Energy Insurance Mutual

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MEMBERS REPORT

Shedding Light on Business Blackout

The recently published joint report by Lloyd's and the University of Cambridge Centre for Risk Studies, entitled "Business Blackout: The Insurance Implications of a Cyber Attack on the US Power Grid," provides a detailed overview of a cyber blackout scenario (dubbed "Erebos" for the Greek god of darkness) that destroys 50 generators in the Northeastern United States—leaving 93 million people in 15 states and the District of Columbia without power for 2 to 4 weeks.

With a total impact to the U.S. economy modeled at $243 billion, rising to more than $1 trillion in the most extreme scenario, and insured losses ranging from $24.1 billion to $71.1 billion, the report offers an eye-opening assessment of the potential for widespread and extended power outages.

The scenario, developed by the University of Cambridge Centre for Risk Studies, is described as "an extreme event [that] is not likely to occur" and "improbable," but nevertheless provides an insightful framework from which to assess potential loss and the insurance implications associated with these broad ranging damages. While underlying assumptions can be questioned (i.e., can 50 generators located in the Northeast corridor be replaced and put back into service within 14 days?), the study is illustrative of the far-reaching implications of a cyber-based blackout and the multiple lines of business impacted by such an event.

On a macroeconomic basis, health and safety, productivity, trade, consumption, transportation, communication and key services such as water, heat and security are

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SHEDDING LIGHT ON BUSINESS BLACKOUT

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immediately impacted, creating a web of dislocation that expands exponentially as failure of mutually dependent functions begins to spread throughout the impacted area.

By examining potential claimants that range from power generation companies, equipment manufacturers and service companies, to energy customers, along with those impacted by supply chain interruption, attendant property damage, cancellation of special events and potential regulatory sanctions, the study highlights the broad array of insurance coverages impacted by the event. In all, the report identifies almost 60 lines of business potentially affected by a large cyber event. Because cyber intrusion is a dynamic risk that continuously shifts with technology advances, any meaningful risk management solution requires constant monitoring and adjustment to anticipate refinements in cyber-attacks.

Specific claims arising from an extended blackout could include property damage at generation facilities, business interruption, incident response costs, and potential regulatory fines and penalties. Manufacturers and servicers of generation equipment face potential claims for negligence and breach of contract. Energy customers could assert claims for loss of perishable goods and business interruption, while indirect claimants (those reliant upon the products and services as part of the distribution chain) could demand compensation for contingent business interruption. Event cancellation (whether sports, concerts or tours) along with business meetings, and a corresponding reduction of hotel bookings and travel expenditures add another layer of potential insured losses to the Erebos scenario. Consideration would also have to be given to civil unrest, looting and potential property damage to affected areas.

The report goes on to discuss uncertainty related to current cyber policies where peril definition, occurrence definition, territorial limits, and exclusions may be subject to dispute, further clouding coverage questions and extending the recovery process.

Overall, the value of the report resides not so much in the cyber blackout scenario outlined or the modeled losses produced as a consequence of the cyber event, but instead in the comprehensive consideration of loss causes, lines of business impacted and macroeconomic repercussions occasioned by such an event. The report provides valuable food for thought for anyone evaluating potential cyber risk, not only within their organization, but in the context of the many and varied touch points and interconnections to third parties with whom a company communicates, transacts business and receives products and services on a daily basis.

Energy Insurance Mutual has $5 million of net capacity to offer on cyber placements where the attachment point is in excess of $35 million. As of this writing, EIM participates on five members' cyber insurance programs. Our policy is a following form policy and can provide coverage for a number of the possible losses that could arise as a result of a cyber event.

Please contact Jill Dominguez, jdominguez@eimltd.com, to discuss any cyber coverage needs.

NEW DIRECTORS & OFFICERS LIABILITY POLICY FORM

EIM has been in the process of revising the Following Form Excess Directors and Officers Liability for a few months. One of my first priorities was to complete the draft of the new form.

