies took advantage of the information, products and services offered by AEGIS Loss Control in 2014.



Every CEO and risk manager at member companies has a copy of the AEGIS publication *Utility-Related Losses: What We've Learned and What You Should Know.*

200

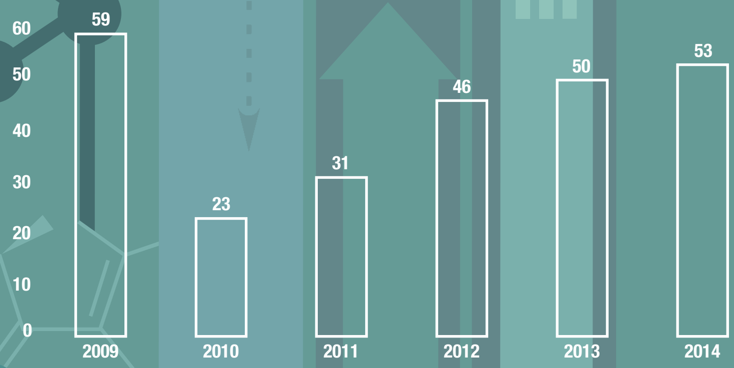
Each month, AEGIS Loss Control offers a new webinar, and up to 200 member company employees participate.

AEGIS London classes of business

- 32% *Global property*
- 8% *International casualty*
- 8% *U.S. general liability*
- 7% *Terrorism*
- 6% *Exploration & production*
- 5% *Marine & offshore liability*
- 4% *Energy offshore casualty*
- 4% *Marine cargo*
- 4% *Marine hull & war*
- 4% *Professional liability*
- 3% *Contingency*
- 3% *Specie*
- 2% *Crop reinsurance*
- 2% *Cyber*
- 2% *Livestock*
- 2% *Property treaty reinsurance*
- 2% *Utility property*
- 1% *Accident & health*
- 1% *Aviation & satellites*

AEGIS London contribution to total surplus

For the years ended December 31 (millions U.S. dollars)



$262,000,000

AEGIS London has contributed $262 million toward rebuilding policyholder surplus since 2008.

19th

Out of 87 syndicates at Lloyd's, AEGIS London is the 19th largest and, over the last five years, the 12th most profitable and the 3rd least volatile.

Our property program is very complicated. In addition to traditional energy operations, NextEra is the largest generator of renewable energy from the wind and sun in North America. We turn to the Lloyd's market to complete our program, relying heavily on AEGIS London because they value our long-term relationship and they're willing to roll up their sleeves to help solve the complex issues.

Erica McNabb, Director of Risk Management, NextEra Energy

Premium revenues for AEGIS London totaled $611 million in 2014, which was $40 million higher than last year and an all-time high for our London operations. These revenues helped contribute $53 million to member surplus in 2014, and since the worldwide financial crisis in 2008, AEGIS London has contributed $262 million toward rebuilding the mutual's policyholder surplus.

These positive results were driven by revenues from many of our established non-energy classes of business, such as terrorism and global property, as well as revenues generated by relatively new classes of business, such as crop reinsurance. Like many syndicates at Lloyd's in 2014, AEGIS London enjoyed a year with relatively few catastrophic losses. However, large risk losses increased significantly versus 2013, which was unusually quiet. These losses were contained within our claims budget and reinsurance program, and the resulting combined ratio for our London operations was a very favorable 88%, which helped lower our overall combined ratio to 90%, the best we've had in 25 years.

The diversity of the AEGIS London portfolio brings balance and stability to our London operations as well as to the more volatile energy classes we underwrite in North America. The range of classes we underwrite in London is indeed impressive, and it includes global property, international casualty, U.S. general liability, terrorism, energy exploration & production, marine & offshore liability, energy offshore casualty, marine cargo, marine hull & war, professional liability, contingency, specie (fine art), crop reinsurance, cyber, livestock, property treaty reinsurance, utility property mainly in the U.S., accident & health, and aviation & satellites. Our underwriters in London are able to adjust their participation in these classes with relative ease, which helps maximize the profitability of the overall portfolio and reduce the volatility of our London and overall books through diversification.

Despite the softening of global insurance market conditions, hastened by the recent influx of opportunistic, non-traditional sources of capital, AEGIS London continues to be one of the best-performing syndicates at Lloyd's of London. Over the most recent five years measured, AEGIS London has been the 12th most profitable and 3rd least volatile syndicate among more than 80 syndicates at Lloyd's. This success continues to be recognized by external ratings agencies and regulators, including A.M. Best, which reaffirmed its "A (Excellent)" financial strength rating.

Looking ahead, we expect the challenging global insurance market conditions to continue, but we are better equipped than most Lloyd's syndicates to weather the soft market because we are significantly more profitable and, unlike many others, we do not have the pressure from outside stakeholders to grow topline premium. Rather, our underwriters have the freedom to say "no," which helps preserve our positive cash flow and our capital for the longer term.

AEGIS London contributes to surplus and balance

AEGIS Coverages

Excess Liability
Directors & Officers Liability
Property
Cyber Coverage & Services
Construction
Renewable Energy
Side A Directors & Officers Liability
General Partners Liability
Excess Workers' Compensation
Professional Liability
Employment Practices Liability
Fiduciary & Employee Benefits Liability
Railroad Protective Liability
Financial Products

For more information, please contact George Keefe, Senior Vice President – Member Relations, at *georgekeefe@aegislimited.com* or 201.508.2797.

Loss Control Products & Services

Utility risk assessments, services and guides

Electric risk assessments
Natural gas risk assessments
Water risk assessments
Call center reviews
Focused Services℠
Self-Administered Risk Assessment (SARA) guides
Occupational safety & workers' compensation program assessments

On-site training and workshops

Electrical Incident Investigation Workshop
Natural Gas Incident Investigation Workshop
Fire Protection System Training Program
One-day seminars
Natural gas operator training

Webinars, publications and guides

Webinars
Electric Utility Inspection Forms
Water Utility Operations Security Checklist
Quick Start – Public Safety Communication Guides
Natural Gas Emergency Response Tip Cards
Transformer Contingency Planning Guide
Review of Major Liability Losses (RMLL)
Contractor Selection and Evaluation Guide

Consulting and presentations for member companies

Technical consultations
Member company and industry presentations

Videos and safety and training materials

Lessons Learned® Video Series
Employee Public Safety Awareness Program
Emergency Exercises: A Look in the Mirror
Hazard Awareness Training for Emergency Response Personnel
Surviving the Wires Environment

Property engineering services

Comprehensive Property Risk Assessment Surveys
Comprehensive Machinery Breakdown Risk Assessment Surveys
Comprehensive Builders Risk Assessment Surveys
Focused Services℠ and consulting

For more information, please contact Howard Somers, Vice President – Loss Control, at *howardsomers@aegislimited.com* or 201.508.2734.

Claims Products & Services

Biennial AEGIS Claims Seminar
Electric Litigation Service
EMF Litigation Service
Employment Practices Litigation Service
Gas Litigation Service
Climate Change Litigation Service
Litigation Cost Control Service
AEGIS Structured Settlements
Gas Claims/Litigation Symposium
Employment Practices Symposium
General Liability Reserving Symposium
Electric Claims/Litigation Symposium
Workers' Compensation Reserve Management Symposium
AEGIS Claims Roundtables

For more information, please contact Jeff Schupack, Senior Vice President – Claims, at *jeffreyschupack@aegislimited.com* or 201.508.2658.

AEGIS London Coverages

Property
Global property
Terrorism
Cyber
Utility property

Marine & Aviation
Marine hull & war
Marine cargo
Marine & offshore liability
Aviation & satellites

Energy
Exploration & production
Energy offshore casualty

Casualty
U.S. general liability
International casualty
Professional liability

Specialty
Contingency
Livestock
Accident & health
Specie

Reinsurance
Property treaty reinsurance
Crop reinsurance

For more information, please contact David Croom-Johnson, Active Underwriter, at *dcroom-johnson@aegislondon.co.uk* or 011 44 207 265 2130.

Leadership

Our mutual efforts are guided by these experienced executives and professionals drawn primarily from the member companies we serve. They generously contribute their time and expertise, and they are essential to our success.

Board of Directors

Wesley W. von Schack
Chairman
Associated Electric & Gas Insurance Services Limited

Alan J. Maguire
President & CEO
AEGIS Insurance Services, Inc.

Gregory E. Abel
Chairman, President & CEO
Berkshire Hathaway Energy

Philip C. Ackerman
Chairman, Retired
National Fuel Gas Company

Keith E. Bailey
Chairman, President & CEO, Retired
Williams

Robert W. Best
Chairman
Atmos Energy Corporation

R. Don Cash
Chairman Emeritus & Director
Questar Corporation

Christopher M. Crane
President & CEO
Exelon Corporation

W.R.P. Dalton
Executive Director, Retired
HSBC Holdings plc

Timothy C. Faries
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Dominion Resources, Inc.

Stephen E. Frank
Retired Director
NV Energy, Inc.

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President & CEO
Ascendant Group Limited

Christopher P. Johns
President
Pacific Gas and Electric Company

James J. Jura
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Hawaiian Electric Industries, Inc.

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Consolidated Edison, Inc.

