

BEN FOWKE

ELECTED CHAIRMAN OF EIM BOARD

In May 2014, Ben Fowke, chairman, president and CEO of Xcel Energy, was elected chairman of the Board of Energy Insurance Mutual Limited (EIM).

Ben succeeds Ed Holland, president and CEO of Mississippi Power Company, who served as EIM's chairman from May 2012 to May 2014, and who will continue as an EIM Director. Ben oversees more than 11,000 Xcel employees in eight states. We asked Ben about his perspective on EIM, and the direction the Company will take over the coming years.

What are some of the challenges facing the industry?

From a personal perspective, I know that more than half of the Xcel management team is nearing retirement over the next 10 years. I think as an industry we face the challenge of replacing experienced professionals with equally qualified and talented individuals who can continue to drive our industry forward.

In addition, technology advances have created incredible opportunities to streamline and create efficiencies within our industry while at the same time producing new concerns about system security and integrity. Managing a future grid that is two-way in terms of information and energy flows presents a new paradigm for the industry. Cyber security concerns, as an example, are directly linked to these types of technology advances. Paralleling technology advances is the need to continue to invest and modernize our existing electric and gas infrastructure. Reliability and safety remain the critical core mandates for utility infrastructure. Against this backdrop, we are seeing sales growth that is relatively flat compared to historical averages due to a combination of many factors, not the least of which are remarkable advances in energy efficiency (think of an iPad which uses about \$2 of energy annually vs. a PC that uses about \$45). Investments



made in a flat sale environment can put pressure on customer rates and make it very challenging to receive constructive recovery. It is clear we will need to modernize not only our infrastructure but also our regulatory compact.

The industry is also grappling with clean energy standards as we evolve from a fossil fuel-based generation fleet to natural gas and renewable energy production sources. As the industry deals with operational and regulatory changes, it also continues to realign itself with ongoing merger and acquisition activity that invariably brings with it shareholder litigation.

(Continued on page 2)



EIM Reinsurance Programs
pages 3-4



Board Member Knighted
page 5



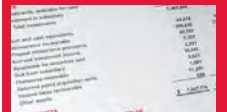
New Member Companies
page 6



New Member Representatives
pages 7-8



EIM Anniversaries
page 9



Q2 2014 Financial Report
page 10

BEN FOWKE

(Continued from cover)

These are only a few of the issues facing the industry, but I am confident that these challenges will be successfully met and that EIM will play a central role in helping member companies address the risk management considerations associated with these developments.

What do you see as EIM's role in helping Member Companies meet today's industry challenges?

I have always felt that leadership is about listening and then responding to not only the issues that face a company today but also anticipating what the future holds and aligning your vision to meet the world ahead. EIM has been, and will continue to be, a member-driven company. So, taking the issues that Member Companies deal with on a day-to-day basis and translating them into short and long-term strategies that will enable members to meet their risk management challenges is an essential part of EIM's role.

Where do you see EIM headed over the next three years?

EIM has recently embarked on its updated three-year strategic plan which embraces four key elements: Member Focus, Financial Strength and Stability, Efficiency in Business Process, and Professional Development. When you consider these four elements, it is clear that Member Companies will continue to come first, driving EIM's short and longer-term strategic direction. EIM will continue to offer excess liability products that meet the risk management needs of Member Companies and will continue to manage its

financial affairs to ensure that sufficient capital exists to pay claims when losses occur. In addition, I expect EIM to continue to operate efficiently with an expense ratio that is below similarly situated commercial casualty insurers. This will not only enable EIM to remain competitive on the premiums it charges for its coverages but also increases the likelihood that EIM will be able to continue providing distributions to its members. I believe that one primary advantage of an industry mutual is its ability to directly reward members for positive loss experience by prudently returning capital. I would like to see EIM continue its practice of providing distributions to members.

Overall, I see EIM experiencing slow but steady growth over the next three years. The existing underwriting portfolio of Excess General Liability, Directors and Officers, Fiduciary and Property should remain constant, both in terms of coverage and limits, as well as pricing. In addition, the Board will continue to oversee a conservatively managed investment portfolio to ensure that EIM is well-positioned to pay covered claims.

