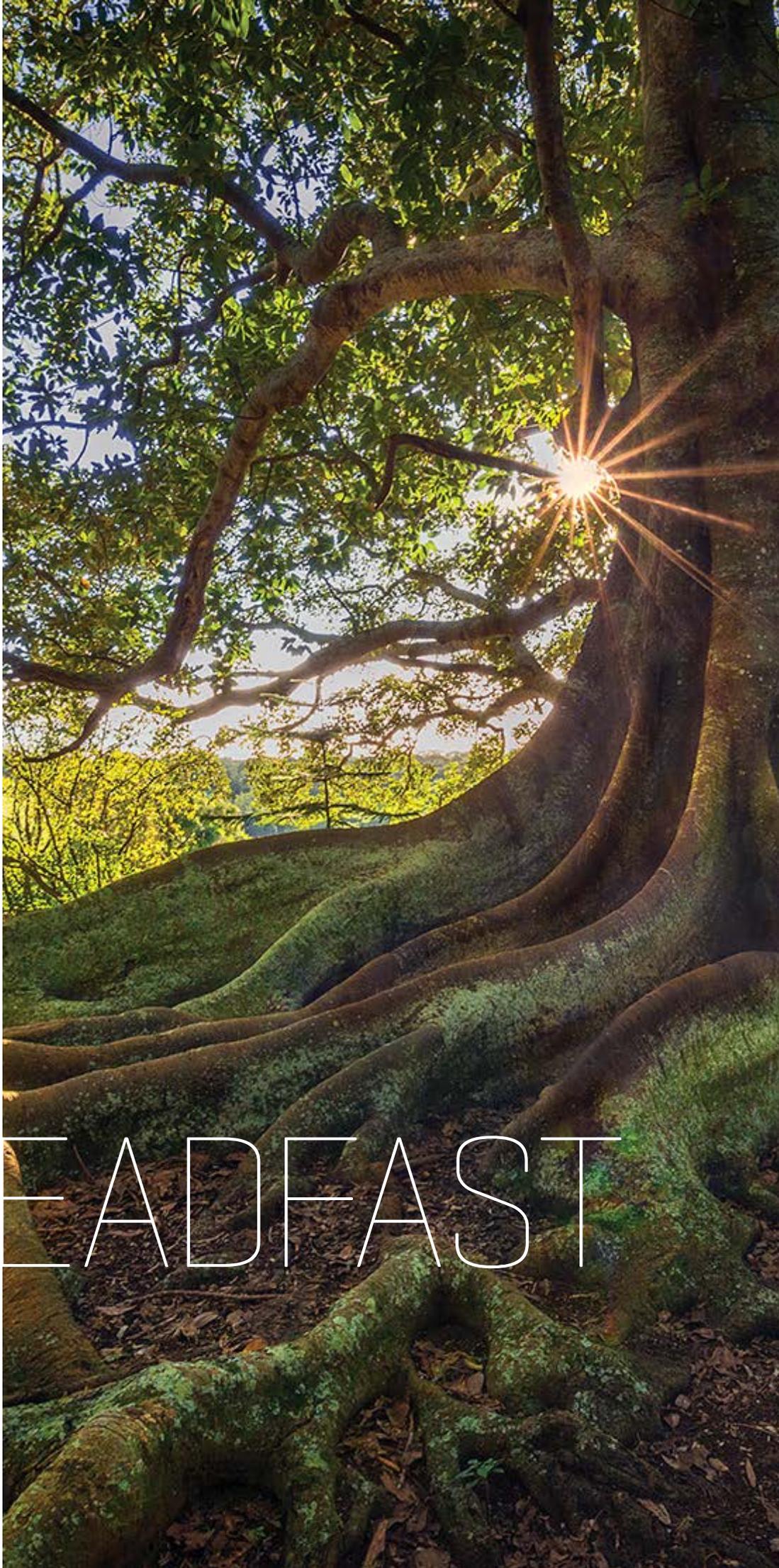




OIL  
CASUALTY  
INSURANCE,  
LTD.

A vertical photograph of a large, ancient tree with thick, gnarled roots and a sunburst effect through the canopy. The sun is shining through the leaves, creating a bright starburst pattern. The roots are covered in moss and are the central focus of the image.

# STEADFAST



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PRESIDENT'S  
MESSAGE



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OCIL's strategy has served the company well and allowed for steady and profitable growth. We will continue to remain focused on our core strengths and overall strategic goals.



## PRESIDENT'S MESSAGE

Steadfast determination and focus on execution come to mind while reflecting on the year Oil Casualty Insurance, Ltd. (OCIL) experienced in 2017. In a year that produced the highest level of catastrophe losses in the last decade, I am pleased to report that OCIL performed well and continued to deliver growth, both in terms of an expanded book and increased shareholder's equity.

In spite of the headwinds caused by the catastrophe events and a weak underwriting environment, OCIL generated a net profit. The losses experienced on the underwriting side were offset by solid gains in our investment portfolio. In this competitive and challenging marketplace, OCIL continued to not only maintain a high

renewal retention rate, but also continued to attract new customers, an indication of the growing breadth of our product offering and policyholder base. To that point, we reached a record number of in-force direct insurance policies and in-force assumed reinsurance treaties resulting in gross written premium growth of 31% to \$217.4 million.