The D&O form has not been revised since 2008, yet the D&O excess market has continued to evolve. The continuing decline of rates coupled with a never-ending parade of new markets coming into this space (due to a lack of large global class action settlements that were so prevalent in the late '90s and early 2000s) has forced excess carriers to be creative in developing straightforward, easy-to-read policy forms. Oftentimes, these are one- or two-page policies. Both buyers of these policies, as well as brokers, understandably prefer these shorter and broader forms. Therefore, in order to stay competitive, EIM developed an increasing number of endorsements to keep up with coverage trends. However, at some point, a need for a shorter, more market competitive form containing the latest "must have" coverage points seemed inevitable.

While this new form will be shorter, easier to follow and generally in line with the competition, it will be important for EIM members and brokers to understand EIM's unique value proposition. There are virtually no other excess D&O markets that will consistently offer $50M limits of liability over lesser limits, otherwise known as "overhanging the limits." As such, EIM's intent in updating its form is not to be the broadest, most inclusive "latest and greatest" excess D&O product on the market, but instead to provide a fair, consistent, and relevant policy that incorporates unique EIM features while affording real follow form protection to Member Companies.

As of this writing, the new form is almost finished. Here are some highlights of the form's main features:

- **Condensing the form from nine pages to four**
- **Streamlining most definitions and conditions to follow primary policies**
- **Incorporating foreign policy tie-in provision**
- **Updating a section recognizing underlying payments made by the insured and/or underlying carriers, including Difference In Conditions (DIC) payments**

Currently, the policy form is in the final review stages with our senior management, legal staff and our broker partners. Once finalized, renewals will be issued on the new form, eliminating the need for the Amendatory Endorsement.

When the form is introduced, it should serve the membership well for a number of years. Nothing ever stays the same and as the D&O industry continues to evolve, so too will the D&O policy. EIM continues to listen to Members, brokers and the Insurance Advisory Committee to stay current with emerging trends, terms and conditions. This new form will undoubtedly provide us all with a better base to accommodate evolving Member needs.

In closing, I would like to express my sincere excitement about joining the EIM family, including the staff, together with all Member Companies and broker partners. It has given me renewed enthusiasm and the ability to make a difference for the Members each day. Being new to the energy sector and seeing the level of trust, mutual respect and understanding that exists among everyone involved with EIM is truly refreshing and very special. As I am working through my first renewal cycle, I look forward to getting to know as many Members as possible. I welcome any and all contact with Member Company risk managers, so if you are in Tampa or New York, please let me know and I look forward to meeting and working with all of you.

For more information contact:
Vitaly Pisetsky,
vpisetsky@eimltd.com

EIM Q2 INVESTMENT UPDATE

EIM's Surplus Holds Up Well in Adverse Economic Conditions – A Look Into Investment Portfolio Modeling

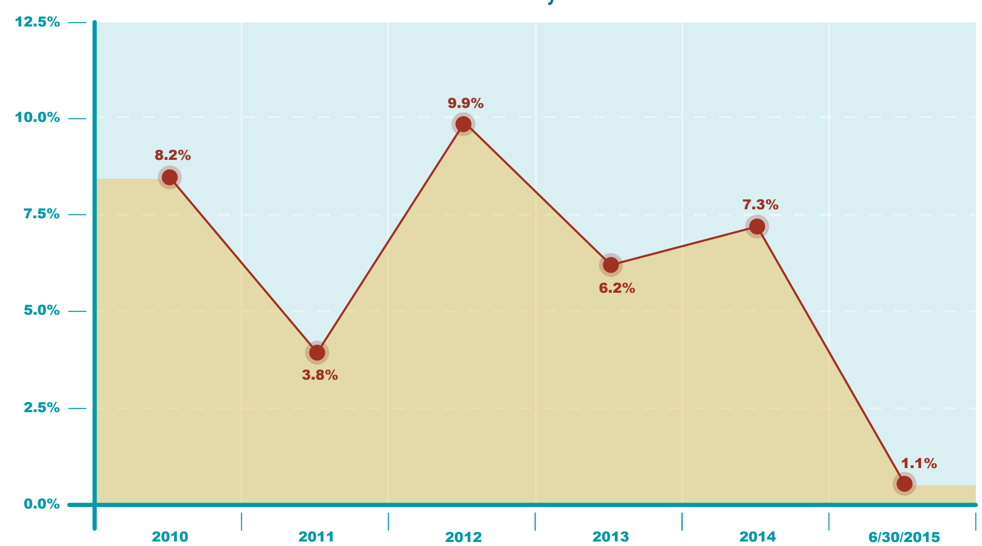
"You've got to know when to hold 'em. Know when to fold 'em. Know when to walk away. And know when to run" - Kenny Rogers.