Corbin A. McNeill, Jr.
Chairman, Retired
Portland General Electric

Jane L. Peverett
Past President & CEO
British Columbia Transmission Corporation

Richard G. Reiten
Chairman & CEO, Retired
NW Natural

Charles A. Schrock
Chairman & CEO
Integrys Energy Group, Inc.

William B. Timmerman
Chairman & CEO, Retired
SCANA Corporation

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Assistant Vice President

William Hillman
Assistant Vice President

Michael S. Johnson
Controller

Simon Day
Actuary

Rip Reeves
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Patricia L. McKenna
Assistant Treasurer

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Mary Ellen Lenahan
Assistant Secretary

Stephen P. Byrne
Assistant Secretary

Committees

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Committee Chairman

R. Don Cash
Alan J. Maguire
George L. Mazanec
Eugene R. McGrath
Richard G. Reiten

Audit & Finance Committee

W.R.P. Dalton
Committee Chairman

R. Don Cash
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Christopher P. Johns
William B. Timmerman
Wesley W. von Schack, Ex-Officio

Investment Committee

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Committee Chairman

Philip C. Ackerman
Keith E. Bailey
Constance H. Lau
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Claims Committee

Robert W. Best
Committee Chairman

Gregory E. Abel
Thomas F. Farrell II
Jane L. Peverett
Charles A. Schrock

Loss Control Committee

Corbin A. McNeill, Jr.
Committee Chairman

Walter M. Higgins
James J. Jura
Ronald L. Litzinger
Eugene R. McGrath

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Paul Kedney
Michael Onslow
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Committee Chairman

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TransCanada Corporation

Justin Lee Brown
Southwest Gas Corporation

Katherine Carbon
Sempra Energy

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Basin Electric Power Cooperative

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Energy Future Holdings Corp.

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CenterPoint Energy, Inc.

Maureen E. Sammon
Berkshire Hathaway Energy

H. Wayne Soza
El Paso Electric Company

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Public Service Enterprise Group, Inc.

George W. Marget III, Esq.
Dominion Resources Services, Inc.

John E. Reiter
AES Global Insurance Co.

Ronald D. Rispoli
Entergy Services, Inc.

Maureen E. Sammon

Directors & Officers Handbook Task Force

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Michael S. Kaminski
Robert Moussaid

Enterprise Risk Management (ERM) Task Force

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Iberdrola USA Management Corporation

Gail Chambliss
PNM Resources, Inc.

Ken M. Dolan
MDU Resources Group, Inc.

Christopher Eaton
Enbridge, Inc.

Stephan T. Haynes
American Electric Power

Dwight L. Jacobs
Duke Energy Corporation

H. Wayne Soza

Ali R. Suleman
Hydro One

Anil Suri
PG&E Corporation

David J. Vajda
NiSource Inc.

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Bryony Hodges, Esq.
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We Energies

Mark J. Sweeney, Esq.
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Mississippi Power Company

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PSEG Services Corporation

John Mellette
SCANA Corporation

Sandy Meyers
City Utilities of Springfield

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Iberdrola USA Management Corporation

John E. Reiter

Ronald D. Rispoli

Cindy Stevens
Colorado Springs Utilities

Richard N. Stevens
Avista Corporation

Karl Zimmel
Tucson Electric Power Company

Financial Section

Consolidated Balance Sheets

Associated Electric & Gas Insurance Services Limited

As of December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars)	2014	2013
Assets:		
Cash and cash equivalents	**$ 713,318**	$ 428,629
Investments	**3,129,476**	3,258,595
Total cash and investments	**3,842,794**	3,687,224
Due from reinsurers	**1,211,877**	1,108,374
Accrued interest	**19,943**	18,268
Premiums receivable	**201,597**	186,656
Receivable for securities sold	**2,579**	1,528
Current income taxes receivable	**18,876**	19,357
Unearned continuity and other premium credits	**10,804**	13,168
Prepaid reinsurance premiums	**195,885**	192,551
Net deferred tax asset	**203,342**	239,966
Deferred acquisition costs	**67,148**	59,593
Deposit assets	**115,981**	105,229
Other assets	**146,325**	125,853
Total assets	**$6,037,151**	$5,757,767
Liabilities and Surplus:		
Liabilities:		
Reserve for losses and loss expenses	**$3,165,788**	$3,104,771
Unearned premiums	**747,717**	699,466
Fair value of insurance and reinsurance contracts	**418,464**	363,632
Deposits from insureds	**10,523**	6,846
Due to reinsurers	**118,474**	106,596
Payable for securities purchased	**24,823**	25,085
Deposit liabilities	**115,981**	105,777
Accrued expenses and other liabilities	**213,834**	189,411
Total liabilities	**4,815,604**	4,601,584
Commitments and Contingencies		
Surplus:		
Statutory surplus fund	**250**	250
Policyholders' surplus	**1,182,836**	1,115,968
Accumulated other comprehensive income	**38,461**	39,965
Total surplus	**1,221,547**	1,156,183
Total liabilities and surplus	**$6,037,151**	$5,757,767

See notes to the consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

Associated Electric & Gas Insurance Services Limited

For the years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars)	**2014**	2013
Revenue:		
Gross premiums written	**$1,348,493**	$1,280,125
Net premiums written	**943,102**	878,492
Net premiums earned	**897,966**	805,473
Net investment income	**83,037**	111,064
Change in fair value of insurance and reinsurance contracts	**(42,587)**	38,420
Total revenue	**938,416**	954,957
Expenses:		
Losses and loss expenses incurred	**579,749**	572,215
Commission expense	**110,272**	97,773
Other underwriting expenses	**118,150**	114,812
Total expenses	**808,171**	784,800
Income before continuity and other premium credits and income taxes	**130,245**	170,157
Continuity and other premium credits	**20,796**	35,544
Income before income taxes	**109,449**	134,613
Income taxes:		
Current provision (benefit)	**5,504**	(2,585)
Deferred provision	**37,077**	47,566
Total income tax provision	**42,581**	44,981
Net income	**$ 66,868**	$ 89,632
Other Comprehensive Income (Loss):		
Unrealized gains (losses) on securities:		
Unrealized holding losses arising during year (net of income tax benefit of $1,163 and $3,873, respectively)	**(2,164)**	(7,192)
Reclassification adjustment for amounts included in net income (net of income tax expense of $355 and a benefit of $14,240, respectively)	**660**	(26,447)
Other comprehensive loss	**(1,504)**	(33,639)
Comprehensive income	**$ 65,364**	$ 55,993

See notes to the consolidated financial statements.

Consolidated Statements of Changes in Surplus

Associated Electric & Gas Insurance Services Limited

For the years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars)	**2014**	2013
Statutory Surplus Fund	**$ 250**	$ 250
Policyholders' Surplus:		
Balance at January 1	**1,115,968**	1,026,336
Net income	**66,868**	89,632
Balance at December 31	**1,182,836**	1,115,968
Accumulated Other Comprehensive Income:		
Balance at January 1	**39,965**	73,604
Other comprehensive loss	**(1,504)**	(33,639)
Balance at December 31	**38,461**	39,965
Total surplus at December 31	**$1,221,547**	$1,156,183

See notes to the consolidated financial statements.

Consolidated Statements of Cash Flows
Associated Electric & Gas Insurance Services Limited

For the years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars)	2014	2013
Cash Flows from Operating Activities:		
Premiums collected	$1,194,709	$1,125,843
Reinsurance premiums paid	(332,662)	(357,397)
Losses and loss expenses paid	(894,599)	(948,812)
Losses and loss expenses recovered from reinsurers	247,362	268,336
Other underwriting expenses paid	(129,783)	(142,872)
Interest and dividends received	106,045	112,244
Income taxes paid	(7,877)	(25,310)
Net cash provided by operating activities	183,195	32,032
Cash Flows from Investing Activities:		
Purchases of available-for-sale and other investments	(2,106,860)	(2,752,340)
Proceeds from sales or redemptions of available-for-sale and other investments	2,210,424	2,733,025
Net cash provided by (utilized in) investing activities	103,564	(19,315)
Effect of exchange rate changes on cash	(2,070)	—
Increase in cash and cash equivalents	284,689	12,717
Cash and cash equivalents, beginning of year	428,629	415,912
Cash and cash equivalents, end of year	$ 713,318	$ 428,629
Reconciliation of Net Income to Net Cash Provided by Operating Activities:		
Net income	$ 66,868	$ 89,632
Net investment gains on securities	(8,441)	(56,908)
Net investment foreign exchange losses	8,469	16,434
Amortization of securities	22,491	33,546
Depreciation and other charges	7,285	7,797
Deferred income tax expense	37,077	47,566
Changes in assets and liabilities:		
Due from reinsurers	(103,503)	(193,430)
Accrued interest	(1,675)	7,061
Premiums receivable	(14,941)	(9,920)
Current income taxes receivable (payable)	481	(19,357)
Unearned continuity and other premium credits	2,364	10,113
Prepaid reinsurance premiums	(3,334)	24,896
Deferred acquisition costs	(7,555)	(2,022)
Deposit assets	(10,752)	18,497
Other assets	(25,281)	(21,291)
Reserve for losses and loss expenses	61,017	111,073
Unearned premiums	48,251	45,323
Current income taxes payable	—	(8,427)
Fair value of insurance and reinsurance contracts	54,832	(37,451)
Deposits from insureds	3,677	(13,018)
Due to reinsurers	11,878	3,628
Deposit liabilities	10,204	(17,949)
Accrued expenses and other liabilities	23,783	(3,761)
Net cash provided by operating activities	$ 183,195	$ 32,032

See notes to the consolidated financial statements.

