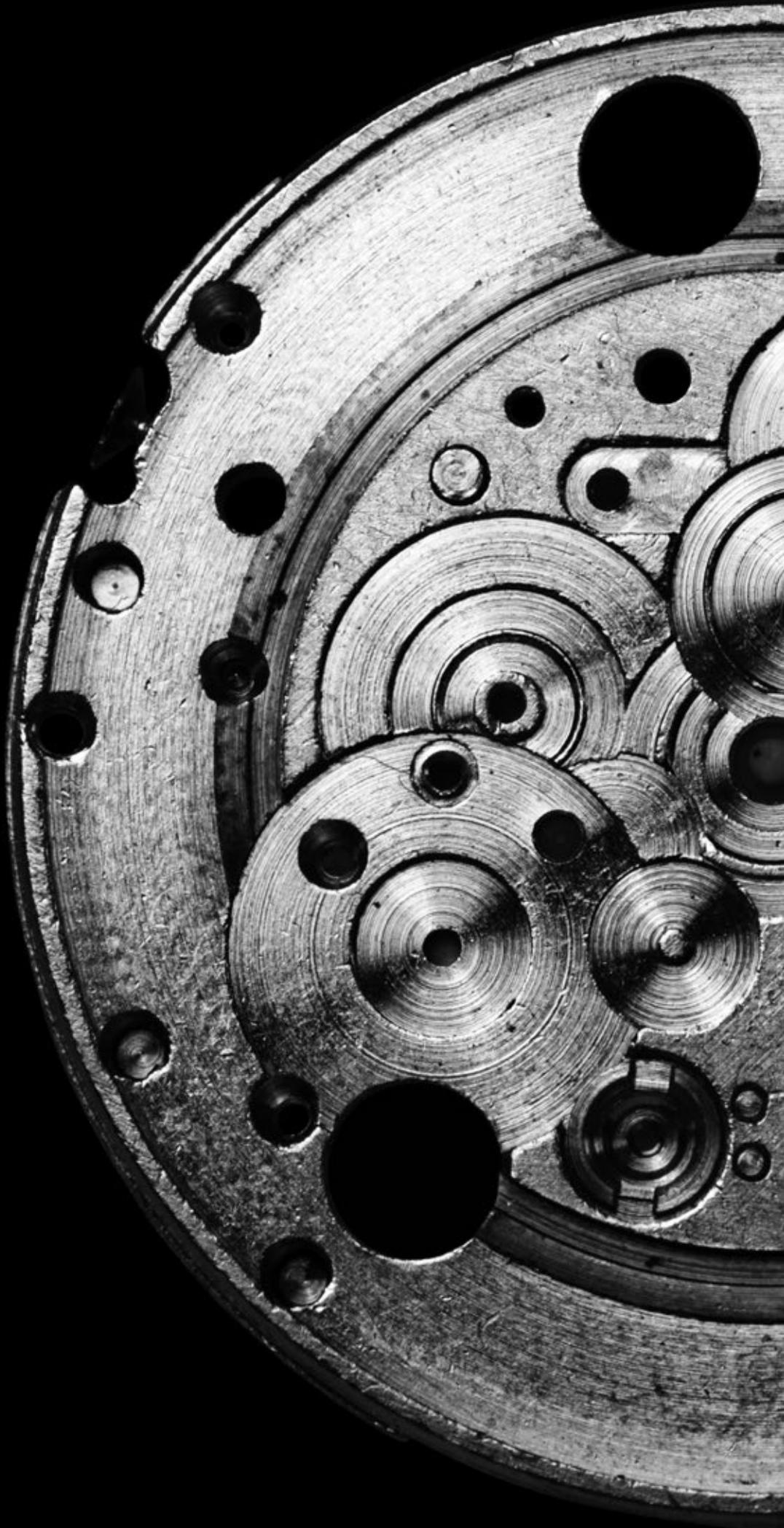




30  
YEARS



Oil Casualty Insurance, Ltd. is incorporated on May 14, 1986 in Hamilton, Bermuda by 14 oil and gas companies.

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1988

OCIL shareholder membership grows to thirty companies.

— 01

## PRESIDENT'S MESSAGE

In 2016, Oil Casualty Insurance, Ltd. (OCIL) celebrated its 30th year in business. Over the past three decades, OCIL has grown into a strongly capitalized and well diversified specialty insurer and reinsurer. From our inception in May of 1986, with founding capital from a handful of oil and gas companies and a loan from Oil Insurance Limited, OCIL has defied the odds in many ways to become a highly respected provider of insurance and reinsurance with an energy focus. Throughout this report, readers will observe many of the significant milestones that have shaped OCIL into the company it is today. While these highlight a few of the major landmarks, it has been the relentless passion and dedication

of the collective, rather than the efforts of any one individual, that places us where we presently stand.

I am pleased to report that this past year OCIL has once again delivered positive results to our shareholders. OCIL's audited Shareholders' Equity has now grown to \$539 million, while 2016 marked the sixth straight year of positive net income. OCIL continues to not only maintain a high renewal retention rate, but also to attract new accounts in spite of a challenging market environment. To that point, gross written premium grew 9% to \$166.6 million. The increase was primarily driven by a strong underwriting performance in the direct property and assumed



THIRTY YEARS IN BUSINESS IS A GREAT THING TO CELEBRATE, BUT IT IS OCIL'S CONTINUED FOCUS THAT WILL ENSURE FURTHER GROWTH.

1989

The value of OCIL shareholders' original investment increases by 134% since the Company's inception.

reinsurance lines, while a careful and selective underwriting process resulted in a slight reduction in written premium for the direct liability book. Underwriting income was ahead of our plan for all the major lines of business; direct liability, direct property and assumed reinsurance.

While underwriting income was positive, net income for the fiscal year was impacted by weak investment results in the 4th quarter as the bond markets reacted to the US elections. In spite of this, OCIL ended the year with positive net income and remains in a very strong capital position.

In 2016, OCIL continued to execute on our strategic plan, with the key focus areas of diversification and expansion. The diversification effort has delivered tangible results with the assumed reinsurance and direct property lines of business now providing an effective balance to the signature line of direct liability. To further this effort, OCIL also offers directors and officers and other management liability lines on a selective basis. Growth of the book overall is important to provide

scale and flexibility and we have now grown the number of direct insureds to 177.

The rise in number of new insureds has been assisted by OCIL's ability to write business outside of the energy industry. This new initiative was approved by the Board of Directors and Shareholders at the 2015 AGM and produced positive results in 2016.

During 2016, OCIL took an important strategic step to expand its distribution and underwriting diversification through the registration of a UK subsidiary, OCIL Limited. OCIL Limited has been approved as a corporate member at Lloyd's and is participating in a select number of Lloyd's syndicates for the 2017 underwriting year of account. This endeavor is expected to improve capital efficiency, expand current strategic relationships, and provide added underwriting risk diversification.

Looking forward, OCIL is in an increasingly competitive insurance environment coupled with challenging investment markets and lackluster commodity pricing

affecting many of our members. OCIL must trade through these environments and anticipate oncoming challenges.

Insurance risk is, by its very nature, unpredictable. This uncertainty is especially heightened when providing insurance protection to the inherently hazardous and complex energy classes. As a result, OCIL's ability to mitigate substantial impact to our balance sheet over our corporate existence has been paramount to our success. In the years where we did see severe losses, the Company routinely bounced back stronger than before. Leveraging our industry knowledge and support of our shareholders has been at the forefront of our success. We are singularly focused on providing best in class service and value to our shareholders and policyholders.

There is no doubt that technology is playing an increasingly important role in today's world. Therefore, it is crucial that we at OCIL have the best technical tools at our disposal to ensure that we are making informed decisions in an increasingly complex and fast

moving underwriting environment. Towards that end, OCIL is in the process of upgrading both our business intelligence capabilities and IT systems. From the first steps of accumulating data all the way to identifying market trends and highlighting emerging patterns, we use information to develop and support fact based decisions. In 2016 we saw results of how new technology helped us make better informed decisions quicker.

OCIL's future remains positive and I remain confident of the Company's continued success in the years to come. In closing, I wish to express my sincere gratitude to the Board of Directors for their valued advice and to our shareholders and policyholders for their continued support. I would also like to acknowledge the dedication and hard work of OCIL's management team and staff and thank them for their contributions to the Company during the year.



**Bertil C. Olsson**  
President and Chief Executive Officer

1990

OCIL repays in full the original \$50 million note from its affiliated company Oil Insurance Limited.



— 02

## OPERATIONS REVIEW

In May of 1986, OCIL was formed. The Company began underwriting critically needed excess liability and directors and officers liability insurance coverage, as it was not readily available in large enough quantities to energy companies. Today, despite uncertain conditions over our thirty year history, OCIL is a diversified entity providing property and liability coverage to shareholders and non-shareholder insureds, as well as reinsurance to insurance and reinsurance companies; many of whom provide protection to the global energy industry.

The use of a time piece as our theme for this year's annual report symbolizes the varying components of the Company that work together in unison and with precision to deliver financial success and enduring benefits to our various stakeholders. We have dedicated personnel in actuarial, claims, underwriting, information technology, human resources, finance and investments that work cohesively to keep time with changes in the insurance market, regulatory reporting, accounting requirements, investment strategies, etc.

OCIL enters into a \$100 million Revolving Credit Agreement to provide added liquidity.

## OCIL HAS EXPANDED AND DIVERSIFIED ITS UNDERWRITING OPERATIONS TO REDUCE VOLATILITY AND OPTIMIZE EFFICIENCY.

Over a decade ago, OCIL embarked on strategic initiatives aimed at reducing volatility in investment and underwriting results, expanding its customer base, growing capital, and diversifying its product lines. As Winston Churchill once said, "However beautiful the strategy, you should occasionally look at the result." I am pleased to report that fiscal year 2016 ended with a record number of insureds and Shareholders' Equity.

OCIL's underwriting operations consist of direct liability, directors and officers insurance, property insurance and property and casualty reinsurance. Each of these operations are addressed in greater detail below, however it is appropriate to state here that

each division successfully finished their first full year of underwriting beyond the energy industry. I am very pleased with the results of OCIL's diversification initiative and enthusiastic about our current expansion drive.

### **Liability Insurance**

The direct excess liability market has become increasingly competitive as we have seen downward pressure on rates across most energy segments, particularly exploration and production activities. Non-energy submission activity has been slow but began to pick up in late 2016 as our marketing efforts took hold. As of November 30, 2016, the casualty team reported a record total of 124 insureds, 4 of which are non-energy.

In 2016, the Company maintained a 95% renewal retention ratio, excluding mergers and acquisitions among insureds, which demonstrates the mutual loyalty between the Company and stakeholders. OCIL remains confident in its ability to serve the energy insurance industry as well as see opportunity for growth from other industries.

### **Property Insurance**

OCIL began underwriting direct property insurance for the energy and mining industries in late 2012 and expanded beyond energy industry risks in October of 2015. OCIL's entrance into direct property insurance hastened a rising tide that saw an emergence of Bermuda based companies begin underwriting direct property insurance. Previously, Bermuda was primarily known as a property catastrophe insurance market.

Although reduction in pricing persists, it has begun to moderate as markets encroach on minimum premium levels. Preference for large quota share programs by brokers and clients is prevalent in today's market place – a characteristic of a soft market. Regardless of the challenging property market that is awash in available capacity, there is still an opportunity to generate an acceptable margin by selective underwriting. As such, OCIL's property department remains an

area primed for continued growth. To ensure successful execution of our property initiative, the Company hired its second experienced property underwriter in March of 2016, and an underwriting assistant mid-year to support the team's growth. The decision to diversify into other industries was well timed in light of the challenging energy insurance market. As of November 30, 2016, the property team had a total of 88 accounts, 24 of which are non-energy; a significant increase from the 63 total accounts at 2015 fiscal year end.