You've mentioned emerging industry issues, but what are some specific challenges facing EIM?

As a mutual, EIM's challenges reflect those of its Member Companies. It is incumbent upon EIM to continue providing excess insurance products and services that will help members meet the risk management challenges of a constantly evolving industry. This includes addressing risks associated with

upgrading infrastructure, implementation of new technologies, and a changing regulatory, legislative and legal landscape.

In addition to ongoing responsiveness, EIM must also continue to maintain the confidence and support of the membership. This sustained support encompasses a number of considerations. First, at the Board level, we need to continue attracting the talented and experienced industry leaders who can dedicate time to carrying out the vision and set the strategic direction for EIM. The commitment, both in terms of time and resources, can be extensive, but the end result is a stronger risk management framework for Member Companies. I would encourage any Member Company senior executive to consider Board service at EIM. In addition, ongoing support requires a strong Insurance Advisory Committee (IAC) to provide the Board and EIM management with critical insights regarding emerging industry issues, as well as feedback on EIM's responsiveness to Member Companies. Finally, we need to continue developing EIM staff to ensure that the products and services offered by the Company truly deliver value.

In short, the challenge at EIM is to sustain the level of confidence and support which has been the hallmark of the Company for over 25 years. Given the commitment of the Board, the expertise of the IAC, and the dedication of the EIM staff, I'm confident that we can meet this challenge.

(Continued on page 9)



EIM REINSURANCE PROGRAMS

Balancing the Risk/Reward Profile of EIM's Reinsurance Programs

Two people are flying in a hot air balloon and realize that they are lost. They see a man on the ground, so they navigate the balloon to where they can speak to him. They yell to him, "Can you help us? We're lost." The man on the ground replies, "You're in a hot air balloon about two hundred feet off the ground."

One of the people in the balloon replies to the man on the ground, "You must be an actuary. You gave us information that is accurate but completely useless." The actuary on the ground yells to the people in the balloon, "You must be brokers." They yell back, "Yes, how did you know?" The actuary says, "Well, you're in the same situation you were in before you talked to me but now it's my fault."

Balancing output from actuarially-designed models against alternative reinsurance structures is just one of the many issues to navigate when purchasing reinsurance. More importantly, volatility, solvency, capacity, catastrophic

protection, and preservation of capital are all items which have to be carefully considered when weighing the risks and rewards of reinsurance protection purchased. The cost of reinsurance can be high (EIM paid approximately 40% of premiums earned on its casualty reinsurance in 2013). However, at the right price, the benefits received as a result of reinsurance, such as lowered volatility and the ability to increase and/or retain current capacity, cannot be denied. On the other hand, the risks of not procuring adequate reinsurance include risk of insolvency, catastrophic exposure, and loss of capital. Through careful analysis of reinsurance protection, the prudent underwriter can minimize the inherent risks involved in insurance while benefitting from sound risk management.

EIM offers Excess General Liability limits up to \$100 million and Excess Directors and Officers limits up to \$50 million. This capacity exposes EIM to large losses and catastrophic events such as in the early 2000s when EIM experienced severe systemic losses incurred throughout the energy industry. Four full limit GL losses at \$100 million each net of tax represent 30% of EIM's surplus. Then again, what are the odds of having four full limit GL losses? How do we balance the inherent risk in capacity offered and lack of diversification due to concentration in one industry sector while at the same time maintaining or

returning capital back to the membership through capital appreciation? EIM's reinsurance programs are designed to mitigate the risk posed by high limits, reduce overall volatility, while protecting capital from catastrophic events and providing protection against insolvency.

EIM's reinsurance programs are divided into two categories: quota share and excess of loss.