Managing an investment portfolio, while not quite like gambling if the right controls are in place, can certainly feel like it in today's environment. As such, EIM's investment portfolio is continually monitored and tested under high stress environments involving both investment and underwriting risk. By employing a holistic approach, EIM is able to mitigate risk and take advantage of risk opportunities wherever possible.

Investment Risk Revisited

Prior to 2015, EIM's allocation to fixed income investments was as high as 75% of the total investment portfolio, with the other 25% allocated to equities. In the past, concentration in equities often raised an alarm, but with the ever growing threat of rising interest rates, the risk in the bond portfolio can be quite substantial as well. EIM's fixed income investments were 108% of surplus as of December 31, 2014 when the asset class reached $1.04 billion. Any downturn in the bond market (i.e. sharp rise in interest rates) could have a significant impact on surplus.

EIM investment returns over the last five years are as follows:



Through June 30th 2015, EIM's average annualized return over the last three years was 6.60% and 7.49% over the last five years.

In addition to a rise in interest rates, threats in the macro-economic environment such as the euro-zone crisis and the ongoing unrest in the Middle East continue to impact the U.S. markets.

Managing a prudent investment portfolio that takes advantage of risk while minimizing the downside coincides with the overall strategic objectives of EIM. This means finding the right mix of fixed income to equities to alternative investments that fits into EIM's overall risk tolerances.

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EIM Q2 INVESTMENT UPDATE

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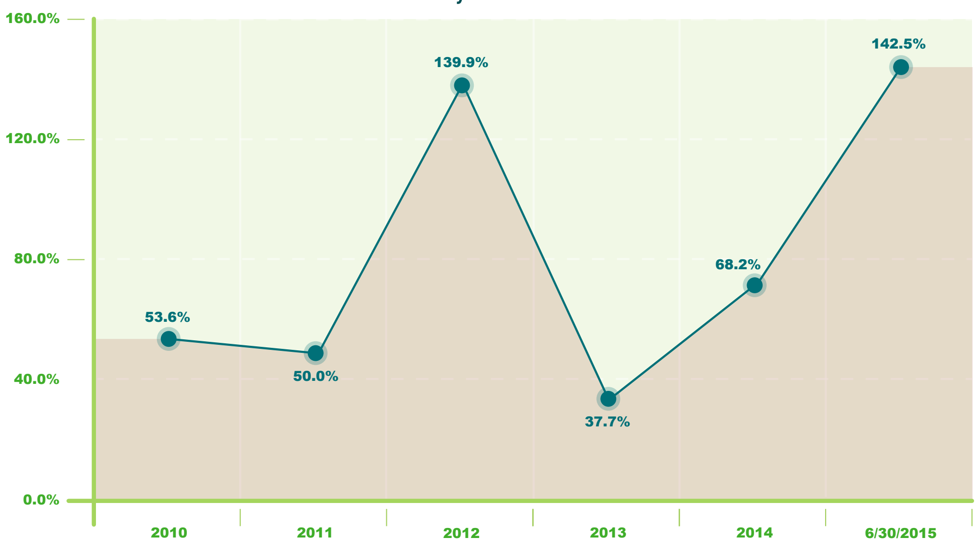
Underwriting Risk

On the underwriting front, EIM provides limits of up to $100 million for General Liability and $50 million for Directors and Officers. EIM's loss ratio inception to date averages approximately 80% and the five-year average through June 30th, 2015 is approximately 81%. However, getting to these averages can be similar to riding Falcon's Fury at Busch Gardens in Tampa, Florida, North America's tallest freestanding drop tower at 335 feet. You have significant ups and downs.