### **Assumed Reinsurance Operations**

Since 2009, the Company's assumed reinsurance business has seen steady progress and is now the largest segment in terms of written and earned premium. The objective of our reinsurance operation is to develop long term partnerships that deliver underwriting expertise, new distribution and production sources, greater geographical scale, product line diversification, and diversified underwriting exposures to the Company's risk portfolio.

The diversification of having both assumed reinsurance and direct insurance operations has reduced overall earnings volatility. As was mentioned in the President's Message, I am pleased to report that 2016 was the sixth year in a row that OCIL generated positive net income.

1992

OCIL proves its resiliency after large losses emanating from Hurricane Andrew.

### Concluding Remarks

On OCIL's 30 year anniversary, there were many triumphs and milestones to reflect upon. In doing so, it is quite clear that it is due to the collaborative and supportive stakeholders that work together like a high quality time piece. Those stakeholders include the directors of both Oil Casualty Insurance, Ltd. and Oil Casualty Investment Company, Ltd. [OCICL], shareholders, non-shareholder insureds, ceded and assumed reinsurance partners and brokers. I'd also like to thank our remarkable employees who

consistently work with dedication and precision to execute on our strategic initiatives, while also providing superior service to our insureds. We are excited to celebrate three decades of service to the energy insurance industry and enthusiastically look forward to the years ahead.



**Jerry Rivers**

Senior Vice President and Chief Operating Officer

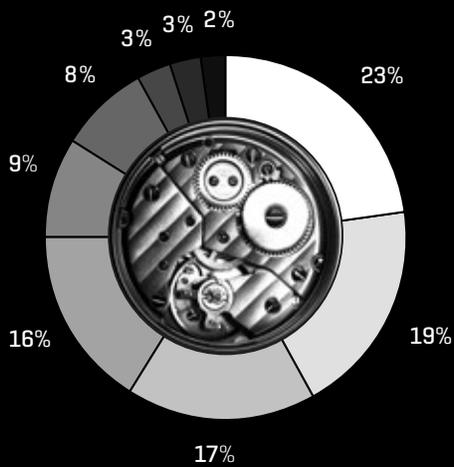
## GROSS WRITTEN PREMIUMS

2016	166,566
2015	152,684
2014	174,234
2013	152,720
2012	145,870
2011	82,105
2010	56,708
2009	49,028
2008	44,009
2007	51,125

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS AS OF NOVEMBER 30 OF EACH YEAR

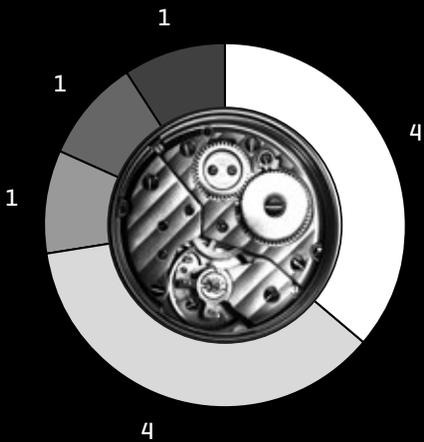
OCIL enacts an option to purchase liability coverage on a fixed cost basis without retrospective premium commitments.

## LIABILITY



### INDUSTRY SEGMENT (Percent of total insureds)

Utility	23%	Petrochemical/ Chemical	8%
Exploration & Production	19%	Mining	3%
Pipeline	17%	Non-Energy	3%
Refining & Marketing	16%	Other	2%
Integrated Oil	9%		

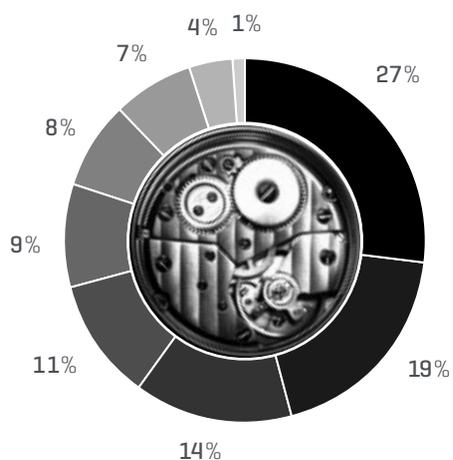


### NEW BUSINESS (Number of insureds)\*

Transportation	4	Exploration & Production	1
Refining & Marketing	4	Pipeline	1
Utility	1		

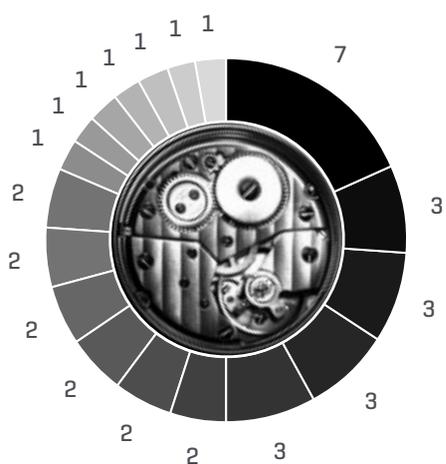
\*WRITTEN IN THE FISCAL YEAR ENDING NOVEMBER 30, 2016

## PROPERTY



### INDUSTRY SEGMENT (Percent of total insureds)

Non-Energy	27%	Exploration & Production	8%
Mining	19%	Utility	7%
Refining & Marketing	14%	Integrated Oil	4%
Petrochemical/ Chemical	11%	Other	1%
Pipeline	9%		



### NEW BUSINESS (Number of insureds)\*

Retail	7	Refining & Marketing	2
Mining	3	Metals	2
Manufacturing	3	Pharmaceutical	1
Utility	3	Petrochemical/ Chemical	1
Exploration & Production	3	Public Entity	1
Aerospace & Defense	2	Real Estate	1
Pipeline	2	Consumer Goods & Services	1
Hospitality	2	Information Technology	1
Transportation	2	Schools	1

\*WRITTEN IN THE FISCAL YEAR ENDING NOVEMBER 30, 2016

## INVESTMENT REVIEW

In recognition of OCIL's 30th anniversary, this year's annual report theme is certainly apropos. A quality time piece requires the assembly of a number of "working parts", perfectly fit and crafted together to produce a masterpiece that will last for generations to come. The most important thing to note with any time piece is that although the movements may seem overwhelmingly intricate, each part has its purpose and function and no watch can work properly without each of its components. Analogous to OCIL, it too has a number of "working parts" - underwriting, claims, actuarial,

information technology, finance and investments, Board of Directors etc. - which, when molded together and synchronized, is a perfect fit to produce a quality company that can withstand the test of time. I am pleased to report that OCIL has withstood the test of time since its incorporation on May 14, 1986. At that time, OCIL had 14 insureds [all shareholders], \$149.5 million in investments and capital stock and contributed surplus of \$64 million. As at November 30, 2016, OCIL has 177 insureds, \$1.046 million in cash and investments and Shareholders' Equity of \$539.1 million.

SUCCESSFUL IMPLEMENTATION OF OCIL'S STRATEGIC INITIATIVES REQUIRES EACH OF THE COMPANY'S DEPARTMENTS TO WORK COHESIVELY AND WITH PRECISION.

The Company reorganizes and returns \$137 million to the Shareholders.

One “working part” within OCIL is the management of its invested assets. The 2016 investment environment was extremely challenging and an early indication is for 2017 to be much of the same.

2016 was marked by a number of events which had a meaningful impact on global financial markets. In the first quarter, crude oil prices declined below \$30 a barrel for the first time since December 2003. Economic data on China showed that its economy grew at 6.9% in 2015, the slowest rate since at least 1990, sparking speculation of more economic stimulus by the Chinese government. In a barrage of monetary stimulus to address lower GDP forecasts, the European Central Bank hiked its monthly asset purchases and said it will pay banks to borrow to boost lending. In the second quarter, the United Kingdom voted to leave the European Union, causing mass confusion about the future of European trade, the value

of the British pound and Britain’s financial institutions. British Prime Minister David Cameron tendered his resignation. In November, the populist trend continued with Donald Trump’s surprise election victory, fueling an equity market rally as investors bid up stocks in anticipation of financial deregulation, lower taxes and infrastructure spending.

After a rough start in 2016, which saw the S&P 500 Index being down almost 10% during the first two weeks, management was successful in positioning our investment portfolio to achieve a 1.7% annualized return on OCIL’s invested assets. From a tactical standpoint, the portfolio was underweight global fixed income and overweight global equities and fund of hedge funds for the majority of 2016. At November 30, 2016, OCIL’s investment allocation was comprised of 65% global bonds, 8% fund of hedge funds, 9% global equities, 13%

**OCIL IS GREATER THAN THE SUM OF ITS PARTS; WITH AN ENDURING FOUNDATION AND STRATEGIC FOCUS, IT IS SET TO CONTINUALLY EVOLVE AND GROW.**

bonds held in insurance trust and 5% cash.

As mentioned in previous annual reports, we spend considerable time and effort in reviewing our investment strategy and approach, to ensure we have an efficient portfolio that meets our investment objectives. During the year we conducted a detailed review of the various strategies invested within our fund of hedge fund allocation. In collaboration with our investment board, we decided to adjust our hedge fund strategy to enhance portfolio diversification and reduce correlation to global equity markets.

The Company ended the year with record Shareholders' Equity of \$539.1 million. For the year, OCIL reported net income of \$1.7 million, which included net underwriting income of \$12.6 million; net investment gain of \$4.3 million; offset by general and

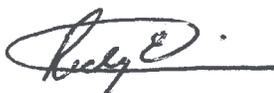
administrative expenses of \$15.2 million.

As we progress through 2017 and beyond, OCIL will build upon the successes and learn from the shortfalls during the past thirty years to ensure that the "working parts" remain synchronized. With respect to investments, our long term focus, diligence and disciplined approach will continue. It is imperative that we keep looking forward, anticipate potential changes in the geopolitical and economic environment, and more importantly, prepare OCIL for the potential impact that these changes might bring. An example of this pertains to the current interest rate environment, specifically in the U.S. 2016 might have witnessed the end of a 30-year U.S. Treasury bull market, as the Federal Reserve raised interest rates in December and two or three more increases are expected in 2017. Given OCIL's sizable allocation to global fixed

OCIL extends  
eligibility to include  
mining companies.

income, our key focus will be to remain disciplined with oversight from our investment board and to ensure the portfolio is well-positioned and sufficiently flexible to weather the anticipated interest rate outlook.

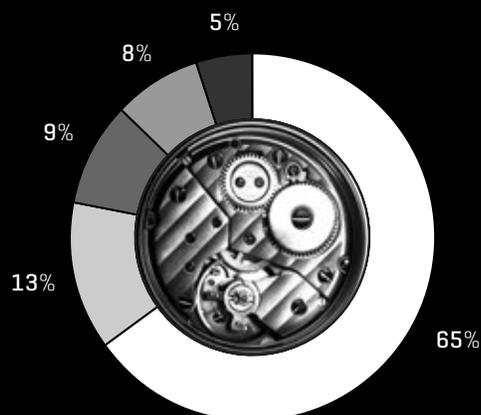
In closing, I would like to acknowledge the ongoing dedication of OCIL's Board of Directors and OCICL's Board of Directors. Together with my team of talented colleagues within finance and investments, they provide vital guidance, support and leadership. As always, I thank you and am grateful for your invaluable contributions.