Quota Share

Reduction in volatility and protection of capital against systemic and/or catastrophic events is accomplished by sharing risks through quota share reinsurance. EIM's quota share reinsurance purchased for Excess D&O can be depicted as follows:



For each and every claim, EIM cedes 80% or up to \$16m of losses in excess of \$30m. This means that EIM's total retention is \$34m on losses reaching \$50m. In a similar fashion, EIM cedes 60% of \$25m in excess of \$75m for Excess GL limits offered on each and every claim as follows:



(Continued on page 4)



EIM REINSURANCE PROGRAMS

(Continued from page 3)

EIM has now reduced the risk for any one claim to \$34 million on D&O and \$85 million on GL.

Excess of Loss

What about both unexpected and catastrophic risk? As a mutual, preservation of capital and maintaining an “A” rating by A.M. Best are the Company’s two most important objectives. To meet these goals, EIM strives to achieve risk capacity levels designed to withstand a 1/250 holistic event involving both investment and underwriting results. Without further protection, volatility would ensue and the capital and A.M. Best goals might not be attainable.

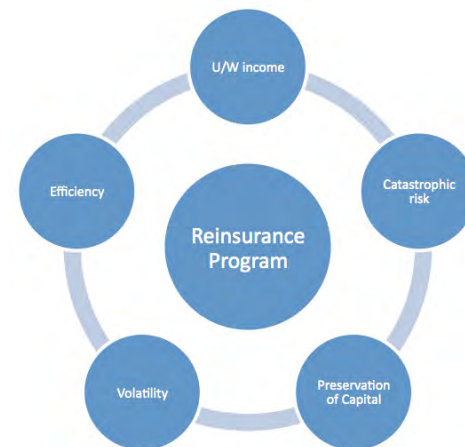
To enhance the probability of meeting its capital goals, EIM runs multiple outcomes through an actuarial model to determine the right amount of reinsurance protection to secure while still maximizing underwriting results and taking into account investment performance. Given the volatility in EIM’s business, it’s important to understand that models are not exact but are more like guard rails on a bridge. The model, like the rails, is intended to keep EIM from falling off the bridge and headed in the right direction. Additional considerations in balancing the risks are management’s risk tolerances and views of the current market. In other words, the model typically relies greatly on past events and is not always indicative of current or future exposures. It’s like the actuarial joke, “An actuary, an underwriter, and a broker are riding in a car. The broker has his foot on the gas, the underwriter has his foot on the brake, and the actuary is looking out the back window telling them where to go.”

EIM employs excess of loss reinsurance- protection excess of a specific loss threshold- to provide further capital preservation. The following outlines EIM’s excess of loss reinsurance for GL and D&O:



In simplistic terms, EIM retains the first GL loss and cedes the next three losses. For D&O, EIM retains the first two D&O losses and cedes the next three. This excess of loss reinsurance provides protection against catastrophic events and assists in reducing volatility.

In addition to modeling different reinsurance options each year, EIM uses a decision matrix where specific metrics are weighted based on importance and then scored using actuarially determined outcomes categorized as follows:



Enterprise risk management (“ERM”), which includes investment risks, is further used to balance the full breadth of reinsurance options in order to capitalize on opportunities while managing the downside of risk. In summary, EIM incorporates a full suite of analytical tools when balancing the risks and rewards of reinsurance protection. These tools, along with the Company’s risk tolerance and market views, are used to accomplish the mission of the Company which is “To provide members with a financially sound organization offering a secure, stable source of superior long-term insurance and risk financing products and services.”

Inquiries regarding reinsurance can be directed to Tommy Bolton at tbolton@eimltd.com



EIM's Longest-Standing Board Member Knighted

Sir Trevor Austin Carmichael is Energy Insurance Mutual's longest-standing board member, having served the Company since its inception.

Sir Trevor was born in Barbados on February 9, 1945. He attended the University of the West Indies, Mona, Jamaica before earning his doctorate from Wayne State University in Michigan and reading law at the College of Law in London. He was later called to the United Kingdom Bar as a member of the Honourable Society of the Middle Temple and later to the Barbados Bar in 1977.