1. The Company and its Principal Activity

Associated Electric & Gas Insurance Services Limited ("AEGIS" or the "Company") was incorporated in Bermuda in 1971 and commenced underwriting activities in 1975. AEGIS is registered as a non-assessable mutual insurance company in Bermuda, is regulated under that country's Insurance Act of 1978, and is a Class 2 company under the Insurance Amendment Act of 1995.

The principal activity of the Company is to provide, directly and through alliances and affiliates, a full array of liability and property coverages. AEGIS writes Excess Liability, Employers Liability, Employment Practices Liability, Professional Liability, Property, and Boiler and Machinery coverages. AEGIS also writes Directors and Officers Liability, Fiduciary and Employee Benefits Liability, and Excess Workers' Compensation coverages. Through strategic alliance partners, which it reinsures, AEGIS offers General Liability, Commercial Automobile Liability, Directors and Officers Liability, Umbrella Liability and Workers' Compensation coverages. The Company operates a federally licensed Canadian branch offering Excess Liability, Directors and Officers Liability, Property, and Boiler and Machinery coverages.

AEGIS Electric & Gas International Services Limited ("AISL") is the capital provider for Syndicate 1225 ("AEGIS Energy Syndicate") at Lloyd's. AISL underwrites primarily Property, Casualty, Specialty Lines, Marine and Energy insurance. AISL is wholly owned by AEGIS through its subsidiary, AEGIS London Holding Limited ("AEGIS London Holding"). Effective January 1, 2012, and continuing through December 31, 2014, the Company provides 93 percent of the net capacity for AEGIS Energy Syndicate.

2. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), and reflect the following policies:

a. Basis of Presentation

The consolidated financial statements include the accounts of AEGIS and its wholly owned subsidiaries. All significant inter-company transactions are eliminated in consolidation.

Variable Interest Entities

The Company, through its subsidiary, AEGIS London Holding, holds investments in two entities that are variable interest entities ("VIEs"). Each of these VIEs provides 3.5% of the underwriting capacity of the AEGIS Energy Syndicate and maintains whole account quota share reinsurance contracts with third-parties. The Company holds the power to direct the most significant activities of the entities, as well as an economic interest in the entities and, as such, is the primary beneficiary. Therefore, these VIEs are consolidated in the Company's financial statements.

b. Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, money market funds and short-term investments with an original maturity of less than three months. Cash and cash equivalents are carried at amortized cost, which approximates fair value.

c. Investments

The Company records its purchases and sales of securities on a trade date basis.

The Company has classified a majority of its marketable securities as available-for-sale ("AFS"). AFS securities are stated at fair value, with unrealized holding gains and losses, net of income tax effects, included in other comprehensive income and reported as a component of accumulated other comprehensive income. The amortized cost of debt securities is adjusted for the amortization of premiums and accretion of discounts to maturity using the effective yield method. Such amortization and accretion is included in net investment income.

AFS securities include mortgage and asset-backed securities ("MBS" and "ABS," respectively). Amortization of the premium or accretion of the discount from the purchase of these securities is recognized after considering the estimated timing and amount of prepayments of the underlying loans. Actual prepayment experience is periodically reviewed and effective yields are recalculated when differences arise between the prepayments originally anticipated and the actual prepayments received and currently anticipated.

The Company invests in syndicated bank loans, either as individual or groups of loans. The initial investment in a bank loan is inclusive of the value of the loans plus or minus any fees paid or received which are directly attributable to the investment. The difference between the initial investment and the related loans principal amount at the date of purchase is recognized as an adjustment to yield over the life of the loan. All other costs incurred in committing to purchase and acquire the loans are expensed as incurred. Syndicated bank loans are classified as AFS securities and are stated at fair value with unrealized holding gains or losses, net of income tax effects, included in other comprehensive income and reported as a component of accumulated other comprehensive income. As of December 31, 2014 and 2013, the Company's net traded but unsettled syndicated bank loans totaled $6,997 and $17,001, with a corresponding payable for securities purchased.

The Company invests in convertible debt securities, and in accordance with Accounting Standards Codification ("ASC") 825, *Financial Instruments* has elected to apply the fair value option ("FVO") to its portfolio of convertible debt securities. Management elected the FVO as a practical expedient in order to eliminate the requirement to bifurcate and value the embedded options separately from the host contracts. Convertible securities are carried at market value, which approximates fair value, and are considered other invested assets, reported in the consolidated balance sheet as investments. The changes in fair value of these securities are recorded in consolidated income and other comprehensive income in the period the change occurs. Cash flows arising from the purchase and sale of securities are reported as net cash provided by (utilized in) investing activities, while cash flows arising from investment gains and losses are reported as net cash provided by operating activities. As of December 31, 2014 and 2013, the fair value of convertible securities was $29,596 and $0, respectively.

The Company invests in fund of fund investments where it does not exercise control. These investments are generally accounted for using the equity method of accounting. The carrying value of these holdings, which approximates fair value, is included in investments. The Company's share of distributed and undistributed net income from fund of fund investments is included in net investment income.

The Company invests in a limited partnership interest, whereby the ownership interest exceeds 5% but was less than 25% at December 31, 2014. Based on its percentage of ownership, the Company is accounting for this investment using the equity method of accounting, in accordance with ASC 323, *Investments – Equity Method and Joint Ventures*. The Company records its share of earnings in the limited partnership interest in net investment income. As of December 31, 2014 and 2013, the limited partnership investment had a fair value of $55,426 and $0, respectively.

As of December 31, 2014 and 2013, the Company had no investments classified as held-to-maturity ("HTM").

The Company participates in securities lending arrangements whereby specific securities are loaned to other institutions, primarily banks and brokerage firms, for short periods of time. Securities loaned are recorded in accrued expenses and other liabilities, while cash collateral held by our custodian and monitored and maintained by the lending agent is recorded in other assets. Company policy requires the borrower to provide collateral in an amount equal to or greater than the fair value of the domestic and foreign securities loaned. The Company receives interest income on the invested collateral, which is included in net investment income. The Company monitors the fair value of the underlying securities to ensure such transactions are adequately collateralized.

The Company performs periodic reviews of its investment portfolios where individual holdings have experienced a decline in fair value below their respective amortized costs. The Company considers a number of factors in the evaluation of whether a decline in value is other-than-temporary, including: (a) the present value of expected future cash flows; (b) the financial condition and near-term prospects of the issuer; (c) the period and degree to which the fair value has been below amortized cost; (d) with respect to equity securities, the Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; and (e) with respect to AFS debt securities, whether the Company has the intent to sell or will more likely than not be required to sell a particular security before the decline in estimated fair value below its cost or amortized cost recovers. A security is other-than-temporarily impaired when it becomes apparent that the present value of the expected cash flows over the expected holding period is less than its amortized cost basis.

Where the decline in fair value of an AFS debt security is deemed to be other-than-temporary and the Company neither intends to sell, nor is it more likely than not that the Company will be required to sell the security, a charge is recorded to net investment income for the credit-related impairments and a new cost basis is established. A decline in fair value for non-credit related impairments is recorded as a reduction of other comprehensive income. In periods subsequent to the recognition of an other-than-temporarily impaired loss for debt securities, the discount or reduced premium recorded for the debt security, based on the new cost basis, is amortized over the remaining life of the debt security in a prospective manner based on the amount and timing of future estimated cash flows at the balance sheet date.

The Company's investments are externally managed by professional investment managers who have the discretion to buy and sell securities subject to certain Company-imposed guidelines. Management does not assess, on a security-by-security basis, whether our investment managers had the intent to sell impaired debt securities, or the intent to hold impaired equity securities, as of and for the years ended December 31, 2014 and 2013. Therefore, all other-than-temporary impairments, inclusive of net unrealized losses on AFS securities, were recorded as a charge to net investment income.

Investment income, net of investment-related expenses, is recognized when earned. Realized investment gains or losses on sales of investments, generally determined on a first-in, first-out basis, are included in net investment income.

Net investment income also includes unrealized gains and losses from convertible debt securities and the change in reported asset value for investments accounted for under the equity method of accounting.

The recognition of income on MBS and ABS is dependent upon market conditions, which could result in prepayments and changes in amounts to be earned.

d. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk include cash balances in excess of government-insured limits, amounts due from reinsurers and marketable debt securities. Although the Company places its temporary cash investments with creditworthy financial institutions and purchases reinsurance contracts from highly rated reinsurers, the Company is exposed to a concentration of credit risk with respect to cash and temporary cash investments held at financial institutions and amounts due from its reinsurers. Management monitors the credit standing of the relevant financial institutions and the financial condition of the Company's reinsurers.