**Ricky E. Lines**

Senior Vice President and Chief Financial Officer





### ASSET ALLOCATION

Global Bonds	65%
Bonds Held in Trust	13%
Global Equity	9%
Funds of Hedge Funds	8%
Cash	5%

### STRATEGIC PORTFOLIO RETURN\*



### TOTAL PORTFOLIO RETURN\*\*



FISCAL YEAR ENDED NOVEMBER 30, 2016

\* PORTFOLIO RETURNS EXCLUDE CASH AND BONDS IN TRUST

\*\* PORTFOLIO RETURNS INCLUDE CASH AND BONDS IN TRUST

## TEN-YEAR FINANCIAL HISTORY

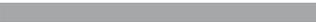
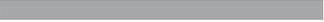
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>PREMIUM</b>										
Gross Written Premium	166,566	152,684	174,234	152,720	145,870	82,105	56,708	49,028	44,009	51,125
Earned Premium	153,990	155,459	159,893	145,396	111,924	64,919	49,690	45,073	46,048	61,651
<b>FINANCIAL CONDITION</b>										
Net Income/(Loss)	1,667	4,748	3,607	39,648	28,359	29,614	(19,287)	124,616	(160,270)	59,554
Total Assets	1,473,583	1,317,898	1,322,813	1,247,559	1,231,870	1,082,263	960,328	1,065,147	1,261,400	1,344,747
Shareholders Equity	539,121	537,464	532,701	529,094	489,471	461,117	431,503	450,785	326,174	486,469
<b>LOSS AND LOSS EXPENSES</b>										
Gross Losses and Loss Expenses	121,680	63,021	132,781	17,884	137,316	21,642	(9,405)	(2,707)	81,698	(7,555)
Reinsurance Recovery	54,018	5,744	28,336	(49,599)	36,733	21,449	(88,705)	-	92,300	-
Net-Losses and Loss Expense	67,662	57,277	104,445	67,483	100,583	193	79,300	(2,707)	(10,602)	(7,555)

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS AS OF NOVEMBER 30 OF EACH YEAR

OCIL extends  
eligibility to include  
utility companies.

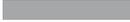
## SUMMARY OF

## TOTAL ASSETS

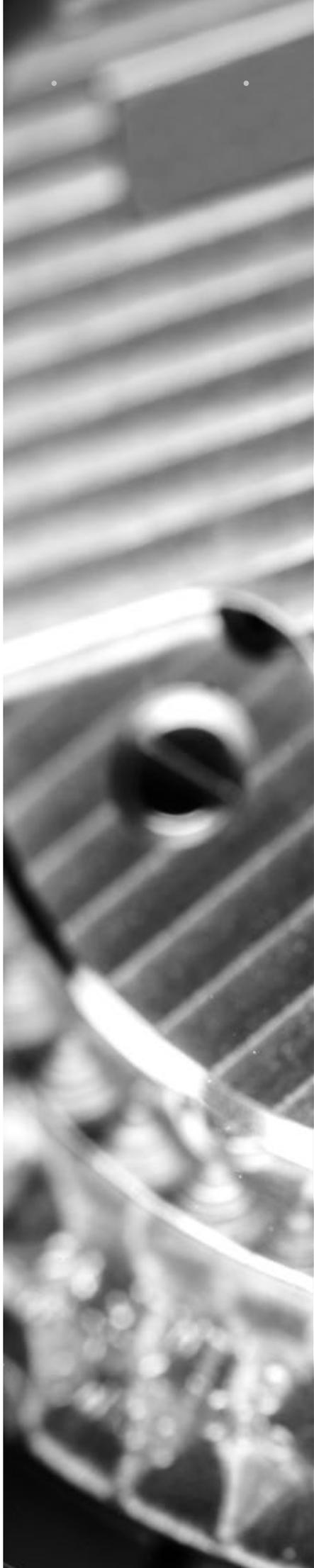
2016		1,473,583
2015		1,317,898
2014		1,322,813
2013		1,247,559
2012		1,231,870
2011		1,082,263
2010		960,328
2009		1,065,147
2008		1,261,400
2007		1,344,747

## SUMMARY OF

## SHAREHOLDERS' EQUITY

2016		539,121
2015		537,464
2014		532,701
2013		529,094
2012		489,471
2011		461,117
2010		431,503
2009		450,785
2008		326,174
2007		486,469

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS AS OF NOVEMBER 30 OF EACH YEAR



2001

OCIL surpasses the \$1 trillion mark in both Gross Assets and Gross Revenues insured.

— 04

# CONSOLIDATED FINANCIAL STATEMENTS

OCIL IS BUILDING UPON  
THE SUCCESSES OF THE  
PAST THIRTY YEARS  
TO DELIVER THE BEST  
POSSIBLE RESULTS FOR  
ALL STAKEHOLDERS.



OCIL withdraws from the directors and officers insurance market due to lack of demand.

## CONSOLIDATED BALANCE SHEETS

Years Ended November 30, 2016 and 2015

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents (Notes 2(j) and 4(b))	\$93,058	\$106,844
Investments in marketable securities and derivatives (Notes 2(d), 2(e), 3 and 4)	765,712	698,887
Other investments (Notes 2(d) and 3)	85,203	112,738
Restricted assets (Note 4 (e))	150,244	89,651
Investment sales pending settlement	52,882	27,708
Accrued investment income	4,132	4,339
Losses recoverable from reinsurers (Notes 5 and 9)	192,944	165,567
Accounts receivable	81,514	55,533
Funds withheld	15,822	22,757
Prepaid reinsurance premiums	17,968	20,947
Other assets (Notes 2(k))	14,104	12,927
<b>Total assets</b>	<b>\$1,473,583</b>	<b>\$1,317,898</b>
<b>LIABILITIES</b>		
Outstanding losses and loss expenses (Note 5)	\$522,691	\$441,055
Unearned premiums	109,739	97,163
Securities sold short (Notes 2(i), 3 and 4)	18,022	24,284
Investment purchases pending settlement	82,691	25,578
Loan payable (Note 2(k), 6 (a) and 6(c))	141,144	145,934
Reinsurance premium payable	36,616	26,976
Amounts due to affiliates (Note 8(b))	949	1,054
Accounts payable	22,610	18,390
<b>Total liabilities</b>	<b>\$934,462</b>	<b>\$780,434</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common shares (Note 7)	280	290
Retained earnings	538,841	537,174
<b>Total shareholders' equity</b>	<b>539,121</b>	<b>537,464</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$1,473,583</b>	<b>\$1,317,898</b>

See accompanying notes to consolidated financial statements

# CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended November 30, 2016 and 2015

[EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS]	<b>2016</b>	2015
Gross premiums written [Note 12]	\$166,566	\$152,684
Change in unearned premiums	[12,576]	2,775
Premiums earned [Note 12]	153,990	155,459
Premiums ceded	50,936	42,823
Change in prepaid reinsurance premiums	2,979	1,204
Premiums ceded	53,915	44,027
Net premiums earned [Note 12]	100,075	111,432
Losses and loss expenses incurred, net of reinsurance [Note 5 and 12]	[67,662]	[57,277]
Commission and brokerage fees, net [Note 12]	[19,796]	[19,109]
Net underwriting income [Note 12]	12,617	35,046
Interest income	15,118	16,125
Net gains [losses] on investments [Note 3]	3,026	[14,209]
Dividends	1,649	1,418
Investment advisory and custodian fees	[3,589]	[4,609]
Interest and debt expense [Note 6(a) and 6(c)]	[11,937]	[12,353]
Net investment income [loss]	4,267	[13,628]
General and administrative expenses [Note 8(a)]	[15,217]	[16,670]
Net income	\$1,667	\$4,748

See accompanying notes to consolidated financial statements

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended November 30, 2016 and 2015

[EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS]	Common Shares		Retained Earnings	Total
	Number of Shares			
Balance at November 30, 2014	55	\$275	\$532,426	\$532,701
Shares issued in year	3	15	-	15
Shares redeemed in year	-	-	-	-
Net income	-	-	4,748	4,748
Balance at November 30, 2015	58	290	537,174	537,464
Shares issued in year	1	5	-	5
Shares redeemed in year	(3)	(15)	-	(15)
Net income	-	-	1,667	1,667
Balance at November 30, 2016	56	\$280	\$538,841	\$539,121

See accompanying notes to consolidated financial statements

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended November 30, 2016 and 2015

[EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS]	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$1,667	\$4,748
Adjustments to reconcile net income to cash (used) provided by operating activities:		
Amortization of deferred debt issuance costs	77	132
Net (gains) losses on investments	(3,026)	14,209
Proceeds from the sale of securities sold short	82,440	88,453
Purchase of securities sold short	(82,794)	(90,618)
Proceeds from the sale of investments	1,218,258	1,067,609
Purchase of investments	(1,228,204)	(1,079,899)
Changes in operating assets and liabilities:		
Accrued investment income	207	730
Losses recoverable from reinsurers	(27,377)	(5,744)
Accounts receivable	(25,981)	1,084
Funds withheld	6,935	3,881
Prepaid reinsurance premiums	2,979	1,204
Other assets	(1,177)	(932)
Outstanding losses and loss expenses	81,636	25,009
Unearned premiums	12,576	(2,775)
Reinsurance premium payable	9,640	7,572
Amounts due to affiliates	(105)	246
Accounts payable	4,220	(2,672)
Restricted assets	(60,247)	(22,958)
Net cash (used) provided by operating activities	(8,276)	9,279
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repurchase of deferrable subordinated debentures	(5,500)	-
Redemption of common shares, net	(10)	15
Net cash (used) provided by financing activities	(5,510)	15
Net (decrease) increase in cash and cash equivalents	(13,786)	9,294
Cash and cash equivalents at beginning of year	106,844	97,550
Cash and cash equivalents at end of year	\$93,058	\$106,844
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$11,605	\$11,872

See accompanying notes to consolidated financial statements

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

## 1. NATURE OF THE BUSINESS

Oil Casualty Insurance, Ltd. (the "Company") was incorporated under the laws of Bermuda on May 14, 1986.

The Company's shareholders comprise companies operating in the energy industry. The Company provides property and casualty insurance and reinsurance on a global basis.

Through October 1, 2015, the Company's insurance business insured the risks of companies operating in the energy industry while its assumed reinsurance business mainly represented the property and casualty risks of ceding companies that provide such insurance primarily to energy companies. Effective October 1, 2015, the Company expanded its operations to insure and reinsure the same risks of companies outside of the energy industry. The Company holds a Class 3B license under The Insurance Act 1978 of Bermuda and related regulations.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ["U.S. GAAP"] which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses

during the reporting period. Actual results could differ from these estimates. The following are the significant accounting policies adopted by the Company:

### (a) Principles of consolidation

These Consolidated Financial Statements include the results of the Company and its wholly-owned subsidiaries, Oil Casualty Investment Corporation Ltd. ("OCICL") and OCIL Limited. OCICL was established to hold the Company's investment portfolios. OCIL Limited is a corporate member established during 2016 to participate in Lloyd's business incepting in 2017. All intercompany transactions are eliminated on consolidation.

### (b) Premiums and acquisition costs

Insurance and assumed reinsurance premiums earned are recognized as income in the consolidated statement of operations.

Insurance premiums are recorded as written on the inception date of the policy. Insurance premiums are recognized as income generally on a basis proportionate with the coverage period within the underlying contracts. Unearned premiums represent the portion of premiums written that relate to the unexpired terms of policies in force.