"The act of service is at the core of the development of human civilization; and service strikes at the very core of interdependence and cooperation at the international, national, as well as individual levels."
— Sir Trevor Austin Carmichael

His legal career has spanned many specialties beginning in criminal and civil litigation, family, constitutional, labor, and trademark law before focusing on commercial tax, nonprofit, and environmental law. He is recognized for having helped establish Barbados' international business sector and has been associated with landmark legal decisions such as the leading case on medical insanity presented before the Barbados Court of Appeal in 1981.

Sir Trevor's commendations are numerous, covering diverse disciplines such as law, finance, culture, and international relations. He is past President of the

Barbados National Trust, President of the Barbados Museum and Historical Society, Chairman of the United World Colleges Selection Committee for Barbados and Chairman of the Duke of Edinburgh World Fellowship as well as one of its International Trustees.

He is a former Deputy Secretary-General of the International Bar Association, a Panel Member of the International Centre for Settlement of Investment Disputes of the World Bank in Washington, D.C., and a Certified Mediator within the Panel of the International Conference of Museums, Paris, France. In 1992, Sir Trevor was appointed to the Order of Barbados for his contribution to the law, financial services, and the preservation of the national heritage of Barbados. Ten years later, in 2012, he was awarded the Governor General of Canada's Medallion for his contribution to the strengthening of relations between Canada and Barbados.

In March of 2013, he was appointed by the Governor-General as an Independent Senator to Barbados' Upper Chamber and later in June he not only received the Queen Elizabeth Diamond Jubilee Award but was also made Lieutenant of the Royal Victorian Order by Queen Elizabeth for his contributions to the Royal Household and particularly for his service to the Duke of Edinburgh International Award.



Sir Trevor Carmichael

This year, Sir Trevor was named a Knight of St. Andrew for his outstanding contributions to the Barbadian financial sector, international business law, and his philanthropic activities.

Recently, in July 2014, as Mexico's Honorary Consul he received the Order of the Aztec Eagle, the highest decoration awarded to foreigners in Mexico. This award recognized his work to promote business, culture, and tourism between Barbados and Mexico by encouraging travel between the two countries visa-free and initiating a treaty preventing double taxation within Barbadian-Mexican trade.

Sir Trevor has authored four books and over one hundred articles and monographs in the areas of law, economics, and public policy. He resides in Barbados with his wife Sharen with whom he has one son named Giles. EIM congratulates Sir Trevor for this well-earned honor, and also extends a heartfelt thanks for his decades of service to EIM.