The Company holds bonds and notes issued by U.S. and foreign corporations, the United States government and foreign governments. By policy, these investments are kept within limits designed to prevent risks caused by concentration. As of December 31, 2014 and 2013, there are no known significant concentrations of credit risk with regard to invested assets.

e. Deferred Acquisition Costs

The Company incurs brokers' commissions and premium taxes in acquiring insurance premiums for executed contracts. These costs are deferred and amortized over the lives of the policies to which they relate, excluding contracts measured at fair value, where such costs are included in commission expense in the year incepted. The amortization of deferred acquisition costs is included in commission expense. The recoverability of these deferred costs is reviewed periodically and includes the consideration of future investment income.

f. Derivative Financial Instruments

The Company uses foreign currency forward contracts and index futures contracts, generally with terms of 90 days or less. The primary objective of investing in foreign currency forward contracts is to protect the U.S. dollar value of foreign currency-denominated monetary assets and liabilities from the effects of volatility in foreign exchange rates that might occur prior to their receipt or settlement in U.S. dollars. These forward contracts are not designated as hedges and are marked to fair value through net investment income and substantially offset the change in spot value of the underlying foreign currency-denominated monetary asset or liability.

Furthermore, the Company periodically uses bond futures contracts to offset return differentials in its fixed income portfolio that arise due to the inability to fully invest all assets directly in securities. These contracts are not designated as hedges; therefore, changes in the fair value of these derivatives are recognized in earnings as part of net investment income as they occur.

As of December 31, 2014, the Company had no derivative contracts outstanding. As of December 31, 2013, the company had foreign currency forward contracts with notional amounts of $430 and a fair value of ($7).

g. Foreign Operations and Foreign Currency Translation

The functional and reporting currency of the Company is U.S. dollars. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the average rate prevailing during the year. Any resulting operating foreign exchange gain or loss is included in other underwriting expenses. The Company recorded net operating foreign exchange gains of $2,441 and $2,568 for the years ended December 31, 2014 and 2013, respectively.

Unrealized gains and losses resulting from changes in the foreign currency exchange rates on AFS securities are recorded in the consolidated balance sheets in accumulated other comprehensive income. Realized foreign currency gains and losses resulting from the sale of securities are recorded in net investment income.

AISL's assets, liabilities, revenues and expenses are recorded after making certain adjustments to convert U.K. GAAP accounting to U.S. GAAP. The most significant U.S. GAAP adjustments relate to investment income recognition and loss reserve estimates. The Canadian Branch files statutory financial statements based upon International Financial Reporting Standards. The most significant U.S. GAAP adjustments to the Canadian branch relate to the method of estimation of loss reserves.

h. Income Taxes
The Company's provision for income taxes represents management's best estimate of various events and transactions and includes the impact of reserve provisions and changes to reserves that are considered appropriate. The Company reflects interest and penalties attributable to income taxes, to the extent they arise, as a component of its income tax provision or benefit as well as its outstanding income tax assets and liabilities.

Deferred tax assets and liabilities resulting from temporary differences between the financial reporting and tax bases of assets and liabilities are measured at the balance sheet date using enacted tax rates expected to apply to taxable income in the years the temporary differences are expected to reverse. A valuation allowance is established when it is more likely than not that some portion of the Company's deferred tax assets will not be realized.

Significant judgment is required in evaluating the Company's tax positions and determining its provision for income taxes as there are many transactions and calculations for which the ultimate tax determination is uncertain. The assessment to determine whether a valuation allowance is required and the amount of any allowance requires significant judgment and includes the long-range forecast of future taxable income and the evaluation of tax planning initiatives. Adjustments to the deferred tax valuation allowances are made to earnings in the period such management assessments are made.

The Company recognizes a tax benefit relating to uncertain tax positions only where the position is more likely than not to be sustained assuming examination by tax authorities. The Company establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when the Company believes that certain positions might be challenged despite its belief that the Company's tax return positions are fully supportable. The Company adjusts these reserves in light of changing facts and circumstances, such as the outcome of tax audits.

i. Premiums
Premiums are earned as income ratably over the period covered by the policies. Unearned premium reserves are established relative to the unexpired contract period. It is the Company's practice to price certain of its policies at amounts that are not expected to fully recover anticipated losses, loss expenses and underwriting expenses. Such practice anticipates that sufficient investment income will be earned over the period in which underwriting losses are settled.

j. Losses
The reserve for losses and loss expenses represents the Company's best estimate, based on its latest studies, of the gross amount of losses and loss expenses to be paid on ultimate settlement of all incurred losses, reported and unreported, as of the respective balance sheet dates. These estimates are periodically reviewed by the Company's management and independent actuaries, and are adjusted in accordance with the latest available information. Any adjustments in estimates are reflected in earnings in the period the adjustment is made. Management believes that an adequate provision has been made for the Company's losses and loss expenses.

k. Fair Value Measurements
The Company measures certain assets and liabilities using fair value. Fair value is a market-based measurement and not an entity-specific measurement, and requires the use of a fair value hierarchy with the highest priority given to quoted prices in active markets. In determining fair value, the Company uses various valuation approaches. Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices available in active markets for identical investments as of the reporting date are used to determine fair value. Assets measured at fair value and classified as Level 1 include publicly traded equity securities and money market funds.

Level 2 – Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, are used to determine fair value through the use of models or other valuation methodologies. Assets measured at fair value and classified as Level 2 include certain domestic and foreign government and agency securities, domestic and foreign corporate bonds, MBS, ABS, syndicated bank loans, commercial paper and secured notes. Because many debt securities do not trade on a daily basis, independent pricing services estimate fair value through processes such as bid evaluation using observable inputs and matrix pricing of similar securities to calculate the fair value of domestic and foreign government and agency securities. For domestic and foreign corporate bonds and commercial paper, the pricing provider considers credit spreads, interest rate data and market news in the valuation of each security. For MBS and ABS, the pricing provider applies models including observable inputs such as dealer quotes and other available trade information as well as prepayment speeds, yield curves and credit spreads. Syndicated bank loans are priced using dealer quotes relying on available market data. The Company's foreign currency forward contracts are traded in the over-the-counter ("OTC") derivative market and are classified within Level 2. These contracts are classified as Level 2 because they are valued by models that utilize actively quoted or observable market input values from external market data providers, third-party pricing vendors and/or recent trading activity.

Level 3 – Significant pricing inputs are unobservable and include situations where there is little, if any, observable market activity for the investment, asset or obligation. The liability for the fair value of excess workers' compensation insurance and reinsurance contracts is classified as Level 3. Management must make assumptions about inputs that a market participant would use to value the liability. If quoted market prices are not available, fair value is based upon vendor or internally developed valuation models that use, where possible, current market-based or independently sourced market parameters.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy is determined based on the lowest-level input that is significant to the fair value measurement in its entirety. There have been no material changes in the Company's valuation techniques during the periods presented. The Company also considers its own nonperformance risk when measuring the fair value of liability positions and the counterparty's nonperformance risk when measuring the fair value of asset positions.

Fair Value Option for Insurance and Reinsurance Contracts

Effective January 1, 2008, the Company elected the FVO for all direct insurance contracts classified as excess workers' compensation, as well as the related reinsurance contracts.

The Company records these contracts at fair value to reflect the significant elapsed time between the issuance of the contracts and final settlement of the obligations, adjusted for the risk of variation in the amount and timing of future cash flows. These contracts are recorded at fair value, with changes in fair value recorded in the consolidated statements of income and comprehensive income in the period of change. As such, reported premiums and incurred losses do not include activity related to the Company's excess workers' compensation insurance and reinsurance contracts.

Cash flows from the underlying insurance and reinsurance contracts are reported in cash flows from operating activities. Management reevaluates, on an annual basis, its fair value election for future insurance and reinsurance contracts.

l. Continuity and Other Premium Credits

Continuity credits are based on each respective member's proportionate share of premiums and total surplus. Other premium credits are based on each eligible policyholder's proportionate share of its contribution to the underwriting results for the given measurement period. Continuity and other premium credits are declared by the Company's Board of Directors. Such credits are provided only to eligible members and other policyholders renewing coverage with the Company and are subject to certain restrictions. The application of continuity and other premium credits to policy renewal premiums is limited to the amount of premium charged. Excess credits are carried forward for potential use in future periods; such credits are forfeited when a member leaves the Company. Issued credits are earned over the periods covered by the underlying policies.

m. Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, in particular investments, reserve for losses and loss expenses, the allowance for uncollectible reinsurance, the fair value of excess workers' compensation direct insurance and related reinsurance contracts, deferred tax assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

n. Deposit Assets and Liabilities

The Company enters into certain contracts that do not meet U.S. GAAP risk transfer provisions requiring that a transaction contain a significant assumption of insurance risk and a reasonable possibility that the Company may realize a significant loss from the contract. These contracts are accounted for using the deposit accounting method. For these contracts, the Company records deposit liabilities for an amount equivalent to the assets received with any differences due to the timing of receipts and payments. In some cases, the Company transfers assets to another insurer or reinsurer and records a deposit asset for the amount paid.

o. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation, and are included in other assets. Depreciation and amortization are provided, beginning at the inception of the asset's use, under the straight-line method based upon the following estimated useful lives:

	Estimated Life (Years)
Property and leasehold improvements	*
Furniture and fixtures	5 – 15
Information technology equipment and software	3 – 5

*Amortized over the lesser of the useful life or the remaining life of the lease from the date placed in service

A summary of property and equipment at December 31, 2014 and 2013 is as follows:

	2014	2013
Property and leasehold improvements	**$11,516**	$11,161
Furniture and fixtures	**6,054**	6,208
Information technology equipment and software	**31,476**	32,265
Total cost	**49,046**	49,634
Accumulated depreciation	**(36,288)**	(32,813)
Net property and equipment	**$12,758**	$16,821

Depreciation expense amounted to $4,809 and $5,192 for the years ended December 31, 2014 and 2013, respectively.

p. Retirement Benefit Plans

Prior to January 1, 1998, the Company maintained a qualified defined benefit pension plan for eligible employees of AEGIS Insurance Services, Inc. through membership in the Pension Plan for Employees of AEGIS Insurance Services, Inc. (the "Pension Plan"). Benefits are based on a participant's credited service ending no later than December 31, 2011, as defined by the Pension Plan. On January 1, 1998, the Pension Plan was frozen to new participants.