Assumed reinsurance premiums are recorded at the inception of the reinsurance contract and are estimated based upon information in underlying contracts and information provided by clients and/or brokers. Assumed reinsurance premiums written are earned generally on a basis proportionate with the coverage period. Assumed

reinsurance premiums written not yet recognized as revenue are recorded on the consolidated balance sheets as unearned premiums.

Due to the nature of reinsurance, ceding companies routinely report and remit premiums to the Company subsequent to the contract coverage period. Consequently, premiums written and receivable include amounts reported and billed by the ceding companies, supplemented by estimates of premiums that are written but not reported. The Company's premium estimation process considers the terms and conditions of the reinsurance contracts and assumes that the contracts will remain in-force until expiration.

The Company's estimates of written premiums may be affected by early cancellation, election of contract provisions for cut-off and return of unearned premiums or other contract disruptions. Changes in assumed reinsurance premium estimates are expected and may result in significant adjustments in any period. These estimates change over time as additional information regarding the underlying exposures insured is obtained. Any subsequent differences arising on such estimates are recorded as premiums written in the period they are determined.

In the ordinary course of business, the Company uses both treaty and facultative reinsurance to minimize its net loss exposure to any one catastrophic loss event or to an accumulation of losses from a number of smaller events. Premiums ceded are pro-rated over

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

2. Summary of significant accounting policies (continued). (b) Premiums and acquisition costs (continued).

the period the reinsurance coverage is provided with the unearned portion being deferred as prepaid reinsurance premiums.

Reinstatement premiums ceded are recognized and accrued at the time losses are incurred and are expensed pro-rata over the reinstated coverage period. Such accruals are based upon actual contractual terms applied to the amount of losses expected to be paid. However, there is a significant amount of management judgment involved with respect to the estimated amount of loss reserves as described in Note 2(c). It is at least reasonably possible that management will revise this estimate significantly in the near term. Any changes in the assessment of the ceded reinsurance premium will be recorded in the period in which it is determined.

Acquisition costs, consisting primarily of commissions, are deferred and charged to income on a pro-rata basis over the term of each policy or reinsurance contract.

## **(c) Outstanding losses and loss expenses and losses recoverable from reinsurers**

Outstanding losses and loss expenses include reserves for reported unpaid losses and loss expenses and for losses incurred but not reported, including an estimate of the loss adjustment expenses. The reserve for outstanding losses and loss expenses for the Company's insurance and reinsurance operations is established by management based on claims reported from insureds or amounts reported from ceding companies at or before the balance sheet date, and represent the ultimate cost

of events or conditions that have been reported to or specifically identified by the Company. In addition, a provision for adverse development for reported notifications and for losses incurred but not reported ("IBNR") is estimated by management based on the recommendations of an independent actuary using the past loss history of the Company and industry data. In establishing a provision for unpaid claims and claims expenses related to environmental exposure and clean-up, management considers facts currently known and the current state of laws and litigation.

Liabilities are recognized for known claims when sufficient information has been developed to indicate the involvement of a specific policy, and management can reasonably estimate the Company's liability. A substantial degree of judgment is required in assessing the ultimate cost of outstanding losses and the related amounts recoverable from reinsurers. It is at least reasonably possible that management will revise these estimates significantly in the near term. Any changes in the assessment of the ultimate cost of claims notified to date will be recorded in the period in which they are determined.

Unidentified events or conditions may have occurred which may be validly notified to the Company in subsequent periods and result in losses. Any such losses will be subject to the limits and conditions of the related policies in force at the time of notification.

Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

## **(d) Investments in marketable securities, other investments and investment income**

Investments are classified as trading and are carried in the Consolidated Balance Sheet at fair value. Realized and unrealized gains and losses are included in the Consolidated Statement of Operations. Security transactions are accounted for on a trade date basis with investment purchases and sales pending settlement accrued in the Consolidated Balance Sheet.

Other investments consist of investments in hedge funds and fund of funds and are carried at fair value. The units of account that are valued by the Company are its interest in the funds and not the underlying holdings of such funds. Thus, the inputs used by the Company to value its investments in each of the funds may differ from the inputs used to value the underlying holdings of such funds. These funds are stated at fair value, which ordinarily will be the most recently reported net asset value ("NAV") as reported by their investment managers or third party administrators. The use of net asset value as an estimate of the fair value for investments in certain entities that calculate the net asset value is a permitted practical expedient. The change in the fair value of hedge fund investments is included in the Consolidated Statement of Operations.

Investment gains and losses are computed using the average cost of securities sold and are recorded in the Consolidated Statement of Operations. Dividend income, net of withholding tax, is recorded when declared. Interest income is accrued to the balance sheet date.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

Short term investments comprise securities due to mature within one year of the balance sheet date.

### (e) Derivative financial instruments

The Company recognizes all derivatives as either assets or liabilities in the Consolidated Balance Sheet and measures those instruments at fair value. All changes in the fair value of derivatives are recorded in the Consolidated Statement of Operations. None of the derivatives used by the Company are designated as accounting hedges. Derivatives are used by the Company to mitigate certain risks inherent in holding the underlying debt or equity securities, or are designed to provide exposure to certain sectors or markets and to enhance investment returns. The unrealized gains or losses arising from derivative financial instruments are not separately classified as assets or liabilities in the Consolidated Balance Sheet; they are classified with the underlying debt and equity securities they are designed to hedge or enhance [see Notes 3 and 4].

### (f) Deferred debt issuance costs

The Company defers costs directly associated with the issuance of debt instruments and amortizes such costs on a straight-line basis over the term of the debt agreements. The amortization is reported within interest and debt expense in the Consolidated Statement of Operations.

### (g) Translation of foreign currency investments and losses

The costs of foreign currency investments are translated at exchange rates in effect on the date of purchase; fair values are translated at year end exchange

rates. Reserves for outstanding losses, accounts receivable and payable and investments in trust which are denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Realized and unrealized exchange gains and losses are included in the Consolidated Statement of Operations.

### (h) Fair value of financial instruments

The following methods and assumptions are used by the Company in estimating the fair values of its financial instruments:

**Cash and cash equivalents:** The carrying amounts reported in the Consolidated Balance Sheet for these instruments approximate their fair values.

**Investments in marketable securities:** Fair values of fixed maturity securities, long and short positions in equity securities and short term investments are based on market prices quoted by broker dealers in that market or quoted on the relevant exchange.

**Other investments:** Hedge fund investments, which are investments in fund of funds and investments in other hedge funds, are valued using the net asset values obtained from the investment managers or the administrators of the respective investment funds. These investment entities generally carry their investments at fair value.

**Derivatives:** The fair value of these instruments are based upon quoted market prices. Where quoted market prices are not available, fair value is based upon prices provided by the counterparty.

**Loan payable:** The fair value of the outstanding debentures approximate their carrying value as the Company pays interest at market rates.

**Other assets and liabilities:** The fair values of restricted assets, investment purchases and sales pending settlement, amounts due to affiliates, reinsurance premiums payable, accounts receivable, funds withheld and accounts payable approximate their carrying value due to the immediate or short term maturity of these financial instruments.

The estimates of fair value presented herein are subjective in nature and are not necessarily indicative of the amounts that the Company could realize in a current market exchange. Any differences are not expected to be material. All non-financial instruments such as unearned premiums, prepaid reinsurance premiums, other assets and financial instruments related to insurance contracts such as outstanding losses and loss expenses and losses recoverable from reinsurers are excluded from fair value disclosure. Thus the total fair value amounts cannot be aggregated to determine the underlying economic value of the Company.

### (i) Short selling

The Company may sell a security it does not own in anticipation of a decline in the fair value of that security. The Company must borrow the security or enter into an arrangement to borrow the security before the Company sells a security short. The Company is required to maintain collateral with the broker-dealer from which the security was borrowed. A gain, limited to the price at which the Company sold the security short, or a loss, unlimited

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

2. Summary of significant accounting policies (continued).

(i) Short selling (continued)

in size, will be recognized upon the termination of a short sale. The Company is also subject to the risk that it may be unable to reacquire a security to close a short position except at a price substantially in excess of the last quoted price. Realized and unrealized gains and losses arising from short sales are recorded within net gains on investments in the Consolidated Statement of Operations. Securities sold short are recorded as liabilities in the Consolidated Balance Sheet at fair value.

## (j) Cash and cash equivalents

For the purposes of the Consolidated Statement of Cash Flows, cash equivalents include time deposits with an original maturity period of ninety days or less.

As at November 30, 2016, cash in the amount of \$26.0 million (2015: \$36.9 million) was on deposit with counterparties as collateral for securities sold short and positions

held in derivative financial instruments (Note 4).

## (k) Recently adopted accounting pronouncements

During the year ended November 30, 2015, the Company elected to early adopt the guidance issued in ASU No. 2015-7, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)", which removed the requirement to categorize within the fair value hierarchy all investments measured using the net asset value per share practical expedient in all periods presented. The adoption of this accounting guidance did not have a material impact on the Company's financial statements.

During the year ended November 30, 2016, the Company retrospectively adopted guidance issued in ASU No. 2015-03 "Simplifying the Presentation of Debt Issuance Costs". ASU 2015-03 requires that debt

issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the associated debt liability. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. The impact on the Company's consolidated balance sheet at November 30, 2015, was to reduce each of other assets and loan payable by \$2.5 million, respectively, which represented the deferred debt issuance costs previously recorded in other assets and reclassified as an offset to loan payable. There was no net impact on the Company's Consolidated Statements of Operations, Consolidated Statement of Cash Flows or Consolidated Statement of Changes in Shareholders' Equity as a result of the retrospective adoption of ASU 2015-03.

## 3. INVESTMENTS

The fair values of investments as at November 30, 2016 and 2015 are as follows:

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	2016	2015
Short Term Investments	\$142,085	\$108,042
Derivatives, net	5,416	(116)
Equity Securities	87,417	124,276
Fixed Maturities		
US Treasury and Government Agency	143,007	80,192
State and Municipal Bonds	12,542	14,578
Non-US Government Bonds	90,885	105,531
Supranationals	3,774	7,709
Corporate Bonds	170,940	161,610
Asset-Backed Securities	41,810	37,360
Mortgage-Backed Securities	67,836	59,705
Total Fixed Maturities	530,794	466,685
Total Investments in Marketable Securities and Derivatives	\$765,712	\$698,887
Other Investments	\$85,203	\$112,738

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

In the previous table, mortgage-backed securities issued by US government agencies are combined with other mortgage-backed securities held and are included in the category "Mortgage-Backed Securities". At November 30, 2016, approximately 66% [2015: 43%] of the total mortgage-backed holdings are represented by investments in GNMA, FNMA and FHLMC securities. The remainder of the mortgage exposure consists of collateralized mortgage obligations and non-government issued securities, the majority of which have investment grade credit ratings.

The credit quality of fixed maturities and short term investments as at November 30, 2016 and 2015, are as follows:

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	2016	2015
US Government and Agency	\$213,459	\$142,743
AAA	116,761	94,150
AA	69,055	78,956
A	104,985	94,621
BBB	105,865	100,906
Below BBB	62,754	63,351
Total fixed maturities and short term investments	\$672,879	\$574,727

The Company's methodology for assigning credit ratings to fixed maturities and short term investments uses the lower rating as determined by Standard & Poor's and Moody's Investors Services. Securities with a credit rating below investment grade as at November 30, 2016, had an unrealized loss of \$1.6 million [2015: \$3.0 million

loss] at the same date, which has been recorded in the Consolidated Statement of Operations.