EIM's loss ratio over the last five years is shown as follows:



EIM losses tend to come every two to three years as depicted above. Similar to finding the right mix in investments, buying the right amount of reinsurance at the right price helps mitigate the inherent risk in providing large limits of insurance to members of EIM. EIM spent 35.5% of premiums earned on reinsurance in 2014. This ratio was as high as 48.5% as recently as 2010.

Optimizing the Investment Portfolio

Under the direction of Cardinal Investment Advisors, EIM incorporates many scenario testing analyses to determine the optimal mix of fixed income/equities/alternative investments. Stress testing includes periods of rising interest rates coupled with high loss ratios over several years and for specific events such as the 2008 fiscal crisis.

INTEREST RATE RISK

One of the outcomes of the stress testing was the need for a reduction in the risk associated with a rise in interest rates. As a result of the testing, EIM allocated 5% of the portfolio to core real estate and 5% to high yield bank loans. Both investments tend to perform well in rising rate environments and help to reduce the effect of a drop in bond prices.

Given EIM's strong surplus position, while staying within the band of risk tolerances, the 25% equity mix was maintained with an upper limit of 30% and a lower limit of 20%. Depending on the equity environment EIM has the flexibility to move within the range.

NEGATIVE INVESTMENT RETURNS AND UNDERWRITING LOSSES

If EIM's underwriting portfolio were to experience a period of successive high loss ratios and a rise in interest rates, EIM is confident in the ability to reinvest maturities from fixed income proceeds in higher yielding assets, eventually making up for any drop in bond pricing. In addition, the equities and alternative investments tend to show less correlation and will help to offset the decrease in the price of the fixed income assets.

LIQUIDITY

At the cornerstone of any prudent investment portfolio is the ability to pay claims as they come due without having to realize losses on investments. EIM maintains, at a minimum, enough liquidity in short term duration assets to fund 50% of case reserves at all times, although this ratio tends to hover closer to the 75%-80% mark. Therefore, there would be little need to sell fixed income securities at a loss to fund the payment of claims. In essence, EIM feels it has the capital, liquidity and optimal investment mix to "outrun" any rise in interest rates and a period of high loss ratios.

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Q2 INV. UPDATE

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2008 AGAIN? – HOW WOULD WE DO?

Finally, what about a more realistic scenario such as 2008 where EIM experienced an investment return of -22.4% and a loss ratio of 132.6%? Surplus decreased 29.9% in 2008. Given the same scenario in today's environment, EIM has modeled a decrease in surplus of approximately 16%, well within its stated risk tolerance.

Conclusion

"Every gambler knows that the secret to survivin' is knowin' what to throw away and knowin' what to keep" - Kenny Rogers.

EIM's strategic investment plan offers prudent controls, while giving latitude to sensibly complement the Company's mission and organizational goals. In addition to Cardinal, EIM utilizes the actuarial services of Towers Watson, other investment managers, as well as reinsurance brokers to provide different points of view. These perspectives all combine to help set risk tolerances for individual business segments and the company as a whole. With the correct procedures in place and an optimal mix of investments, EIM has positioned itself to effectively navigate through the various investment and underwriting cycles that the future may bring.