NEW MEMBER COMPANIES

Seventy Seven Energy

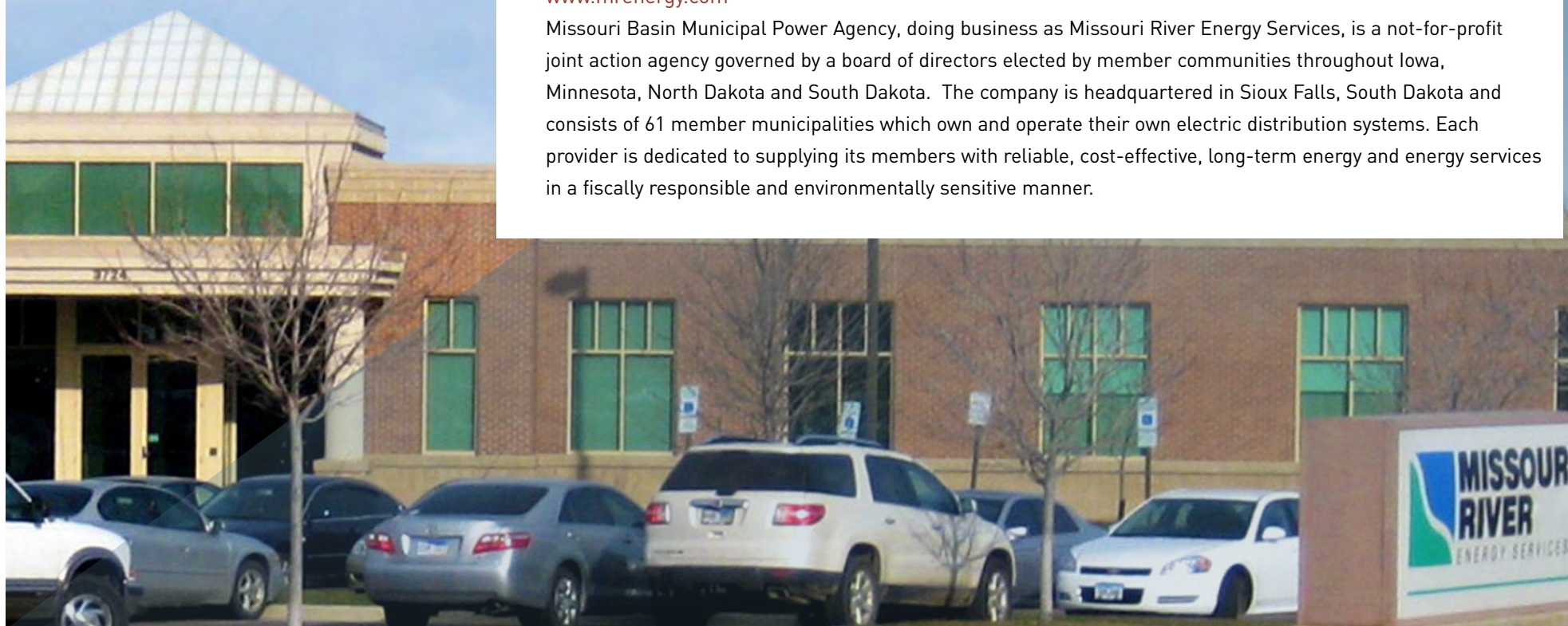
www.77nrg.com

Seventy Seven Energy, headquartered in Oklahoma City, Oklahoma, is a diversified oilfield services company that provides a wide range of wellsite services and equipment to exploration and production customers operating in unconventional resource plays. Operations are geographically diversified across many of the most active oil and gas operations in the onshore United States. The company offers comprehensive upstream services, including drilling, pressure pumping, oilfield rental tools and tracking, rig location, and water transport and disposal.

Missouri Basin Municipal Power Agency

www.mrenergy.com

Missouri Basin Municipal Power Agency, doing business as Missouri River Energy Services, is a not-for-profit joint action agency governed by a board of directors elected by member communities throughout Iowa, Minnesota, North Dakota and South Dakota. The company is headquartered in Sioux Falls, South Dakota and consists of 61 member municipalities which own and operate their own electric distribution systems. Each provider is dedicated to supplying its members with reliable, cost-effective, long-term energy and energy services in a fiscally responsible and environmentally sensitive manner.



NEW MEMBER REPRESENTATIVES



Shannon Perry Schmidt

Tallgrass Energy Partners

Shannon is a Risk Manager Analyst at Tallgrass Energy Partners. Her career began right after attaining her BS in Accounting from Santa Clara University when she started as a senior staff member at Ernst & Young LLP. She then took her skills and experience to Applied Materials where she worked as Manager of Investor Relations before joining Tallgrass Energy Partners in 2012.



Erica McNabb

NextEra Energy

Erica is Director of Risk Management at NextEra Energy. Before moving to her current position, she held various financial management positions with NextEra; prior to that, she was Senior Auditor with Deloitte & Touche. Her professional affiliations and industry experience run deep as a member of AEGIS RMAC, NEIL EXCOM, AIG RMAP, ACE Advisory Board, GCube Advisory Council, ANI IAC, RIMS, and IMAC. Erica also holds a CPA license. Erica earned her BBA in Accounting from University of Texas at Arlington.



Sufia Fleming

NextEra Energy

Sufia is Manager of Risk Management with NextEra Energy. She has been with the company since 1997 and has held various financial positions prior to joining the Risk Management department in 2010. Prior to NextEra, she was an Auditor with Baird Kurtz and Dobson CPAs. Sufia holds a BA from Saint Louis University and an MBA from Palm Beach Atlantic University. Not only is Sufia a licensed CPA but is also a member of RIMS, AICPA, MSCPA, and IMAC.