Effective December 31, 2011, the Plan was amended to discontinue the accrual of additional participant benefits after December 31, 2011. On July 15, 2012, the Plan was amended for a one-time adjustment, which increased frozen Participant's accrued benefit base by 10% provided the participant was an active employee on July 31, 2012. The Company also has a non-qualified supplemental defined benefit plan for certain employees. The non-qualified plan is funded from the general assets of the Company, including corporate-owned life insurance policies purchased to provide for the benefits earned by eligible employees; however, these policies cannot be considered in the determination of the funded status of the non-qualified plan.

The Company's funding policy is to contribute funds to the Pension Plan, as necessary, to provide for any unfunded projected benefit obligation over a reasonable period. To the extent that these requirements are fully covered by assets in the Pension Plan, the Company may elect not to make any contributions in a particular year.

As of December 31, 2014 and 2013, the total projected benefit obligation for the Pension Plan and the non-qualified plan was $40,323 and $35,830, respectively, based on discount rates of 4.75% for the Pension Plan and 4.50% for the non-qualified plan for 2014, and 4.25% for the Pension Plan and 4.50% for the non-qualified plan in 2013, with a 3.0% rate of compensation increase for the non-qualified Plan as of December 31, 2014 and 2013. The fair value of Pension Plan assets as of December 31, 2014 and 2013 was $26,019 and $22,180, respectively, and the total unfunded status was $14,304 and $13,860, respectively. The expected rate of return on Pension Plan assets is 7.50% for 2014 and 2013 and is determined based on historical and expected future returns of the Pension Plan's asset classes.

The Company currently maintains a post-retirement medical benefit plan for eligible employees of the Company, and benefits are based on a participant's age and credited service. In 2012, the Plan was amended to reduce the Company's share of the costs if the annual premium increase exceeds 3%. The Plan benefits are funded from the general assets of the Company, including corporate-owned life insurance policies purchased to provide for the benefits earned by eligible employees. These policies cannot be considered in the determination of the funded status of the plan. As of December 31, 2014 and 2013, the unfunded balance related to this plan was $11,161 and $11,036, respectively, based upon a discount rate of 4.25% for 2014 and 5.0% for 2013.

All unfunded balances for the plans above are recorded within accrued expenses and other liabilities within the consolidated balance sheets.

q. New Accounting Pronouncements

In December 2011 and January 2013, the FASB issued updated guidance regarding the disclosure of derivative instruments, repurchase agreements and securities borrowing and lending transactions that are offset in the financial statements or have the legal right to offset under master netting agreements or similar arrangements. The new guidance requires that an entity disclose information on both a net and gross basis and provide an explanation of the items being offset. This update is effective for annual periods ending after January 1, 2013, with retrospective application required. The implementation of this guidance does not have a material impact on the consolidated financial statements, as the Company's foreign currency forward contracts are not netted, and no collateral is provided or received for these contracts. The Company's securities lending portfolio and related collateral are discussed in footnote 3-Investments.

Effective February 7, 2013, nonpublic entities are not required to disclose certain fair value information for financial assets and liabilities not recorded at fair value on the Balance Sheet. The implementation of this guidance did not have a material impact on the consolidated financial statements.

In February 2013, the FASB issued updated guidance regarding the presentation of comprehensive income. Under the respective guidance an entity is required to present information pertaining to significant items reclassified from accumulated other comprehensive income by component as well as changes in other comprehensive income by component in either the financial statements or the notes to the financial statements. This guidance does not require any changes to the items presented in other comprehensive income nor does it change when items are reclassified to net income, and it does not amend existing requirements for reporting other comprehensive income. This is effective for annual reporting periods after December 15, 2014, and should be applied prospectively. The implementation of this guidance does not have a material impact on the consolidated financial statements, as the Company previously presented comprehensive income in a single continuous statement with the gains and losses realized from the sale of AFS securities being the only item of significance reclassified to net income. This reclassification is currently being reflected as a separate component of other comprehensive income.

In July 2013, the FASB issued updated guidance related to the presentation of unrecognized tax benefits when net operating loss carryforwards or similar tax carryforwards exist. This new guidance is effective for annual reporting periods that begin after December 15, 2013, and should be adopted prospectively. This guidance does not have a significant impact on the Company's consolidated position, results of operations or financial statement disclosures.

In February 2015, Accounting Standard Update ("ASU") 2015-02 Consolidation (Topic 810): *Consolidation Amendments to the Consolidation Analysis* was issued. This guidance is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. The changes resulting from this ASU will affect the consolidation evaluation process for reporting units, as the intention of this guidance is to simplify and improve the current process by ultimately reducing the number of consolidation models required. The Company is currently in the process of evaluating the impact this guidance will have on its consolidated financial statements.

3. Investments

The fair value of the Company's AFS investments compared with their cost or amortized cost at December 31, 2014 and 2013 were:

		Gross Unrealized		
2014:	Cost/Amortized Cost	Gains	Losses*	Fair Value
Debt securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 82,537**	**$ 46**	**$ —**	**$ 82,583**
Debt securities issued by foreign governments	**187,099**	**216**	**—**	**187,315**
U.S. corporate debt securities	**1,276,644**	**12,822**	**—**	**1,289,466**
Foreign corporate debt securities	**112,169**	**348**	**—**	**112,517**
Agency MBS	**472,418**	**15,247**	**—**	**487,665**
Non-agency MBS	**130,285**	**906**	**—**	**131,191**
ABS	**68,335**	**83**	**—**	**68,418**
Syndicated bank loans	**191,263**	**112**	**—**	**191,375**
Total debt securities	**2,520,750**	**29,780**	**—**	**2,550,530**
Equity securities	**166,391**	**26,110**	**—**	**192,501**
Mutual funds:				
Equity	**105,429**	**2,689**	**—**	**108,118**
Bonds	**188,595**	**590**	**—**	**189,185**
Total mutual funds	**294,024**	**3,279**	**—**	**297,303**
Total AFS investments	**$2,981,165**	**$59,169**	**$ —**	**$3,040,334**

		Gross Unrealized		
2013:	Cost/Amortized Cost	Gains	Losses*	Fair Value
Debt securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 92,968	$ 7	$ —	$ 92,975
Obligations of U.S. states and political subdivisions	2,489	7	—	2,496
Debt securities issued by foreign governments	192,000	89	—	192,089
U.S. corporate debt securities	1,170,513	21,156	—	1,191,669
Foreign corporate debt securities	84,494	1,985	—	86,479
Agency MBS	927,088	4,534	—	931,622
Non-agency MBS	76,990	196	—	77,186
ABS	71,783	167	—	71,950
Syndicated bank loans	149,948	1,415	—	151,363
Total debt securities	2,768,273	29,556	—	2,797,829
Equity securities	240,096	28,004	—	268,100
Mutual funds:				
Equity	157,391	3,891	—	161,282
Bonds	25,214	32	—	25,246
Total mutual funds	182,605	3,923	—	186,528
Total AFS investments	$3,190,974	$61,483	$ —	$3,252,457

*For the years ended December 31, 2014 and 2013, no gross unrealized losses are reported, as all unrealized losses are treated as other-than-temporary-impairment adjustments and are recorded as a deduction in net investment income and the amortized cost of investments.

(Expressed in thousands of U.S. dollars)

Purchases of AFS investments were $2,000,794 and $2,752,340 in 2014 and 2013, respectively. Proceeds from sales of AFS investments were $1,860,126 and $2,421,808 in 2014 and 2013, respectively. In 2014, gross gains of $55,387 and gross losses of $47,503 (including $41,016 of other-than-temporary impairments) were recognized during the year. In 2013, gross gains of $116,888 and gross losses of $59,426 (including $39,829 of other-than-temporary impairments) were recognized during the year.

The carrying value, which approximates fair value, of other invested assets was $89,142 and $6,138 at December 31, 2014 and 2013, respectively. In 2014, the Company purchased $106,065 of other invested assets, which included convertible securities and a limited partnership interest accounted for using the equity method of accounting. There were no purchases of other invested assets in 2013. The Company's other invested assets redemptions and proceeds were $24,210 and $24,356 for the years ended December 31, 2014 and 2013, respectively. The Company recognized a gain of $227 and a loss of $379 on these investments for the same respective periods.

The evaluation for other-than-temporary impairments is a quantitative and qualitative process that is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other-than-temporary. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition or near-term recovery prospects, and the effects of changes in interest rates over the period of time the investment is expected to be held. As of December 31, 2014, the Company evaluated all securities for credit-related impairment and concluded all significant unrealized losses were included in the other-than-temporary impairment charge.