At November 30, 2016, \$66.9 million [2015: \$90.4 million] of investments are held in joint custody accounts with Oil Investment Corporation Ltd., a company affiliated through common shareholders. Under

the terms of the joint custody agreement the Company owns 4.0% [2015: 5.5%] of each security held in these joint custody accounts. The Company records its proportionate share of the investment assets, liabilities, income, net realized and unrealized gains and losses within these Consolidated Financial Statements.

The contractual maturities of fixed maturities and short term investments as at November 30, 2016 and 2015 are as follows:

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	2016	2015
Due in one year or less	\$142,085	\$108,042
Due after one year through five years	193,898	145,496
Due after five years through ten years	112,084	123,019
Due after ten years	115,166	101,105
	563,233	477,662
Asset-Backed Securities	41,810	37,360
Mortgage-Backed Securities	67,836	59,705
Total Fixed Maturities and short term investments	\$672,879	\$574,727

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties and the lenders may have the right to put or sell the securities back to the borrower.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

## 3. Investments (continued).

The gross realized gains and losses on investments and the change in unrealized gains and losses for the years ended November 30, 2016 and 2015 are as follows:

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	2016	2015
Gross realized gains on investments	\$100,297	\$102,460
Gross realized losses on investments	(106,197)	(109,544)
Gross realized gains on derivative instruments	48,968	72,450
Gross realized losses on derivative instruments	(51,404)	(49,650)
Gross realized gains on other investments	129	5,324
Gross realized losses on other investments	(583)	(16)
Change in net unrealized gains and losses during the year on investments	(6,313)	(33,459)
Change in net unrealized gains and losses during the year on other investments	(375)	(3,115)
Change in net unrealized gains and losses during the year on derivative instruments	5,532	1,326
Change in net unrealized gains and losses during the year on restricted assets	346	15
Net gains [losses] on investments	\$3,026	\$(14,209)

During the year ended November 30, 2016, the change in net unrealized gains and losses on investments was attributable to movements in the fair value of the Company's fixed maturities and short term investments of a \$4.6 million gain [2015: \$31.6 million loss] and equity securities of a \$1.7 million gain [2015: \$1.9 million loss].

Under U.S. GAAP the Company is required to determine the appropriate level in the fair value hierarchy for each fair value measurement. The fair value hierarchy prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels. It gives the highest priority to quoted prices [unadjusted] in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Level

1 financial instruments include certain short duration instruments such as money market funds, short term investments, U.S. treasury securities and exchange traded equities.

Level 2 inputs are those which are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar observable market data. Level 2 financial instruments include sovereign debt, corporate debt, U.S. agency and non-agency mortgage and asset-backed securities and derivatives.

Level 3 includes financial instruments whose value is based on valuation techniques that use significant inputs which are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. In making the assessment, the Company considers factors specific to the asset or liability and such an

assessment will involve significant management judgment. Because of the inherent uncertainty in the valuation of these Level 3 investments, fair values of such investments may differ from the values that would have been used had a ready market for these investments existed, and the differences could be material.

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable [Level 1 and 2] and unobservable [Level 3].

Fair value prices for all securities in the fixed maturities portfolio are independently provided by the investment custodian and the investment managers, which each utilize internationally recognized independent pricing services. The Company records the unadjusted price provided by the investment

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

custodian or the investment accounting service provider and validates this price through a process that includes, but is not limited to: [i] comparison to the price provided by the investment manager, with significant differences investigated; [ii] quantitative analysis [e.g. comparing the quarterly return for each managed portfolio to its target benchmark, with significant differences identified and investigated]; [iii] evaluation of methodologies used by external pricing sources to calculate fair value; and [iv] comparing the price to the Company's knowledge of the current investment market.

The independent pricing services used by the investment custodian, investment accounting service provider and investment managers obtain actual transaction prices for securities that have quoted prices in active markets. Each pricing service has its own proprietary method for determining the fair value of securities that are not actively traded. In general, these methods involve the use of "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker/dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value. In addition, pricing services use valuation models to develop prepayment and interest rate scenarios.

The fair values of short-term investments are determined based on observable inputs that may include the spread above the

risk-free yield curve, reported trades and broker-dealer quotes.

For all assets classified as Level 2, the market approach is utilized. The significant inputs used to determine the fair value of those assets classified as Level 2 are as follows:

- US government agency securities fair values were based on observable inputs that may include the spread above the risk-free yield curve, reported trades and broker/dealer quotes. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.

- Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs include the spread above the risk-free yield curve, reported trades and broker/ dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker/ dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.

- Municipal securities consist primarily of bonds issued by U.S.

domiciled state and municipality entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker/ dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.

- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker/dealer quotes, prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.

- Residential and commercial mortgage-backed securities include both agency and non-agency originated securities. Agency originated securities include securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other U.S. government agencies. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker/dealer quotes, prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

## 3. Investments (continued).

The ability to obtain quoted market prices is reduced in periods of decreasing liquidity, which generally increases the use of matrix pricing methods and generally increases the uncertainty surrounding the fair value estimates. This could result in the reclassification of a security between levels of the fair value hierarchy.

The Company invests in hedge “fund of funds” which invest in a number of underlying funds, following different investment strategies. As of November 30, 2016, the “fund of funds” portfolio was invested in a variety of strategies, with the common strategies being long / short equity, global macro, event driven, fundamental equity and commodities. In general, the fund of funds in which the Company is invested require at least 91 days’ notice of redemption, and may be redeemed on a quarterly or semi-annual basis, depending on the fund of fund. Certain fund of funds have a lock-up period. A lock-up period refers to the initial amount of time an investor is contractually required to invest before having the ability to redeem.

Fund of funds that do provide for periodic redemptions may, depending on the fund of funds’ governing documents, have the ability to deny or delay a redemption request, called a “gate”. The fund of fund may implement this restriction because the aggregate amount of redemption requests as of a particular date exceeds a specified level, generally ranging from 20% to 35% of the fund of fund’s net assets. The gate is a method for executing an orderly redemption process that allows for redemption

requests to be executed in a timely manner to reduce the possibility of adversely affecting the remaining investors in the fund of fund. Typically, the imposition of a gate delays a portion of the requested redemption, with the remaining portion settled in cash sometime after the redemption date. Certain fund of funds may be allowed to invest a portion of their assets in illiquid securities, such as private equity or convertible debt. In such cases, a common mechanism used is a side-pocket, whereby the illiquid security is assigned to a separate memorandum capital account or designated account. Typically the investor loses its redemption rights in the designated account. Only when the illiquid security is sold, or otherwise deemed liquid by the fund of fund, may investors redeem their interest in the side-pocket. As of November 30, 2016, the fair value of hedge funds held in lock ups, side-pockets or gates was \$8.1 million (2015: \$9.4 million).

The Company has ongoing due diligence processes with respect to funds in which it invests and their managers. These processes are designed to assist the Company in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however the Company obtains the audited financial statements for the fund of fund managers annually, and regularly reviews and discusses the fund performance with the fund managers to corroborate the

reasonableness of the reported net asset values. While reported net asset value is the primary input to the review, when the net asset value is deemed not to be indicative of fair value, the Company may incorporate adjustments to the reported net asset value and not use the permitted practical expedient on an investment by investment basis. These adjustments may involve significant management judgment. The Company has not made any such adjustments for the year ended November 30, 2016 or 2015. Hedge fund investments measured at net asset value are not required to be disclosed within the fair value hierarchy following the Company’s adoption of ASU 2015-07.

Derivative financial instruments that have quoted prices on a recognized exchange, such as futures and option contracts, are classified as Level 1. Over the counter derivative instruments such as interest rate swaps, foreign exchange forward contracts and credit default swaps, whose prices are based upon reports from counterparties of the transactions or observable market inputs, are classified as Level 2.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets and liabilities. Reclassifications between Level 1, 2 and 3 of the fair value hierarchy are reported as transfers in and/or out as of the beginning of the quarter in which the reclassifications occur.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

The following tables summarize the levels of inputs used as at November 30, 2016 and 2015, in determining the classification of investment assets and liabilities held at fair value:

### 2016

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	Level 1	Level 2	Level 3	NAV <sup>1</sup>	TOTAL
<b>ASSETS</b>					
Short Term Investments	\$70,453	\$71,562	\$70	-	\$142,085
Derivatives, net	-	5,416	-	-	5,416
Equity Securities	78,400	-	-	9,017	87,417
US Treasury and Government Agency	142,910	97	-	-	143,007
State and Municipal Bonds	-	12,542	-	-	12,542
Non-US Government Bonds	-	89,406	-	1,479	90,885
Supranationals	-	3,774	-	-	3,774
Corporate Bonds	-	159,266	-	11,674	170,940
Asset-Backed Securities	-	41,810	-	-	41,810
Mortgage-Backed Securities	-	67,459	-	377	67,836
Total Investments in Marketable Securities and Derivatives	\$291,763	\$451,332	\$70	\$22,547	\$765,712
Other Investments measured at net asset value <sup>1</sup>					\$85,203
<b>LIABILITIES</b>					
Equity Securities sold short	\$(18,022)	\$-	\$-	\$-	\$(18,022)

### 2015

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	Level 1	Level 2	Level 3	NAV <sup>1</sup>	TOTAL
<b>ASSETS</b>					
Short Term Investments	\$62,551	\$44,759	\$732	-	\$108,042
Derivatives, net	-	(116)	-	-	(116)
Equity Securities	106,430	-	-	17,846	124,276
US Treasury and Government Agency	80,097	95	-	-	80,192
State and Municipal Bonds	-	14,578	-	-	14,578
Non-US Government Bonds	-	104,121	-	1,410	105,531
Supranationals	-	7,709	-	-	7,709
Corporate Bonds	-	154,022	-	7,588	161,610
Asset-Backed Securities	-	37,360	-	-	37,360
Mortgage-Backed Securities	-	59,326	-	379	59,705
Total Investments in Marketable Securities and Derivatives	\$249,078	\$421,854	\$732	\$27,223	\$698,887
Other Investments measured at net asset value <sup>1</sup>					\$112,738
<b>LIABILITIES</b>					
Equity Securities sold short	\$(24,284)	\$-	\$-	\$-	\$(24,284)

<sup>1</sup> Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy following the Company's adoption of ASU 2015-07. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

### 3. Investments (continued).

The following tables present the reconciliation of the beginning and ending fair value measurements of the Company's Level 3 assets, measured at fair value using significant unobservable inputs for the year ended November 30, 2016 and 2015:

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	Short Term Investments	Corporate Bonds	TOTAL
Beginning balance at December 1, 2015	\$732	-	\$732
Purchases and issuances	-	-	-
Sales and settlements	(696)	-	(696)
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Reclassification	623	-	-
Realized and unrealized gains included in net income for the year	34	-	34
Ending balance at November 30, 2016	\$70	\$-	\$70

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	Short Term Investments	Corporate Bonds	TOTAL
Beginning balance at December 1, 2014	\$192	\$623	\$815
Purchases and issuances	-	-	-
Sales and settlements	(74)	-	(74)
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Reclassification	623	(623)	-
Realized and unrealized gains included in net income for the year	(9)	-	(9)
Ending balance at November 30, 2015	\$732	\$-	\$732

The fair value measurements of the Company's Level 3 short term investments were based on unadjusted third party pricing sources.

During the year ended November 30, 2016, there were no transfers in or out of Levels 1, 2 or 3.