Pamela S. Jackson

Seventy Seven Energy

Pamela works as a Risk Manager with Seventy Seven Energy in Oklahoma City. She started her career with Kerr-McGee Corporation as Senior Claims Analyst and after more than a decade and a half with Kerr-McGee, she became a Claims Specialist with Chesapeake Energy prior to joining Seventy Seven Energy. Pamela graduated from Central State University and holds a degree in Business Administration.



NEW MEMBER REPRESENTATIVES



Mark Roberge
Sempra Energy

Mark joined Sempra in 2005 as Director of Commercial Development in the Pipelines and Storage business. Prior to joining Sempra, he was Director of Corporate Finance for Simmons & Company International focusing on the midstream gas and oil sectors. Mark moved to Sempra Treasury in 2008 as Finance Director and was named Assistant Treasurer in March 2012. Mark currently oversees Sempra's Corporate Finance, Cash Management and Insurance and Risk Advisory areas.



David Baughman
CMS Energy Corporation

David is Executive Director of Risk, Strategy and Financial Advisory Services for CMS Energy Corporation. He has been with the company since 1997. Prior to CMS, David worked for 11 years with the World Bank in Washington, D.C. as an Economist and Finance Director. David is a graduate of Michigan State University with a BA in Economics. He also received a Master's degree in Public Policy from the University of Michigan and an MBA from the University of Maryland in College Park.

Richard Layne Bullock
Tallgrass GP Holdings, LLC

Richard, a CPA, holds the title of Vice President of Human Resources, Tax, and Risk Management for Tallgrass GP Holdings, LLC. After graduating from Missouri State University where he received his BS in Accounting, he was Partner/Owner of various public accounting firms. Next, his career took him to Kinder Morgan, Inc. where he was Vice President of Tax. Prior to his current position with Tallgrass, he served as Vice President, Chief Financial Officer of Tallgrass MLP Fund, LP.

EIM ANNIVERSARIES



Sandra Imbriani, Underwriting Manager, Casualty, is celebrating her 20 year anniversary with EIM.

Sandra Imbriani is celebrating her 20 year anniversary with EIM and currently serves as an Underwriting Manager, Casualty. Sandra was hired at EIM as a Member Services Representative in July 1994 after working in marketing with Poe & Brown, a local Tampa Bay area broker now known as Brown & Brown. Sandra appreciates many aspects of her job but particularly enjoys the chance to learn something new and different each day. During her 20-year tenure at EIM, Sandra has developed and maintained diverse working relationships with risk managers, brokers and her co-workers. Outside of EIM, Sandra enjoys spending time with her family, boating and traveling. Sandra and her husband, Ralph, are very proud of their daughter Sara who is entering her senior year of college.



Deana Edmonds, Assistant Underwriter, celebrated 20 years with EIM in February 2014.

Deana Edmonds, Assistant Underwriter, celebrated 20 years with EIM in February of this year. She has held many positions in the Company prior to her current position. Deana continues to find her job interesting and values the Member Company and broker relationships she has formed over the years. Deana has great memories of all of her co-workers and has enjoyed watching their families grow up together including her own children, Bryan and Dannie. She also is a grandmother to Bentley who is two years old.



Ann Joslin, Vice President - Claims, is celebrating her ten year anniversary with EIM.

Ann Joslin started her tenure at EIM as Claims Manager and was promoted to her current position in 2013. During her time at EIM, she has seen many changes in the Company, most notably its growth. Ann was hired as the sixteenth employee and the Company now boasts a 21-person team. No matter how small or large, she believes EIM has always moved in a positive direction and continually seeks ways to improve. After graduating from the University of Connecticut with her undergraduate degree, Ann earned her J.D. from Fordham University School of Law in New York City. She has worked in claims her entire career, starting at the Hanover Insurance Group, then moving to Yasuda Fire & Marine before spending over fourteen years at AIG, all before joining EIM. Ann notes that her law degree comes in handy because of the complicated nature of excess claims and coverage issues. She finds the legal issues surrounding claims to be interesting, especially those involving catastrophic events. Outside of work, Ann enjoys reading, outdoor activities such as swimming, fishing and boating, and staying active with running and fitness boot camps.