The amortized cost and fair value of AFS debt securities at December 31, 2014, by contractual maturity, are shown in the following table. As MBS and ABS are generally more likely to be prepaid than other fixed maturity securities, MBS and ABS are shown separately.

	Amortized Cost	Fair Value
Due in one year or less	**$ 242,263**	**$ 243,576**
Due after one year through five years	**1,226,415**	**1,235,581**
Due after five years through ten years	**211,890**	**214,696**
Due after ten years	**169,144**	**169,403**
Subtotal	**1,849,712**	**1,863,256**
Agency MBS	**472,418**	**487,665**
Non-agency MBS	**130,285**	**131,191**
ABS	**68,335**	**68,418**
Total debt securities	**$2,520,750**	**$2,550,530**

Expected maturities will differ from stated maturities because underlying borrowers have the right to call or prepay certain obligations with or without prepayment penalties.

The Company participates in securities lending arrangements whereby specific securities are loaned to other institutions, primarily banks and brokerage firms, for short periods of time. Collateral is held by our custodian and is monitored and maintained by the lending agent. Company policy requires the borrower to provide a minimum of 102% and 105% of the fair value of the domestic and foreign loaned securities, respectively, as collateral. As of December 31, 2014 and 2013, investment securities on loan had a fair value of $43,975 and $32,784, respectively, while the cash collateral from borrowers was $45,125 and $33,517 for the same respective periods. The Company receives interest income on the invested collateral, which is included in net investment income.

Net investment income for the years ended December 31, 2014 and 2013 consisted of the following:

	2014	2013
Interest and dividend income	**$103,538**	$ 89,830
Net realized investment gains	**7,454**	57,237
Net realized foreign currency losses	**(8,476)**	(16,272)
Net realized loss on foreign currency forward contracts	**—**	(156)
Net unrealized convertible asset gains (losses)	**426**	(27)
Net unrealized gains (losses) on foreign currency forward contracts	**7**	(7)
Net fund of funds and other gains (losses)	**561**	(300)
Total investment income	**103,510**	130,305
Investment expenses	**(20,473)**	(19,241)
Net investment income	**$ 83,037**	$111,064

At December 31, 2014, the Company had securities on deposit of $676,882 in order to comply with various U.S., Canadian and U.K. insurance and tax regulatory requirements. The Company has also entered into letter of credit facilities with four financial institutions totaling $385,000 of which $289,573 was committed at December 31, 2014. At December 31, 2014, the Company has pledged cash and debt securities valued at $963,068 as collateral to secure these letters of credit.

4. Fair Value Measurements

The following tables present information about the Company's assets and liabilities at fair value at December 31, 2014 and 2013:

2014:	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Debt securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ —	$ 82,583	$ —	$ 82,583
Debt securities issued by foreign governments	—	187,315	—	187,315
U.S. corporate debt securities	—	1,289,466	—	1,289,466
Foreign corporate debt securities	—	112,517	—	112,517
Agency MBS	—	487,665	—	487,665
Non-agency MBS	—	131,191	—	131,191
ABS	—	68,418	—	68,418
Syndicated bank loans	—	191,375	—	191,375
Total debt securities	—	2,550,530	—	2,550,530
Equity securities	192,501	—	—	192,501
Mutual funds:				
Equity funds	—	108,118	—	108,118
Bond funds	—	189,185	—	189,185
Total mutual funds	—	297,303	—	297,303
Total investments	192,501	2,847,833	—	3,040,334
Cash equivalents including money market funds and short-term debt securities	33,271	573,292	—	606,563
Total assets	$ 225,772	$ 3,421,125	$ —	$ 3,646,897
Liabilities:				
Fair value of insurance and reinsurance contracts	$ —	$ —	$ 418,464	$ 418,464
Total liabilities	$ —	$ —	$ 418,464	$ 418,464

(Expressed in thousands of U.S. dollars)

2013:	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Debt securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ —	$ 92,975	$ —	$ 92,975
Obligations of U.S. states and political subdivisions	—	2,496	—	2,496
Debt securities issued by foreign governments	—	192,089	—	192,089
U.S. corporate debt securities	—	1,191,669	—	1,191,669
Foreign corporate debt securities	—	86,479	—	86,479
Agency MBS	—	931,622	—	931,622
Non-agency MBS	—	77,186	—	77,186
ABS	—	71,950	—	71,950
Syndicated bank loans	—	151,363	—	151,363
Total debt securities	—	2,797,829	—	2,797,829
Equity securities	268,100	—	—	268,100
Mutual funds:				
Equity funds	—	161,282	—	161,282
Bond funds	—	25,246	—	25,246
Total mutual funds	—	186,528	—	186,528
Total investments	268,100	2,984,357	—	3,252,457
Cash equivalents including money market funds and short-term debt securities	10,109	252,453	—	262,562
Total assets	$278,209	$3,236,810	$ —	$3,515,019
Liabilities:				
Fair value of insurance and reinsurance contracts	$ —	$ —	$363,632	$ 363,632
Foreign currency forward contracts	—	7	—	7
Total liabilities	$ —	$ 7	$363,632	$ 363,639

Investments noted in the tables above exclude other invested assets. Other invested assets are comprised primarily of investments accounted for in accordance with the equity method of accounting which includes fund of fund and limited partnership investments, and investments in convertible securities, all of which are carried at fair value. Convertible securities utilize the same valuation techniques as corporate debt securities, and therefore would be classified as a Level 2 security.

The Company's policy is to transfer assets and liabilities from Level 1 to Level 2 and from Level 2 to Level 1 at their fair values at the end of each reporting period, consistent with the date of the determination of fair value. Investments are transferred from Level 1 to Level 2 when they are no longer transacted with sufficient frequency and volume to indicate an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Company had no transfers between Levels 1 and 2 during the years ended December 31, 2014 and 2013.

The following tables present additional information about Level 3 liabilities measured at fair value on a recurring basis at December 31, 2014 or 2013. The Company did not hold any Level 3 assets at December 31, 2014 and 2013.

Insurance and Reinsurance Contracts

	2014	2013
Balance, January 1	**$ (363,632)**	$(401,083)
Total (losses) gains realized/unrealized included in earnings	**(42,587)**	38,420
Issuances, purchases, and settlements:		
Issuances	**(33,460)**	(33,703)
Purchases	**7,628**	11,589
Settlements	**13,587**	21,145
Balance, December 31	**$ (418,464)**	$(363,632)
Changes in unrealized (losses) gains included in earnings related to obligations still held at reporting date	**$ (42,587)**	$ 38,420

The Company's policy is to transfer assets and liabilities into and out of Level 3 at their fair values at the end of each reporting period, consistent with the date of the determination of fair value.

Quantitative Information For Level 3 Fair Value Measurements

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for insurance and reinsurance contracts:

Fair Value at December 31, 2014	Valuation Technique	Unobservable Input	Selected Estimate
$418,464	Risk-adjusted discounted cash flows	Nominal net value of contracts	**$536,805**
		Effective average discount rate*	**62.33%**
		Risk margin	**23.85%**

Fair Value at December 31, 2013	Valuation Technique	Unobservable Input	Selected Estimate
$363,632	Risk-adjusted discounted cash flows	Nominal net value of contracts	$531,786
		Effective average discount rate*	53.01%
		Risk margin	26.63%

*The effective average discount rate reflects the ratio of discounted future obligations over undiscounted payment patterns until final settlement. A decrease in interest rates increases both the effective average discount rate and the fair value of insurance and reinsurance contracts, with a corresponding reduction in net income. Should interest rates rise, both the discount rate and the fair value of the insurance and reinsurance contracts would decline with a corresponding increase to net income.

The Company's insurance and reinsurance contracts do not have observable market prices. The fair value of insurance and reinsurance contracts represents the Company's estimate of the cost to completely transfer its obligations and related reinsurance assets to another party of comparable creditworthiness.

The fair value of insurance and reinsurance contracts is based on the present value of expected future cash flows and a risk margin that would be payable to transfer the obligation to a third party. Expected future cash flows are comprised primarily of estimated payments to be made by the Company under the insurance contracts net of anticipated future recoveries under the related reinsurance contracts. The Company estimates future cash flows based on expected loss and loss expense payments estimated using accepted actuarial techniques, the timing of related future cash receipts or payments from these contracts and risk-free discount rates. A risk margin is calculated for potential deviations in the amount and timing of those estimated cash flows given the credit rating of the Company as well as additional return on capital a purchaser would require. These estimates are not observable in any marketplace, and actual future cash flows or other inputs could differ materially from these estimates.