During the year ended November 30, 2015, certain corporate investments were reclassified to short term investments due to the remaining time to maturity. There were no other transfers in or out of Levels 1, 2 or 3 during the year ended November 30, 2015.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

### 4. COMMITMENTS AND CONTINGENCIES

#### [a] Derivative instruments

The Company's investment guidelines permit, subject to specific approval, investment in derivative instruments such as futures and option contracts, interest rate swaps and forward foreign currency contracts. Their

use is regularly monitored and they are used for yield enhancement, duration management, interest rate and foreign currency exposure management or to obtain an exposure to a particular financial market. The Company's use of derivative instruments with

embedded leverage such as futures, swaps and options contracts may increase the Company's investment risk. Credit risk arises from the potential inability of counterparties to perform under the terms of the contract.

The tables below show the fair value of the Company's derivative instruments recorded in Investments in Marketable Securities and Derivatives in the Consolidated Balance Sheet as at November 30, 2016 and 2015:

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	Derivative Assets 2016		Derivative Liabilities 2016	
		Fair Value		Fair Value
Interest rate swaps		\$883		\$2,346
Credit default swaps		107		287
Equity swaps		165		151
Fixed income and currency options		402		388
Forward foreign currency contracts		9,197		2,338
Equity futures		209		38
Interest rate futures		1,160		1,159
Total		\$12,123		\$6,707

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	Derivative Assets 2015		Derivative Liabilities 2015	
		Fair Value		Fair Value
Interest rate swaps		\$1,080		\$4,375
Credit default swaps		11		49
Equity swaps		75		227
Fixed income and currency options		155		214
Forward foreign currency contracts		5,122		1,502
Equity futures		326		-
Interest rate futures		921		1,439
Total		\$7,690		\$7,806

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

4. Commitments and contingencies (continued).

(a) Derivative instruments (continued).

The tables below show the net gains and losses on the Company's derivative instruments recorded in the net gains (losses) on investments in the Consolidated Statement of Operations during the years ended November 30, 2016 and 2015:

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	<b>2016</b>		
	Net realized gains and (losses)	Change in unrealized gains and (losses)	Net gains and (losses)
Interest rate swaps	(\$209)	\$1,832	\$1,623
Credit default swaps	-	(142)	(142)
Equity swaps	(15)	166	151
Fixed income and currency options	872	73	945
Forward foreign currency contracts	(1,583)	3,239	1,656
Equity futures	719	(155)	564
Interest rate futures	(2,220)	519	(1,701)
Total	\$(2,436)	\$5,532	\$3,096

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	<b>2015</b>		
	Net realized gains and (losses)	Change in unrealized gains and (losses)	Net gains and (losses)
Interest rate swaps	\$244	\$528	\$772
Credit default swaps	-	(24)	(24)
Equity swaps	61	(440)	(379)
Fixed income and currency options	1,855	118	1,973
Forward foreign currency contracts	21,706	(69)	21,637
Equity futures	(191)	301	110
Interest rate futures	(875)	912	37
Total	\$22,800	\$1,326	\$24,126

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

### (i) Foreign currency exposure management

A forward foreign currency contract is a commitment to purchase or sell a foreign currency at a future date, at a negotiated rate. The unrealized gain or loss on open forward contracts represents the Company's net equity therein and is calculated as the difference between the contract date rate and the applicable forward rate at the reporting date as reported in published sources, applied to the face amount of the contract. The unrealized gain or loss at the reporting date is included

in investments in marketable securities and derivatives in the Consolidated Balance Sheet. The Company utilizes forward foreign currency contracts to manage the impact of fluctuations in foreign currencies on the value of its foreign currency denominated investments.

Forward foreign currency contracts expose the Company to credit, market and liquidity risks. The Company is exposed to market risk to the extent that adverse changes occur in the exchange

rate of the underlying foreign currency. This market risk is in excess of the amounts recognized in the Consolidated Balance Sheet. Liquidity risk represents the possibility that the Company may not be able to rapidly adjust the size of its forward positions in times of high volatility and financial stress at a reasonable price. The Company's investment guidelines only permit the use of counterparties carrying a credit rating of A3 or higher by the major rating agencies.

At November 30, 2016 and 2015, the Company had the following open forward foreign currency contracts:

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	2016		2015	
	Notional Receivable	Notional Payable	Notional Receivable	Notional Payable
<b>CURRENCY</b>				
AUD	\$6,177	\$(14,074)	\$7,455	\$(13,853)
BRL	1,294	(6,573)	1,734	(4,186)
CAD	10,730	(19,093)	10,395	(22,486)
CNH	1,533	(1,546)	1,570	(2,611)
CNY	-	(6,820)	1,629	(1,679)
DKK	453	(20,410)	-	(8,606)
EUR	25,935	(69,177)	46,164	(118,366)
GBP	19,288	(38,527)	15,906	(40,507)
INR	2,309	(457)	5,571	(2,158)
JPY	2,604	(35,304)	8,316	(22,937)
KRW	488	(5,142)	2,054	(6,715)
MXN	4,206	(4,640)	2,454	(9,966)
NZD	1,590	(2,575)	3,021	(5,425)
PLN	1,785	(5,101)	1,296	(792)
SEK	5,623	(1,425)	1,796	(1,157)
SGD	2,144	(6,738)	1,105	(1,832)
TRY	1,051	(1,162)	735	(1,265)
TWD	2,467	(5,145)	989	(1,899)
USD	243,250	(83,235)	269,240	(109,850)
Other	7,016	(5,940)	4,816	(6,336)
	\$339,943	\$(333,084)	\$386,246	\$(382,626)

At November 30, 2016, unrealized gains of \$9.2 million (2015: \$5.1 million) and unrealized losses of \$2.3 million (2015: \$1.5 million) on forward foreign currency contracts are included in investments in marketable securities and derivatives in the Consolidated Balance Sheet.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

4. Commitments and contingencies (continued).

(a) Derivative instruments (continued).

## (ii) Duration management, interest rate management and market exposure management

### FUTURES

A portion of the Company's portfolio is invested in bond, note, money market, equity index and interest rate futures contracts. Such futures provide the Company with participation in market movements, determined by the underlying instrument or index on which the futures contract is based, without holding the instrument itself or individual bonds or stocks in that index. This approach allows the Company more efficient and less costly access to bond and stock market exposure than would be available by the exclusive use of individual bonds and stocks. Exchange-traded bond and note futures contracts may also be used in the investment portfolios as substitutes for ownership of the physical bonds and notes.

All financial futures contracts are held on a non-leveraged basis, fully

backed at all times by short term investments and cash equivalents that are posted as margin collateral.

The unrealized gain or loss on financial futures contracts is calculated as the difference between the contract's price on the trade date and the contract's closing price on the valuation date as reported by the exchange on which the futures contracts are traded.

When entering a financial futures contract, the Company is required to provide initial margin which is a deposit of either cash or securities in an amount equal to a certain percentage of the contract value. The initial margin is adjusted to reflect changes in the value of the futures contract which are marked to market on a daily basis. The Company recognizes a realized gain

or loss when the contract is closed. Futures contracts expose the Company to market and liquidity risks. The Company is exposed to market risk to the extent that adverse changes occur in the market values of the underlying securities or indices. This market risk is in excess of the amount recognized in the Consolidated Balance Sheet. Liquidity risk represents the possibility that the Company may not be able to rapidly adjust the size of its futures positions in times of high volatility and financial stress at a reasonable price. Exchange-traded futures are subject, however, to a number of safeguards to ensure that obligations are met, including the use of clearing houses, the posting of margins and the daily settlement of futures profits and losses and the amount of credit risk is therefore considered low.

At November 30, 2016 and 2015 the contractual values of financial futures contracts are:

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	2016		2015	
	Long	Short	Long	Short
Equity index futures contracts	\$5,899	\$ -	\$7,897	\$ -
Bond and note futures contracts	260,567	(206,842)	191,804	(205,838)

The Company had gross gains of \$1.4 million and gross losses of \$1.2 million on open futures contracts for the year ended November 30, 2016 [2015 – gross gains \$1.2 million and gross losses \$1.4 million]. These gains and losses are included in the Consolidated Statement of Operations. The Company holds a margin account with its futures broker for the purposes of paying and receiving cash in connection with its futures transactions. Gains and losses are settled daily in cash in this margin account.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

### SWAPS AND OPTIONS

In order to manage interest rate exposure, portfolio duration or capitalize on anticipated changes in interest rate volatility, the Company may engage in interest rate swap transactions, buy and sell call and put options and write call and put options if the options are secured by holdings in the underlying securities or by other means which would permit immediate satisfaction of the Company's obligation as a writer of the option contracts.

Swaps and Option contracts are marked to market daily with unrealized gains and losses recorded in the Consolidated Statement of Operations.

At November 30, 2016 and 2015 the fair value of open interest rate swap contracts is:

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	2016	2015
Interest rate swaps, net	\$[1,463]	\$[3,295]

Interest rate swap agreements involve the exchange by the Company with another party of their respective commitments to pay or receive interest [e.g. an exchange of floating rate payments for fixed rate payments] with respect to a notional amount of principal. Entering into these agreements involves, to varying degrees, elements of credit and market risk in excess of the amounts recognized in the Consolidated Balance Sheet. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform, or that there may be unfavorable changes in interest rates.

At November 30, 2016 and 2015 the fair value of open fixed income and currency option contracts is:

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	2016	2015
Options purchased	\$402	\$155
Options written (liability)	[388]	[214]

Premiums received for open written options as of November 30, 2016, amounted to \$0.5 million [2015: \$0.3 million].

Option contracts provide the option purchaser with the right but not the obligation to buy or sell a financial instrument at a predetermined exercise price during a defined period. The option writer is obligated to buy or sell the item underlying the contract at a set price, if the option purchaser chooses to exercise the option. As a purchaser of an option contract, the Company is subject to credit risk since the counterparty is obligated to make payments under the terms of the option contract if the Company exercises the option and the Company is only subject to market risk to the extent of the premium paid. As a writer of an option contract, the Company is not subject to credit risk but is subject to market risk, since the Company is obligated to make payments under the terms of the option contract if exercised.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

4. Commitments and contingencies (continued).

(a) Derivative instruments (continued).

(ii) Duration management, interest rate management and market exposure management (continued)

The Company uses credit default swaps as a way to manage credit risk to an individual issuer or a basket of issuers. When the Company buys protection, the Company pays a premium to the seller of the protection for the right to receive the par value of the bond in the event of default by the issuer, thereby reducing the Company's credit risk.

## (b) Concentrations of credit risk

The investment portfolio is managed following prudent standards of diversification across counterparties, issuers, asset classes and geographical regions. Investments are allocated over three broad asset classes which are global equity, global fixed income and hedge funds. Investment guidelines are designed to limit the holdings of a single issue and issuer, control non-US dollar currency exposure and minimize sovereign risk. Fixed maturity securities held with maturities of longer than one year generally have a minimum investment rating of B3/B- or better and at least 85% [at fair value] generally have a minimum rating of Baa3/BBB- or better with average quality for the total portfolio of A2/A. The Company utilizes the lower rating as determined by Standard & Poor's and Moody's Investors Services. If a security is

not rated by Standard & Poor's or Moody's Investors Services, the equivalent implied rating is utilized. Cash equivalents must carry a rating of A1/P1.

The Company's maximum permitted fixed income investment in any one institution rated BBB-/Baa3 or higher is 10% of the market value of the global fixed income portfolio with the exception of securities which are rated AA-/Aa3 or higher and issued or guaranteed by the US Treasury, US government agencies, or the Government of Canada, Japan, Australia, the United Kingdom or EMU countries of the European Union. The maximum permitted fixed income investment in any one institution rated below BBB-/Baa3 is 5% of the market value of the global fixed income portfolio. The maximum permitted equity investment in any one company, at the time of purchase, should not exceed the greater of 5% of the market value of the global equity portfolio or 150% of its weighting in the global equity benchmark index, with the latter subject to a maximum limitation of 10% of the market value of the global equity portfolio. The Company believes that there are no significant concentrations of credit risk associated with its investments in any issuer or market.