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HONORING CHUCK SHIVERY

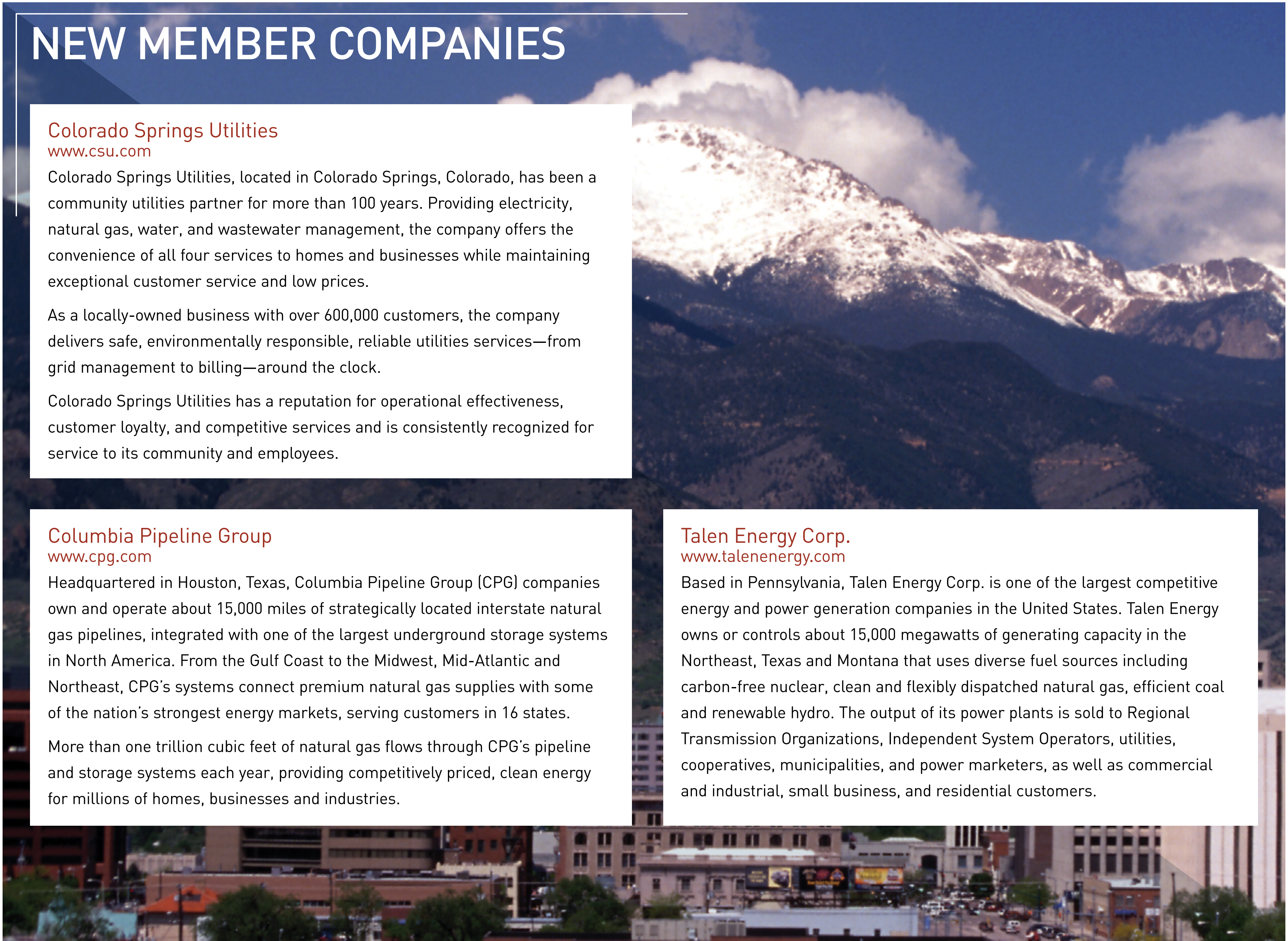
Charles W. (Chuck) Shivery and his wife Chris were honored at EIM's August Board meeting after 19 years of EIM Board service.

Chuck joined the EIM Board in 1995 while vice president, chief financial officer, and secretary of Baltimore Gas & Electric. He served until 2002 when he retired as co-president of the Constellation Energy Group, the parent company of Baltimore Gas & Electric.