(Expressed in thousands of U.S. dollars)

5. Premiums

Written and earned premiums are comprised of the following:

	2014	2013
Written Premiums:		
Direct	$1,312,451	$1,245,204
Assumed	36,042	34,921
Subtotal	1,348,493	1,280,125
Ceded	405,391	401,633
Net	$ 943,102	$ 878,492
Earned Premiums:		
Direct	$1,264,839	$1,206,195
Assumed	35,381	26,355
Subtotal	1,300,220	1,232,550
Ceded	402,254	427,077
Net	$ 897,966	$ 805,473

6. Reserve for Losses, Loss Expenses, and Reinsurance

Activity in the reserve for losses and loss expenses is summarized as follows:

2014:	Gross	Ceded	Net
Reserve at January 1	$3,104,771	$1,075,433	$2,029,338
Incurred losses and loss expenses:			
Current year	1,114,064	399,554	714,510
Prior years	(157,954)	(23,193)	(134,761)
Total incurred losses and loss expenses	956,110	376,361	579,749
Paid losses and loss expenses:			
Current year	161,442	41,404	120,038
Prior years	718,494	232,726	485,768
Total paid losses and loss expenses	879,936	274,130	605,806
Effects of foreign exchange rate changes	(15,157)	(2,076)	(13,081)
Reserve at December 31	$3,165,788	1,175,588	$1,990,200
Amounts currently due from reinsurers		36,289	
Due from reinsurers		$1,211,877	

2013:	Gross	Ceded	Net
Reserve at January 1	$2,993,698	$ 875,910	$2,117,788
Incurred losses and loss expenses:			
Current year	1,006,594	372,313	634,281
Prior years	34,690	96,756	(62,066)
Total incurred losses and loss expenses	1,041,284	469,069	572,215
Paid losses and loss expenses:			
Current year	122,537	41,476	81,061
Prior years	804,345	228,019	576,326
Total paid losses and loss expenses	926,882	269,495	657,387
Effects of foreign exchange rate changes	(3,329)	(51)	(3,278)
Reserve at December 31	$3,104,771	1,075,433	$2,029,338
Amounts currently due from reinsurers		32,941	
Due from reinsurers		$1,108,374	

For the years ended December 31, 2014 and 2013, changes in actuarial estimates of insured events in prior years have resulted in a net decrease to the reserve for losses and loss expenses of $134,761 and $62,066, respectively. The net decrease in 2014 was primarily attributable to favorable loss development in the casualty lines of business. The net decrease in 2013 was largely driven by an increase in ultimate losses and current year estimates of the cession across the Company's existing reinsurance programs for property, casualty and London lines of business.

Environmental-Related Claims

Included in the reserve for losses and loss expenses are amounts held for losses relating to manufactured gas plant cleanup costs and losses related to exposure to asbestos. In estimating amounts to be provided, management considers various information, including the number of reported claims, the continually evolving legal environment in each jurisdiction and the trends in remediation and medical costs. Management believes that the reserve for such losses is adequate; however, uncertainties exist as to the extent of coverage, the existence of other potentially responsible parties, the likelihood of the Company being liable, and the share of the ultimate cost, if any, that the Company will bear. Management periodically reviews this reserve as new information becomes available and as the legal environment changes, however these exposures are difficult to predict.

Reinsurance

The Company cedes a portion of its risk by utilizing various reinsurance contracts in order to provide additional capacity for future growth and limit the maximum net loss potential arising from large risks. These contracts do not relieve the Company from its obligation to policyholders. The amounts recoverable from reinsurers are estimated in a manner consistent with the reserve for losses associated with the related reinsurance contract.

The Company regularly evaluates the financial condition of its reinsurers and monitors credit risk with respect to amounts recoverable under these contracts. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. In order to minimize this credit risk, the Company seeks to cede business to reinsurers generally rated "A-" or better by accredited rating agencies such as A.M. Best. The Company considers reinsurers that are not rated or do not fall within the prescribed rating categories and may grant exceptions to the general policy on a case-by-case basis. As of December 31, 2014 and 2013, 96 and 95 percent, respectively, of the total reinsurance exposure was due from reinsurers rated "A-" or better.

To estimate the allowances for uncollectible reinsurance, the Company performs a default analysis consisting of a number of factors, including the amounts of ceded losses recoverable from the reinsurer and the credit rating of the reinsurer. As of December 31, 2014 and 2013, such allowances were approximately $31,026 and $28,261, respectively. There were no write-offs of ceded losses for the years ended December 31, 2014 or 2013. As of December 31, 2014 and 2013, current reinsurance recoverables had $1,128 and $3,373, respectively, overdue from reinsurers for 90 days or more, for which a general allowance has been established.

At December 31, 2014 and 2013, ceded losses recoverable with a carrying value of approximately $166,553 and $151,016, respectively, were associated with a single reinsurer with an "A" rating for both respective periods. Also at December 31, 2014 and 2013, ceded losses recoverable with a carrying value of approximately $301,599 and $288,703, respectively, were associated with Underwriters at Lloyd's of London.

7. Income Taxes

The Company has received an undertaking from Bermuda that it will be exempt from any local profits, income or capital gains taxes until the year 2035. No such taxes are presently imposed in Bermuda. As a consolidated group however, the Company and its subsidiaries are subject to such taxes in other tax jurisdictions. The Company files U.S. and Canadian federal income tax returns. Furthermore, certain U.K. subsidiaries are required to file U.K. income tax returns, while certain business sourced in the U.K. is subject to U.S. tax under an Internal Revenue Code Section 953(d) election, for which a separate U.S. tax return is filed.

The Company's Bermuda-based parent insurance company files a U.S. tax return pursuant to an Internal Revenue Code Section 953(c) status. The Company has determined that is would be prudent to elect Section 953(d) status in order to enhance the ability of the Company to utilize its existing tax net operating loss carryforwards before they expire. Section 953(d) status will allow the Company to combine its taxable income with certain subsidiary taxable income in a consolidated U.S tax return, which will provide the opportunity to more effectively utilize the Company's net operating losses. Under Section 953(c) status, the Company does not have the ability to include subsidiary income in a consolidated U.S. tax return to utilize its net operating losses.

The Section 953(d) election will be made prior to September 15, 2015, and will be effective January 1, 2014. Given the high likelihood of anticipated approval by the tax authorities, these financial statements and footnotes reflect the Company as if it had Section 953(d) status.

The provision for income taxes for the years ended December 31, 2014 and 2013 is as follows:

	2014	2013
Current provision (benefit)	**$ 5,504**	$ (2,585)
Deferred provision (benefit) relating to:		
Loss reserves	**2,314**	7,544
Net operating loss carryforwards	**48,217**	7,039
Capital loss carryforwards	**—**	1,412
Change in fair value of insurance and reinsurance contracts	**(17,435)**	22,434
Unearned premiums	**(5,202)**	(4,185)
Tax credit carryforwards	**(9,746)**	(2,032)
Basis difference in investments	**(2,717)**	(13,539)
Change in valuation allowance	**5,063**	(4)
Deferred foreign earnings	**(47)**	30,742
Policy acquisition costs	**5,140**	689
U.K. branch	**13,889**	7,433
Fixed assets basis difference	**(1,424)**	(942)
Other expenses	**(2,334)**	(10,318)
Claims equalization reserve	**1,785**	1,220
Effects of foreign exchange rates	**(426)**	73
Total deferred provision	**37,077**	47,566
Total income tax provision	**$42,581**	$44,981

(Expressed in thousands of U.S. dollars)

The reconciliation between the Company's effective tax rate and the statutory tax rate is as follows:

	Tax Effect 2014	Percent of pre-tax income	Tax Effect 2013	Percent of pre-tax income
U.S. federal income tax at statutory rate	**$38,308**	**35.0%**	$47,115	35.0%
Adjustments:				
Tax-exempt interest	**(2)**	**(0.0%)**	(338)	(0.3%)
Deferred tax true-up	**(15,092)**	**(13.8%)**	—	0.0%
Tax effect on deferred foreign income	**13,504**	**12.4%**	—	0.0%
Foreign taxes	**2,665**	**2.4%**	1,058	0.8%
Change in valuation allowance	**5,063**	**4.6%**	(4)	0.0%
Return to provision permanent	**(2,935)**	**(2.7%)**	(2,687)	(2.0%)
Other permanent items	**1,070**	**1.0%**	(163)	(0.1%)
Total income tax provision	**$42,581**	**38.9%**	$44,981	33.4%

Deferred income taxes as of December 31, 2014 and 2013 relate to the following:

	2014	2013
Deferred tax assets:		
Loss reserves	**$ 58,254**	$ 60,568
Net operating loss carryforwards	**164,193**	212,410
Capital loss carryforwards	**24**	24
Unearned premiums	**25,190**	19,988
Tax credits	**28,678**	18,932
Basis difference in investments	**11,846**	9,129
Policy acquisition costs	**—**	1,217
UK branch	**8,824**	22,713
Other	**52,428**	50,094
Gross deferred tax assets	**349,437**	395,075
Less: Valuation allowance	**(9,063)**	(4,000)
Deferred tax assets	**340,374**	391,075
Deferred tax liabilities:		
Unrealized investment gains on securities, net	**20,710**	21,519
Change in fair value of insurance and reinsurance contracts	**41,419**	58,854
Deferred foreign earnings	**54,109**	54,156
Fixed asset basis difference	**4,170**	5,594
Policy acquisition costs	**3,923**	—
Claims equalization reserve	**12,767**	10,982
Deferred tax liabilities	**137,098**	151,105
Effects of foreign exchange rate changes	**66**	(4)
Net deferred tax asset	**$203,342**	$239,966

The Company has $472,649 of net operating losses that are available to offset taxable income in future years. These net operating losses will begin to expire in 2023 and will fully expire in 2034. The Company has $16,769 of alternative minimum tax credits, which will not expire, and $11,909 and $5,687 of foreign tax credits as of December 31, 2014 and 2013, respectively. The foreign tax credits will expire between 2017 and 2024.