## (c) Prime brokers

One large investment bank [the "Prime Broker"] has been appointed as the Company's Prime Broker. At November 30, 2016, under the Customer Prime Broker Account Agreement, \$20.8 million (2015: \$30.4 million) of the assets of the Company are held by the Prime Broker and each of the Prime Broker's affiliated companies are subject to a general lien and a continuing first priority perfected security interest in favor of the Prime Broker and therefore constitute collateral security for the Company's obligations and liabilities to the Prime Broker. The Prime Broker has a long term credit rating of A as issued by Standard and Poor's.

## (d) Use of short selling

As part of the Company's overall investment strategy it allocates certain funds to long/short portfolios that are managed using a market neutral investment strategy. The market neutral investment strategy will typically hold short equity positions in the same and/or related sectors as the strategy's long positions to limit exposure to market events and to reduce the Company's investment risk within the strategy.

## (e) Restricted assets

At November 30, 2016 and 2015, the fair values of the Company's restricted assets are as follows:

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	2016	2015
Assets pledged under Insurance Trusts (i)	\$135,744	\$89,651
Funds at Lloyds (ii)	14,500	-
Total Restricted Assets	\$150,244	\$89,651

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

### (i) Assets pledged under Insurance Trusts

The Company would classify these restricted assets within level 1 of the fair value hierarchy.

Certain of the Company's invested assets were held in trust and pledged in support of its reinsurance liabilities. Such pledges are largely required by the Company's operations that are "non-admitted" under U.S.

state and other jurisdiction's insurance regulations, in order for the cedant to receive statutory credit for reinsurance. As at November 30, 2016, the Company had \$135.7 million (2015: \$89.7 million) pledged specifically under Insurance Trusts, of these amounts, \$1.5 million (2015: \$8.4 million) was held in cash and cash equivalents and \$134.2 million (2015: \$81.3 million) was held in short-term US Treasury Bills.

### (ii) Funds at Lloyd's

The Company provides cash capital in the form of Funds at Lloyd's for use in Lloyds business through a corporate member, OCIL Limited. OCIL Limited will participate in Lloyds business through five Syndicates commencing in the Lloyds 2017 year of account.

## 5. OUTSTANDING LOSSES AND LOSS EXPENSES

The reserve for outstanding losses and loss expenses is provided on the basis of current estimates made by the Company's claims personnel, independent actuarial consultants and legal advisors. Outstanding loss reserves comprise individual case reserves, reserves for adverse loss development on reported claims and IBNR reserves. The summary of changes in outstanding loss and loss expenses for 2016 and 2015 is as follows:

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	2016	2015
Gross balance, beginning of year	\$441,055	\$416,046
Less: losses recoverable from reinsurers	[165,567]	[159,823]
Net balance, beginning of year	275,488	256,223
Loss and loss expenses incurred related to:		
Current year	87,302	106,318
Prior years	[19,640]	[49,041]
Total loss and loss expenses incurred	67,662	57,277
Paid loss and loss expenses related to:		
Current year	[1,321]	[1,470]
Prior years	[12,082]	[36,542]
Total paid loss and loss expenses	[13,403]	[38,012]
Net balance, end of year	329,747	275,488
Plus: losses recoverable from reinsurers	192,944	165,567
Gross balance, end of year	\$522,691	\$441,055

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

## 5. Outstanding losses and loss expenses (continued).

The 2016 current year incurred losses of \$87.3 million relate to: (i) the establishment of \$24.9 million of IBNR on the Company's direct insurance book of business for the 2016 underwriting year; (ii) the establishment of IBNR totaling \$48.7 million on the Company's assumed reinsurance book of business for the 2016 year; (iii) case reserves totaling \$13.0 million on the Company's assumed reinsurance book of business for the 2016 year; and (iv) case reserves totaling \$0.7 million on the Company's direct insurance book of business for the 2016 underwriting year.

During the year ended November 30, 2016, the incurred losses for prior year claims of \$(19.6) million primarily relate to: (i) favorable development on prior year claims of \$16.1 million on the Company's direct insurance book of business; (ii) favorable development totaling \$5.6 million on the Company's assumed reinsurance book of business for prior years; and (iii) \$2.1 million of loss expenses incurred over the Company's entire book of business.

The 2015 current year incurred losses of \$106.3 million relate to: (i) the establishment of \$34.4 million of IBNR on the Company's direct insurance book of business for the 2015 underwriting year; (ii) the establishment of IBNR totaling \$39.6 million on the Company's assumed reinsurance book of business for the 2015 year; (iii) case reserves totaling \$17.3 million on the Company's assumed reinsurance book of business for the 2015 year; and (iv) case reserves totaling \$15.0

million on the Company's direct insurance book of business for the 2015 underwriting year.

During the year ended November 30, 2015, the incurred losses for prior year claims of \$(49.0) million primarily relate to: (i) favorable development on prior year claims of \$35.3 million on the Company's direct insurance book of business; (ii) favorable development totaling \$14.8 million on the Company's assumed reinsurance book of business for prior years; and (iii) \$1.1 million of loss expenses incurred over the Company's entire book of business.

To assist in determining this reserve, management has obtained the advice of independent actuaries who annually establish an estimate of the Company's ultimate pollution claims liabilities based on actuarially accepted modeling techniques. Because of the variability and uncertainty inherent in the pollution claim evaluation, reserving and settlement processes, the reserve established by the Company represents management's best estimate at the balance sheet date based on current information but such claims may ultimately settle for a significantly greater or lesser amount. Such adjustments to reserves could be material to the Company.

## 6. LOAN PAYABLE

### (a) Deferrable subordinated debentures

On September 15, 2004 the Company issued \$200,000,000 of Deferrable Subordinated Debentures

[the "Debentures"]. These debentures have a final maturity date of September 15, 2034 and can be redeemed in whole prior to September 15, 2034 at the option of the Company. The Debentures bear interest at an annual fixed rate of 8.0% payable semi-annually in arrears on March 15 and September 15. The Debentures are unconditionally guaranteed by OCICL.

During the year ended November 30, 2016, the Company repurchased and retired a portion of the Deferrable Subordinated Debentures with a par value of \$5.0 million (2015 - \$nil). During prior years, the Company had repurchased and retired a portion of the Deferrable Subordinated Debentures with a par value of \$51.6 million. At November 30, 2016, the Deferrable Subordinated Debentures outstanding total was \$143.4 million (2015 - \$148.4 million) which is included in loans payable on the Consolidated Balance Sheets.

### (b) Credit facility

Effective July 24, 2009, the Company entered into a Credit Facility ["Credit Facility"] with The Bank of New York Mellon ["BNY Mellon"]. Under the terms of the agreement, the Company could borrow up to \$75 million from BNY Mellon. The Company renewed the Credit Facility on August 18, 2010 and August 16, 2011. The Credit Facility was scheduled to mature on August 16, 2014. Effective August 16, 2014, the Company entered into an Amendment to extend the Credit Facility through the period August 16, 2017. At the option of the Company, any borrowings under

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

the agreement bear interest at a rate per annum equal to either: (1) the greater of BNY Mellon's prime commercial lending rate or 0.50% plus the federal funds rate (as published by the Federal Reserve Bank of New York); or (2) 1.35% plus LIBOR for interest periods of 1, 2 or 3 months. Under the terms of the agreement, the Company must secure the payment and performance of its obligations to BNY Mellon by pledging a portion of the investments held in OCICL's investment portfolio. At November 30, 2015, the facility had not been utilized and the fair value of the investments pledged to collateralize the Company's obligation totaled \$nil. The Credit facility was not utilized during 2016 and was terminated effective November 18, 2016.

## (c) Debt issuance costs

At November 30, 2016, the Company recognized deferred debt issuance costs of \$2.3 million (2015: \$2.5 million) relating to the Debentures, which are offset in loans payable on the Consolidated Balance Sheets. The amount of amortization of debt issuance costs for the year of \$0.1 million (2015: \$0.1 million) is included within interest expense.

## 7. COMMON SHARES

The Company's authorized share capital is \$2,500,000 divided into 500 common shares of par value \$5,000 each. At November 30, 2016, 56 (2015: 58) shares had been issued and fully paid.

If a shareholder's insurance policies are cancelled or terminated the Company has a contractual obligation to repurchase its

common share at the par value price of \$5,000 per share.

Each shareholder has one vote for each paid up common share together with an additional vote for each \$5,000 of cumulative premium as defined in the Bye-laws, subject to a maximum of 9.5% of total voting rights. The Bye-laws provides for the distribution of dividends, as and when declared by the Company's directors, and distribution of the Company's net assets upon dissolution in the same proportion as the voting rights, excluding the 9.5% limitation.

## 8. RELATED PARTY TRANSACTIONS

(a) General and administrative expenses represent direct expenditures incurred by the Company and expenses which have been allocated from Oil Management Services Ltd., a company affiliated through common shareholders and which provides administrative support services to the Company.

(b) Amounts due from and to companies affiliated through common shareholders are unsecured, interest free and repayable on demand. These balances result from transactions conducted in the normal course of business.

## 9. REINSURANCE

The Company purchases reinsurance when it is available on reasonable terms and conditions. Reinsurance contracts do not relieve the Company from its obligations to policyholders.

Failure of reinsurers to honor their obligations could result in losses to the Company. The Company remains liable to the extent that its reinsurers do not meet their obligations under these agreements and the Company therefore regularly evaluates the financial condition of its reinsurers and monitors any concentration of credit risk. In order to reduce its credit risk, the Company seeks to do business with financially sound reinsurance companies and regularly reviews the financial strength of all reinsurers used. The current reinsurance programs have been placed with reinsurers with a financial rating of A- or better per Standard & Poor's or A.M. Best. Management perform periodic reviews of reinsurance recoverables and accordingly, provisions are made for amounts identified as potentially uncollectible.

## 10. TAXATION

Under current Bermuda law, the Company is not obligated to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act 1966 (the "Act") which exempts the Company from any such taxes, at least until March 31, 2035.

For the years ended November 30, 2016 and 2015, the Company did not record any unrecognized tax benefits or expenses. The Company has not recorded any interest or penalties during the years ended November 30, 2016 and 2015.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 11. REGULATION

The Company is required by its license to maintain capital and surplus greater than a minimum statutory amount determined as the greater of a percentage

of outstanding losses or a given fraction of net written premiums. Beginning January 1, 2014, the minimum solvency margin is also subject to a minimum of 25% of

the enhanced capital requirement ["ECR"] of the Bermuda Solvency Capital Requirement model ["BSCR"].

The following tables present the reconciliation of the Company's U.S. GAAP shareholders' equity to statutory capital and surplus, and the corresponding minimum capital adequacy levels as at November 30, 2016 and 2015:

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	2016	2015
U.S. GAAP Shareholders' Equity	\$539,121	\$537,464
Plus: Loan Payable	143,400	148,400
Less: Non-admitted assets	(3,212)	(3,163)
Statutory Capital and Surplus	\$679,309	\$682,701
Minimum required statutory capital and Surplus	\$49,462	\$41,323

Non-admitted assets for statutory purposes include prepaid assets.

The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amounts of its relevant liabilities. At November 30, 2016 the Company is required to maintain relevant assets of at least \$441.8 million. At that date relevant assets are approximately \$1,190.3 million and the minimum liquidity ratio is therefore met.