Chuck rejoined EIM's Board in 2005 after being appointed chairman, president and chief executive officer of Northeast Utilities, a position he held until completion of the 2012 merger between Northeast Utilities and NSTAR, now operating as Eversource Energy. He then served as Chairman of the Board of Trustees of Northeast Utilities from April 2012 through October 2013, and continued as a member of the Board of Trustees from October 2013 through May 2014, when he retired.

Chuck completed his final Board term with EIM in May 2015 after serving on virtually every EIM Board committee. He was Chairman of the Board between 2007 and 2009. In response to a Resolution of Tribute presented by EIM's vice chairman, Marian Durkin, Chuck observed that, "EIM has never been in a stronger position in terms of governance, financial stability, and operating transparency. It has been an absolute pleasure for Chris and me to be affiliated with EIM, its Board members and the many colleagues in the energy industry who we have been fortunate enough to know. EIM truly is a family and we hope to stay in touch with the many friends we have made during the last 19 years."

As avid sailors who recently purchased a home on the Florida Gulf Coast, Chuck and Chris were presented with a maritime telescope to enable them to watch the marine traffic on the Gulf of Mexico. We wish Chuck and Chris happiness, good health and smooth seas as they sail on to new adventures.



NEW MEMBER COMPANIES

Colorado Springs Utilities

www.csu.com

Colorado Springs Utilities, located in Colorado Springs, Colorado, has been a community utilities partner for more than 100 years. Providing electricity, natural gas, water, and wastewater management, the company offers the convenience of all four services to homes and businesses while maintaining exceptional customer service and low prices.

As a locally-owned business with over 600,000 customers, the company delivers safe, environmentally responsible, reliable utilities services—from grid management to billing—around the clock.

Colorado Springs Utilities has a reputation for operational effectiveness, customer loyalty, and competitive services and is consistently recognized for service to its community and employees.

Columbia Pipeline Group

www.cpg.com

Headquartered in Houston, Texas, Columbia Pipeline Group (CPG) companies own and operate about 15,000 miles of strategically located interstate natural gas pipelines, integrated with one of the largest underground storage systems in North America. From the Gulf Coast to the Midwest, Mid-Atlantic and Northeast, CPG's systems connect premium natural gas supplies with some of the nation's strongest energy markets, serving customers in 16 states.

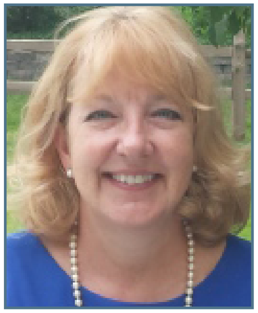
More than one trillion cubic feet of natural gas flows through CPG's pipeline and storage systems each year, providing competitively priced, clean energy for millions of homes, businesses and industries.

Talen Energy Corp.

www.talenenergy.com

Based in Pennsylvania, Talen Energy Corp. is one of the largest competitive energy and power generation companies in the United States. Talen Energy owns or controls about 15,000 megawatts of generating capacity in the Northeast, Texas and Montana that uses diverse fuel sources including carbon-free nuclear, clean and flexibly dispatched natural gas, efficient coal and renewable hydro. The output of its power plants is sold to Regional Transmission Organizations, Independent System Operators, utilities, cooperatives, municipalities, and power marketers, as well as commercial and industrial, small business, and residential customers.

NEW MEMBER REPRESENTATIVES



Cindy Stevens
Colorado Springs Utilities

Cindy Stevens has served as the Risk Manager for Colorado Springs Utilities for four years. As Risk Manager, she is responsible for the ongoing placement and management of large property and casualty programs, claims oversight, and managing contractual insurance/risk transfer for large, high-risk construction projects. Prior to her current role, she was employed in a variety of positions within enterprise risk management, insurance, global treasury, energy operations/trading and logistics.