Management believes that based on its historical pattern of taxable income, the Company will more likely than not produce sufficient taxable income in the future to realize its deferred tax assets, after consideration of the valuation allowance.

The change in the valuation allowance of $5,063 from 2013 is attributable to a revised valuation of foreign tax credits associated with the transition to a Section 953(d) consolidated tax return, as discussed above.

At December 31, 2014 and 2013, the Company had no uncertain tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

On September 15, 2014, the company was notified that one of its subsidiaries would be audited by the Internal Revenue Service for the 2013 tax year. The examination was concluded on February 25, 2015 without any income tax adjustments, and has been submitted to the IRS Joint Committee of Taxation for approval, as approval is required in order to finalize the exam.

8. Policyholders' Liability

The liability of each policyholder of the Company is limited to any unpaid premiums due to the Company from such policyholders and for premiums, if any, relating to the Company's retrospective premium plans.

Retrospective premium plans were retroactively discontinued for all policies incepting on or after January 1, 1988. Management is unaware of any events that would cause the application of any of the retrospective premium plans remaining in effect.

9. Contingencies

The Company has established reserves for losses and loss expenses for claims that arise in the ordinary course of business. The Company is also subject to legal proceedings and regulatory inquiries for which there is currently no provision established, as management does not believe that the outcome of any of these matters will have a material adverse effect on the Company's financial position, operating results, or cash flows.

The Company leases office space and equipment under various operating lease arrangements, which expire at various dates through 2021. Rent expense for the years ended December 31, 2014 and 2013 was $4,361 and $4,755, respectively. Aggregate minimum rental commitments of the Company as of December 31, 2014 are approximately $3,763 for 2015, $4,042 for each of years 2016, 2017, 2018 and 2019 and $6,022 for all years thereafter until 2021.

In 2014, the Company entered into an agreement to sublease 10,140 square feet, or 10.9% of the Company's leased space in New Jersey. The rent received in 2014 was $51 and the estimated rental commitments for the remaining years are $311 for 2015, $321 for 2016, $331 for 2017, $341 for 2018, $352 for 2019 and $640 for years thereafter until 2021.

10. Subsequent Events

AEGIS has evaluated all events subsequent to December 31, 2014 through the consolidated financial statements issuance date of March 26, 2015, and has noted the following:

As of January 31, 2015, the Company changed the designation of several of its security portfolios, from AFS to HTM. The aggregate fair value of the respective portfolios was $989,764 at January 31, 2015. It is the Company's intent to hold these securities to maturity, and it is more likely than not that the Company will not be required to sell the securities. Upon the change in designation from AFS to HTM the individual securities' cost bases were adjusted to reflect fair value. These securities will be reported at amortized cost. The previously recorded unrealized gains and losses associated with the reclassified AFS securities will continue to be reported in accumulated other comprehensive income, and will be amortized using the effective interest method over each securities' remaining maturity, with the impact being reported in net investment income.

On March 13, 2015, the Bermuda Monetary Authority approved AEGIS's change in designation, effective January 1, 2015, from a Class 2 company to a Class 3 company. The change if implemented in 2014 would have increased the minimum solvency margin by approximately $97 million to $291 million with a corresponding reduction in the excess solvency margin, bringing it to approximately $615 million.

11. Dividend Restrictions and Margin of Solvency

In October 2014, AISL transferred AFS securities with a fair value of $80 million to AEGIS London Holding, who in turn transferred the same securities to AEGIS, which completed the approved "in kind" dividend transfer. No other dividend transfers occurred in 2014 or 2013. The transfer was considered an intercompany transaction, with no impact on the Company's consolidated financial statements. At December 31, 2014 and 2013, there were no significant restrictions on the payment of dividends from AISL to AEGIS London Holding.

The Company is registered under the Bermuda Insurance Act of 1978 and related regulations, which require that the Company maintain a minimum solvency margin of approximately $194 million for solvency and liquidity. As a Class 2 company, the policyholders' surplus at December 31, 2014 provided an excess margin of solvency of approximately $712 million.

12. Operating Results by Line of Business

Management has elected to segment its operating results into the two lines of business: General Liability and Directors and Officers Liability. General Liability includes excess liability, fiduciary and employee benefits liability, professional liability and excess workers' compensation insurance. Directors & Officers Liability includes directors and officers liability and general partner liability insurance. Operating expenses directly attributable to a given line of business are charged correspondingly; the remainder is allocated based upon each segment's respective share of gross written premiums. Investment results and the results from all other lines of business are allocated to each line of business based upon its proportionate share of unearned premiums, reserve for losses and loss expenses, and total surplus. The business segmentation is used to determine continuity credits, when declared by the Board of Directors of AEGIS, as they are earned by members based upon their individual proportionate shares of premiums and surplus attributable to the Company's General Liability and Directors & Officers Liability lines of business, as defined in the Company's bylaws.

(Expressed in thousands of U.S. dollars)

Total surplus supports all insurance policies issued by the Company, regardless of type. The amounts of total surplus allocated by line of business are presented solely for informational purposes.

	General Liability		Directors & Officers Liability		Total	
	2014	2013	**2014**	2013	**2014**	2013
Revenue:						
Net premiums earned	**$663,606**	$585,408	**$234,360**	$220,065	**$ 897,966**	$ 805,473
Net investment income	**54,292**	72,105	**28,745**	38,959	**83,037**	111,064
Change in fair value of insurance and reinsurance contracts	**(42,587)**	38,420	**—**	—	**(42,587)**	38,420
Total revenue	**675,311**	695,933	**263,105**	259,024	**938,416**	954,957
Expenses:						
Losses and loss expenses incurred	**464,329**	464,099	**115,420**	108,116	**579,749**	572,215
Commission expense	**72,658**	63,860	**37,614**	33,913	**110,272**	97,773
Other underwriting expenses	**84,876**	81,604	**33,274**	33,208	**118,150**	114,812
Total expenses	**621,863**	609,563	**186,308**	175,237	**808,171**	784,800
Income before continuity and other premium credits and income taxes	**53,448**	86,370	**76,797**	83,787	**130,245**	170,157
Continuity and other premium credits	**2,391**	7,223	**18,405**	28,321	**20,796**	35,544
Income before income taxes	**51,057**	79,147	**58,392**	55,466	**109,449**	134,613
Income tax provision	**23,738**	27,972	**18,843**	17,009	**42,581**	44,981
Net income	**$ 27,319**	$ 51,175	**$ 39,549**	$ 38,457	**$ 66,868**	$ 89,632
Other comprehensive loss	**(978)**	(22,052)	**(526)**	(11,587)	**(1,504)**	(33,639)
Total surplus, beginning of year	**$283,472**	$254,349	**$872,711**	$845,841	**$1,156,183**	$1,100,190
Total surplus, end of year	**$309,813**	$283,472	**$911,734**	$872,711	**$1,221,547**	$1,156,183

Deloitte.

To the Members of Associated Electric & Gas Insurance Services Limited:

We have audited the accompanying consolidated financial statements of Associated Electric & Gas Insurance Services Limited (the "Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, changes in surplus, and cash flows 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 Associated Electric & Gas Insurance Services Limited as of December 31, 2014 and 2013, 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.

Deloitte & Touche LLP

March 26, 2015
Parsippany, New Jersey

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2015 AEGIS Meetings

Annual Meeting

The Annual General Meeting of Members of the Company will be held in East Rutherford, NJ, on October 29, 2015. Notice of the Meeting and the form of proxy will be issued to voting Members in late September 2015.

Policyholders' Conference

The annual AEGIS Policyholders' Conference will be held July 20 to 23, 2015, in Nashville, TN. Registration information will be e-mailed and posted to our website in May 2015.

Other meetings and seminars

AEGIS will also host a series of regional member and broker meetings, Claims Roundtable seminars, and a number of underwriting, claims and loss control seminars and webinars throughout 2015. Please visit aegislink.com for details.

Associated Electric & Gas Insurance Services Limited ("AEGIS") was incorporated in Bermuda in 1971 and commenced underwriting activities in 1975. Effective January 1, 2015, AEGIS is registered as a Class 3 non-assessable mutual insurance company in Bermuda.

AEGIS is an eligible surplus lines insurer in all jurisdictions of the United States. It is subject to United States federal income taxes, files the required tax returns and maintains a United States trust fund in excess of $150,000,000. AEGIS is also a licensed foreign insurance company in all provinces and territories of Canada and on the general register of foreign reinsurers in Mexico.

AEGIS' operations are supported by its wholly owned managing general agent, AEGIS Insurance Services, Inc. ("AEGIS Services"), which provides AEGIS and its affiliates with professional staff and services.

The AEGIS Syndicate at Lloyd's of London, number 1225, ("AEGIS London") commenced operations in 1999. AEGIS London's operations are supported by AEGIS Managing Agency Limited ("AMAL"), which provides professional staff and services for AEGIS London. AEGIS Electric & Gas International Services Limited ("AEGIS International") is a corporate member of Lloyd's and the principal capital provider of AEGIS London. Both AMAL and AEGIS International are subsidiaries of AEGIS through AEGIS Holding Inc.

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