(Continued from page 2)

BEN FOWKE ELECTED CHAIRMAN OF EIM BOARD

As the CEO of a Member Company, where do you see the value of EIM?

Well, EIM's most obvious value is its ability to provide significant excess liability limits with consistent coverage terms. However, after a short time serving on EIM's Board, I also realized that tailored risk management solutions like those offered through Energy Insurance Services, Inc. (EIS) could be invaluable to Member Companies looking to address unique or company-specific risk management concerns. In fact, I strongly encouraged Xcel risk managers to take advantage of EIS to create a protected cell that addressed ongoing concerns regarding medical benefits. The result was stronger risk management and cost savings that helped Xcel operate more efficiently.

When you talk about EIM, what is the message that you deliver?

When I talk about EIM I recount a success story that began 28 years ago. With written premium now exceeding \$200 million, a membership base of over 165 companies, and a surplus which is approaching \$1 billion, EIM has never been better positioned to meet the risk management needs of Member Companies. EIM has always been about the membership and with the continued support of industry participants the Company will continue to deliver meaningful risk management solutions.

Any questions related to this article
can be directed to Scott Goodell at:
sgoodell@eimltd.com



Q2 2014 FINANCIAL REPORT

Balance Sheets

(unaudited and expressed in thousands of U.S. dollars)

	6/30/14	12/31/13
Assets		
Investments	\$1,339,417	\$1,291,014
Cash and cash equivalents	97,701	80,824
Reinsurance paid in advance	33,881	44,085
Insurance balances receivable	16,784	4,794
Reinsurance recoverable on unpaid losses and IBNR	326,411	397,758
Other assets	54,253	32,791
Total assets	\$1,868,447	\$1,851,266
Liabilities and Policyholders' surplus		
Liabilities:		
Reserves for losses and lae	\$741,019	\$721,942
Unearned premiums	106,045	112,223
Reinsurance balances payable	34,965	39,578
Accrued expenses	8,619	10,278
Deferred income tax	68,001	57,569
Borrowings on line of credit	2,000	-
Policyholder distributions payable	-	20,000
Total liabilities	960,649	961,590
Policyholders' surplus:		
Members' account balance	735,330	747,145
Accumulated other comprehensive income	172,468	142,531
Total policyholders' surplus	907,798	889,676
Total liabilities and policyholders' surplus	\$1,868,447	\$1,851,266

Statements of Income and Comprehensive Income

(unaudited and expressed in thousands of U.S. dollars)

	6/30/14	6/30/13
Underwriting income		
Net premiums earned	\$65,118	\$57,318
Ceding commission	1,413	1,355
Total underwriting income	66,531	58,673
Underwriting expenses		
Net losses and loss adjustment expenses	101,548	21,337
Policy acquisition costs	1,106	1,013
Administrative expenses	5,273	6,534
Total underwriting expenses	107,927	28,884
(Loss) income from underwriting	(41,396)	29,789
Investment income	23,130	49,620
(Loss) income before policyholders' distribution	(18,266)	79,409
Policyholders' distributions	-	18,000
(Loss) income before income taxes	(18,266)	61,409
Federal income tax (benefit) expense	(6,451)	19,210
Net (loss) income	(\$11,815)	\$42,199
Other comprehensive income		
Change in unrealized gain on securities, net	29,937	(21,860)
Comprehensive income	\$18,122	\$20,339

EIM's **Members Report** is electronically published four times per year. Comments, questions, and suggested subjects from Members are sincerely welcomed.

Energy Insurance Mutual Limited
Bayport Plaza, Suite 550, 3000 Bayport Drive Tampa, FL 33607-8418
1-800-446-2270 813-287-2117 Fax:813-874-2523

■ www.eimltd.com ■