Cindy holds an MBA in Finance & Energy Management from the Daniels College of Business at the University of Denver and a BA in Economics from Kalamazoo College. She is a board member of the Rocky Mountain Chapter of the Risk and Insurance Management Society, is on the AEGIS loss control task force committee, and has been a presenter at AEGIS policyholder and loss control conferences, RIMS National, and PRIMA.

Her industry designations include Certified Risk Manager (CRM), Certified Insurance Councilor (CIC), and CPCU 540. She is also ICS-300 and MGT 345 Certified through FEMA - National Incident Command (NIMS) Training. In 2002, Cindy received Treasury and Risk Management Magazine's Alexander Hamilton Bronze Award for Excellence in Risk Management for her work in simulations of claims data and loss allocation.

Cindy was born in Phoenix, Arizona and currently lives in Centennial, Colorado with her husband Robert and their three children.

Darren Smith
Columbia Pipeline Group

Darren Smith is the Director of Insurance for Columbia Pipeline Group in Columbus, Ohio. Before joining the company, he spent time in various roles in the energy industry at companies such as Tri-State Generation and Transmission, MarkWest Energy Partners, American Electric Power, and Duke Energy.

Darren was born in Columbus, Ohio and earned his Bachelor of Science degree in Mathematics from Michigan State University in 1993.

He currently resides in Columbus with his wife Kristin and their two children.

NEW MEMBER REPRESENTATIVES

Mark Moses
SEMCO Holding Corporation

Mark Moses currently serves as the vice president, chief financial officer and treasurer of SEMCO Holding Corporation based in his hometown of Port Huron, Michigan.

Mark has worked with SEMCO since 1988 and he has held positions in various departments, including Accounting, Finance, and Corporate Development. He attended Cedarville University in Cedarville, Ohio where he earned his Bachelor of Arts in Accounting and Business Administration.

He and his wife Kristine live in Port Huron with their two children.

Mark Wilten
PPL Corporation

Mark Wilten is vice president, treasurer & chief risk officer of PPL Corporation in Allentown, Pennsylvania. He has previously been employed as treasurer of Kensington Group, PLC in London, England and treasurer of Nissan North America in Franklin, Tennessee.

He received his Bachelor of Arts degree in Economics from Tufts University in 1989, as well as an MBA from the Booth School of Business at the University of Chicago in 1994.

Mark currently serves on the Investment Committee of the Good Shepherd Rehabilitation Network and as the VP of the Board of Directors of the Allentown Symphony Association.

Dean Bruno
Columbia Pipeline Group

Dean Bruno is the vice president and treasurer of Columbia Pipeline Group based in Columbus, Ohio. Before his current position, Dean was employed with NiSource, Inc. as director of corporate development. He also held management positions in Corporate Insurance, Strategic Planning, Financial Planning and Capital Allocation.

He earned his Bachelor of Arts in Economics from The Ohio State University in 1995 and his Master of Business Administration degree from Cleveland State in 1999.

Dean was born in Okinawa, Japan and lives in Columbus with his wife Christina and their two children, Ben and Finn.

NEW EIM EMPLOYEES

Kimberly Jenkins became a Senior Accountant at ECM in April 2015

Kimberly is responsible for corporate accounting as well as managing general ledgers and claims.

She was raised in Raleigh, North Carolina and attended the University of North Carolina at Wilmington where she received her Bachelor of Science in Business Administration with a concentration in Accounting in 2009 and her Master of Science in Accounting in 2011.

After graduation in 2011, Kimberly moved to Raleigh, to work with Deloitte and Touche as an auditor and then to Charleston, South Carolina to work remotely with the company. In 2013, she began working as an internal auditor with Kapstone Paper & Packaging Corp.

Kimberly lives in Charleston with her husband, John, and their boxer, Dixie. She loves the beach, traveling, reading, and the Carolina Panthers. She is excited to be working with EIM because she enjoys watching the evolution of an industry with such broad implications, as well as building on her knowledge of the energy industry, which she sees as a powerful tool in today's economy.