As a Class 3B insurer the Company has disclosure and regulatory compliance reporting obligations along with an enhanced capital requirement. The BSCR is a standardized statutory risk-based capital model used to measure the risk associated with the Company's assets, liabilities and premiums. The BSCR determines an enhanced capital requirement and target capital level (defined as 120% of the ECR) for Class 3B insurers. Failure to maintain statutory capital and surplus at least equal to

the target capital level could result in increased regulatory oversight by the Bermuda Monetary Authority. The eligible capital rules require the Company to allocate its capital into three defined tiers based upon qualifying criteria and stipulates the maximum and minimum amounts of eligible capital in each tier that may be used to satisfy its minimum solvency margin and its ECR. As of November 30, 2016, the Company met the capital requirements of the BSCR.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2016 and 2015

### 12. SEGMENTAL INFORMATION

The Company operates in two segments; insurance and assumed reinsurance. The insurance business written represents property and casualty risks of its shareholders and policyholders. The shareholders and policyholders comprise

companies operating primarily in the energy industry. The assumed reinsurance business written mainly represents Commercial Property and Casualty risks of ceding companies that provide such insurance primarily to energy companies.

The following table summarizes the underwriting results of the Company's operating segments for the year ended November 30, 2016 and 2015 as follows:

	<b>2016</b>		
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	Insurance	Assumed Reinsurance	Total
Premiums Written	\$59,446	\$107,120	\$166,566
Premiums Earned	60,072	93,918	153,990
Net Premiums Earned	19,484	80,591	100,075
Losses and loss expenses incurred, net of reinsurance	(11,561)	(56,101)	(67,662)
Commission and brokerage fees, net	(2,586)	(17,210)	(19,796)
Net underwriting income	\$5,337	\$7,280	\$12,617

	<b>2015</b>		
EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS	Insurance	Assumed Reinsurance	Total
Premiums Written	\$60,262	\$92,422	\$152,684
Premiums Earned	62,576	92,883	155,459
Net Premiums Earned	28,373	83,059	111,432
Losses and loss expenses incurred, net of reinsurance	(15,159)	(42,118)	(57,277)
Commission and brokerage fees, net	(2,226)	(16,883)	(19,109)
Net underwriting [loss] income	\$10,988	\$24,058	\$35,046

### 13. COMPARATIVE INFORMATION

Certain balances in the 2015 financial statements have been reclassified to conform to the 2016 consolidated financial statement presentation.

### 14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 23, 2017, which is the date the financial statements were issued.



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

The Board of Directors  
Oil Casualty Insurance, Ltd.

We have audited the accompanying consolidated financial statements of Oil Casualty Insurance, Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of November 30, 2016 and 2015, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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.

### Auditor's 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 entity'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 entity'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 Oil Casualty Insurance, Ltd. and its subsidiaries as of November 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*KPMG Audit Limited*

Chartered Professional Accountants

Hamilton, Bermuda  
February 23, 2017

OCIL is issued the first casualty catastrophe bond from Avalon Re. OCIL once again proves its stability after the energy industry incurs losses from Hurricane Katrina.

## MANAGEMENT RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

We, Bertil C. Olsson, Chief Executive Officer, and Ricky E. Lines, Senior Vice President, Chief Financial Officer of Oil Casualty Insurance, Ltd. [the "Company"], certify that we have reviewed this annual report of Oil Casualty Insurance, Ltd. and based on our knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact. Based on our knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report. We are

responsible for establishing and maintaining disclosure controls and procedures and we have: designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within the Company; evaluated the effectiveness of the Company's disclosure controls and procedures; and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation. We have disclosed, based on our most recent evaluation, to our auditors and the audit committee of our Board of Directors, that there are

no significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data; and have confirmed to our auditors that there are no material weaknesses in internal controls or any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls. We also confirm that there are no significant changes in internal controls, or in other factors that could significantly affect internal controls, subsequent to the date of our most recent evaluation.



**Bertil C. Olsson**  
President and Chief Executive Officer



**Ricky E. Lines**  
Senior Vice President and Chief Financial Officer

## SHAREHOLDERS\*

Air Products and Chemicals, Inc.  
Algonquin Power and Utilities Corp.  
American Electric Power Company, Inc.  
Anadarko Petroleum Corporation  
Apache Corporation  
Ashland Inc.  
Atmos Energy Corporation  
Berkshire Hathaway Energy Company  
BHP Billiton Limited  
Borealis AG  
[Borealis Insurance A/S]  
California Resources Corporation  
CEPSA Group  
[Teide Re, S.A.]  
Chesapeake Energy Corporation  
Chevron Corporation  
CNOOC International Limited

ConocoPhillips Company  
[Sooner Insurance Company]  
Consolidated Edison, Inc.  
Delek U.S. Holdings, Inc.  
Eastman Chemical Company  
Energy Transfer Partners, L.P.  
ENI S.p.A.  
[ENI Insurance Limited]  
Enterprise Products Company  
Exxon Mobil Corporation  
Hess Corporation  
[Jamestown Insurance Company Limited]  
Husky Energy Inc.  
Loop LLC  
LyondellBasell Industries N.V.  
[Lyondell Chemical Company]  
Maersk Olie og Gas AS

OCIL celebrates its  
second decade of  
service to its members.

**Marathon Oil Corporation**  
**Motiva Enterprises LLC**  
**Murphy Oil Corporation**  
**National Fuel Gas Company**  
**NextEra Energy, Inc.**  
**NiSource Inc.**  
**NOVA Chemicals Corporation**  
 [Novalta Insurance Ltd.]  
**Occidental Petroleum Corporation**  
 [Opcal Insurance Inc.]  
**Ontario Power Generation Inc.**  
**PG&E Corporation**  
**Repsol S.A.**  
 [Greenstone Assurance Ltd.]  
**Santos Ltd.**  
 [Sanro Insurance Pte Ltd.]  
**Sasol Limited**  
 [Sasol International Insurance Limited]

**Sempra Energy**  
**Spectra Energy Corp**  
**Spire Inc.**  
**Statoil ASA**  
**Suncor Energy Inc.**  
**Teck Resources Limited**  
**Tesoro Corporation**  
**The Dow Chemical Company**  
 [Dorintal Reinsurance Limited]  
**The Williams Companies, Inc.**  
**TOTAL S.A.**  
 [Omnium Insurance and Reinsurance Company Ltd.]  
**Valero Energy Corporation**  
 [Colonnade Vermont Insurance Company]  
**Vistra Energy Corp.**  
**WGL Holdings, Inc.**

BOARD OF DIRECTORS\*



**Andre Levey**

**Chairman**

Group Insurance -  
Manager,  
Santos Ltd.



**Bertil C. Olsson**

President & Chief  
Executive Officer,  
Oil Casualty Insurance, Ltd.



**Theodore Guidry II**

Senior Vice President -  
Business Risk Management,  
Valero Energy Corporation



**Fabrizio Mastrantonio**

Senior Vice President -  
Insurance Activities  
Management,  
Eni S.P.A.



**Gerard R. Naisse**

Senior Vice President -  
Risk Management  
& Insurance,  
Total S.A.



**Stephen J. Foster**

Assistant Treasurer -  
Risk Management,  
Anadarko Petroleum  
Corporation

OCIL's shareholders approve underwriting of non-shareholder insureds and treaty reinsurance.



**Pamela F. Mihovil**

Insurance Manager -  
Marathon Oil Corporation



**John P. Talarico**

Director -  
Corporate Insurance,  
Hess Corporation



**Lars Ostebo**

Vice President,  
Head of Insurance -  
Corporate Insurance,  
Statoil ASA



**Robert Wondolleck**

Director -  
Risk Management &  
Insurance Claims,  
Chevron Corporation



**John Weisner**

Manager -  
Corporate Insurance,  
Conoco Phillips Company

EXECUTIVE  
STAFF\*



**Bertil C.  
Olsson**

President & Chief  
Executive Officer



**Ted  
Henke**

Senior Vice President  
General Counsel & Secretary



**Jerry  
Rivers**

Senior Vice President  
& Chief Operating Officer



**Rob  
Foskey**

Senior Vice President &  
Chief Actuary



**Ricky E.  
Lines**

Senior Vice President  
& Chief Financial Officer



**Marlene J.  
Cechini**

Controller &  
Assistant Secretary

OCIL writes its first assumed reinsurance treaty.

Liability

## UNDERWRITING TEAM



**Graham Kirk**

Senior Underwriter,  
Team Leader



**Gina Butterfield**

Senior Underwriter



**Margaret Jones**

Underwriter



**Duncan Frith**

Underwriter



**Katie Stevenson**

Underwriting Assistant

Property

## UNDERWRITING TEAM



**Rolf  
Fischer**

Senior Underwriter,  
Team Leader



**Natasha  
Pethick**

Underwriter



**Tom  
Rego**

Assistant Underwriter



**Tare  
Brangman**

Underwriting Assistant

OCIL enters direct and facultative property market.

Liability

## CLAIMS TEAM



**Jill Burns-Leman**

Claims Manager



**Jennifer Thomas**

Senior Claims Analyst



**Franzetta Parker**

Claims Assistant

Property

## CLAIMS TEAM



**Joe  
Amaral**

Claims Manager



**Deborah  
Backeberg**

Senior Claims Analyst



**Ian  
Morrison**

Claims Analyst

Shareholders approve underwriting beyond energy industry risks and the elimination of the Shareholders Agreement.

Oil Casualty Insurance, Ltd.

## COMMITTEES OF THE BOARD

### EXECUTIVE

Andre Levey  
Bertil C. Olsson  
Fabrizio Mastrantonio

### AUDIT

James D. Lyness  
Fabrizio Mastrantonio  
Theodore Guidry II

### GOVERNANCE

Andre Levey  
John P. Talarico  
Lars Ostebo

### COMPENSATION

Andre Levey  
Fabrizio Mastrantonio  
Gerard Naisse

• • • • • • • • • •

## **EXTERNAL SERVICE PROVIDERS & CONSULTANTS**

### **AUDITORS**

**KPMG Audit Limited**  
Crown House  
4 Par-La-Ville Road  
Hamilton HM08  
Bermuda

### **LEGAL COUNSEL**

**Conyers, Dill & Pearman**  
Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

**Eversheds Sutherland (US) LLP**  
The Grace Building  
1114 Avenue of Americas  
New York NY 10036-7703  
U.S.A

## SUBSIDIARY COMPANIES\*

### Oil Casualty Investment Corporation, Ltd.

#### BOARD OF DIRECTORS

**Paul C. Reinbolt**

Chairman  
Chief Financial Officer &  
Executive Vice President (Retired)  
Hyperdynamics Corporation

**Ricky E. Lines**

Senior Vice President,  
Chief Financial Officer  
Oil Casualty Insurance, Ltd.

**Eric S. Fishman**

Vice President & Treasurer  
Hess Corporation

#### OFFICERS

**Ricky E. Lines**

Senior Vice President &  
Chief Financial Officer

**Marlene J. Cechini**

Controller &  
Assistant Secretary

**Andrew Rossiter**

Vice President &  
Director of Investments

**Ted Henke**

Senior Vice President,  
General Counsel & Secretary

### OCIL Limited

#### BOARD OF DIRECTORS

**Bertil C. Olsson**

**Jerry Rivers**

**James MacKay**

APCL Corporate Director No.1\*\*

APCL Corporate Director No.2\*\*

\* AS OF NOVEMBER 30, 2016

\*\* THIS DIRECTOR IS A CORPORATE, RATHER THAN INDIVIDUAL, DIRECTOR



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OIL CASUALTY INSURANCE, LTD.

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HAMILTON HM 08  
BERMUDA

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HAMILTON HM GX  
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