Melissa Johnson joined EIM in June of 2015 as a Claims Attorney

Prior to joining EIM, Melissa practiced law at the firm of Butler Pappas Weihmuller Katz Craig, LLP in Tampa, focusing on both federal and state insurance and litigation of property and liability claims.

Melissa is excited to be a part of the EIM team and looks forward to working in this unique environment. She enjoys working in-house and sees it as a chance to help build the organization, work with Member Companies to advance successful risk management strategies, and maitain a responsive, effective claims process for EIM's Members.

Prior to practicing law, Melissa worked as a claims consultant handling property, liability, and disability claims. She earned her Bachelor's degree in Psychology from the University of South Florida in 2002 and graduated with her Juris Doctor from Stetson University in 2009. Melissa is a member of The Florida Bar and the Hillsborough County Bar Association. She lives in Palm Harbor with her seven-year-old daughter and enjoys travel and outdoor activities such as hiking, camping, and fishing.

Vitaly Pisetsky joined EIM in April of 2015 as Underwriting Manager - Executive Liability

Vitaly held various underwriting positions at Freedom Specialty from 2007 to 2015, including Director of wholesale brokerage for commercial D&O and E&O. Prior to Freedom, Vitaly worked for AIG from 2003 to 2007.

Vitaly sees the energy industry as a crucially important sector of our economy and looks forward to gaining knowledge concerning the growth and changes in the sector. He sees company consolidation and regulatory scrutiny as particularly interesting topics in the field.

He emigrated from Russia to the United States in 1992 and attended the University of Wisconsin, Madison under a football scholarship where he earned his degree in International Relations with a focus on Business in 1999.

After college, Vitaly played professional football in the National Football League with the Chicago Bears before retiring from the game and entering the insurance industry. Vitaly is married and has a four year-old son.

Q2 2015 FINANCIAL REPORT

Balance Sheets

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

	6/30/15	12/31/14
Assets		
Investments	**$1,460,370**	$1,465,263
Cash and cash equivalents	**85,605**	88,557
Reinsurance recoverable on losses	**308,501**	331,613
Prepaid reinsurance premiums	**24,677**	40,223
Premium receivable	**10,700**	6,009
Other assets	**19,113**	6,841
Total assets	**$1,908,966**	$1,938,506
Liabilities and policyholders' surplus		
Liabilities:		
Reserves for losses and lae	**$756,380**	$712,316
Unearned premiums	**100,872**	114,216
Reinsurance premiums payable and funds held	**21,371**	31,491
Deferred income tax liability	**71,951**	76,900
Policyholder distributions payable	**-**	20,000
Accounts payable and accrued expenses	**10,018**	12,027
Income tax payable	**-**	13,256
Total liabilities	**960,592**	980,206
Policyholders' surplus:		
Members' account balance	**776,176**	780,897
Accumulated other comprehensive income	**172,198**	177,403
Total policyholders' surplus	**948,374**	958,300
Total liabilities and policyholders' surplus	**$1,908,966**	$1,938,506

Statements of Income and Comprehensive Income

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

	6/30/15	6/30/14
Underwriting revenue		
Net premiums earned	**$69,435**	$65,118
Other underwriting income	**1,085**	1,412
Total underwriting income	**70,520**	66,530
Underwriting expenses		
Net losses and loss adjustment expenses	**98,924**	101,548
Policy acquisition costs	**870**	1,106
Administrative expenses	**5,289**	5,273
Total underwriting expenses	**105,083**	107,927
Loss from underwriting	**(34,563)**	(41,397)
Investment income	**21,916**	23,130
Loss before policyholders' distribute	**(12,647)**	(18,267)
Policyholders' distributions	**-**	-
Loss before income taxes	**(12,647)**	(18,267)
Income tax benefit	**(7,926)**	(6,451)
Net loss	**(4,721)**	(11,816)
Other comprehensive income		
Change in unrealized gain on securities, net	**(5,205)**	29,937
Comprehensive (loss) income	**($9,926)**	$18,121

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

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