The increase in gross written premium was primarily driven by OCIL's assumed reinsurance line, which is now the Company's largest book of business, as well as healthy growth in our direct property account. OCIL's participation in Lloyd's, via our corporate member OCIL Limited, also saw good growth. Our direct liability business continued to experience challenges due to loss activity from losses reported in previous years as well as a continued soft market.

In 2017, at OCIL's request, Standard & Poor's withdrew its financial rating and is no longer rating the Company. We had determined that there was no distinct competitive advantage to maintaining a rating from S&P in addition to our existing A.M. Best rating of A-. OCIL has been able to profitably expand and grow its business in the past six years, in large part due to the A.M. Best rating and the relationships the Company has with its stakeholders. As expected, having solely the A.M. Best rating has had no negative impact on the Company's business, as OCIL maintains capital at a modeled AAA level, a robust business model and a strong financial position.

The Company's 2017 results evidence the execution of OCIL's strategic plan, which is built on expansion and diversification. OCIL's strategy is designed to ensure our long-term success and strong capital position, while maintaining focus on our core constituency within the energy industry. This strategy has served the company well and allowed for steady and profitable growth. We will continue to remain focused on our core strengths and overall strategic goals.

The insurance industry is undergoing many changes, which presents us with both opportunities and unique challenges. One such change is the influx of alternative capital in recent years. After historically destructive hurricanes Harvey, Irma and Maria (HIM), there were questions as to how this new capital would respond and whether the providers of this capital would stay invested in the industry. In Bermuda, insurance-linked securities (ILS) is one structure that has attracted significant amounts of alternative capital and contributed to the rise in overall insurance capital associated with the lengthy soft market conditions. Following HIM, there were speculations that a loss of capital would potentially drive a significant hardening of the markets. We now know that the ILS market and other alternative capital is here to stay and will continue to have a dampening effect on any market hardening.

While there clearly has been some rate hardening for certain lines and certain

risks, many forecasters expected that the aggregate losses of HIM would drive increased rates across property and casualty markets; however, OCIL's experience has shown that rate change for insurance in the energy sector remains muted. The current operating environment of the energy insurance market largely comes down to excess capital and reduced demand. We have, however, seen some hardening and expect that increased property rates will have a compound effect on other lines of business and possibly harden the market over the course of 2018.

Another change the industry began to see in 2017 is some disruption in how insurance is being distributed. Instead of the traditional business transaction between client, broker and insurer, there has been a shift towards direct procurement. We have also seen brokerage firms purchasing managing general agencies (MGA) and or limiting the number of MGAs with whom they trade.

We look at these changes as both challenges and opportunities, with OCIL addressing the challenges and taking advantage of the opportunities. For example, our growing book of assumed reinsurance allows us to participate in some of the new capital structures via reinsurance of new product offerings our existing reinsured partners enter into. Likewise, OCIL is participating in new distribution models through underwriting via MGAs owned by some of our long

time reinsurance partners. These are all limited in scope at this time but allow us to keep our pulse on new developments. Our overriding objective is to continue to deliver outstanding value to our members and policyholders by providing the most efficient and cost effective products and distribution models.

Overall, I am convinced that OCIL stands positioned to perform well in the years ahead and will continue to be an insurer of choice for the energy industry and other industries we serve.

In closing, I wish to express my sincere gratitude to the Board of Directors for their valued leadership and service and to our shareholders and non-shareholder insureds for their unwavering support. I would also like to acknowledge the dedication and hard work of OCIL's management team and staff and thank them for their efforts throughout the year.

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**Bertil C. Olsson**

President and Chief Executive Officer



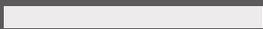
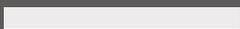
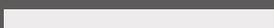
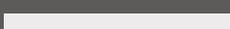
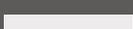
The insurance industry  
will remember 2017  
as a time of trial and  
tribulation that tested  
the strength of both  
the energy industry and  
insurance markets.

OPERATIONS  
REVIEW



---

## GROSS WRITTEN PREMIUMS

|             |  |                |
|-------------|--|----------------|
| <b>2017</b> |  | <b>217,379</b> |
| 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         |

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



## OPERATIONS REVIEW

# 02 |

During the second half of 2017, both property and casualty insurance and reinsurance experienced a multitude of natural catastrophic (nat cat) events, including the HIM hurricanes, earthquakes in Mexico and wildfires in California. While OCIL was not immune to these nat cat events, our net underwriting loss of \$22.2 million for year ending November 30, 2017 was well within our underwriting risk tolerance. Although the landscape for both the energy and insurance industry continues to change, OCIL remains committed to building out its strategic plan developed in 2015. Our well established roots as a leader in the energy insurance industry places OCIL on firm footing to meet the needs of our stakeholders.

Much of OCIL's strength comes from the dedication and perseverance of the personnel in each of our departments and the Company's collective commitment to progress. This year, OCIL employed its first catastrophe modeler to aid the Company in assessing and monitoring the risks within our insurance and reinsurance portfolios. Our property team also expanded with the hiring of an underwriting assistant to support our growing line of business. In our continuous effort to support our business operations, we have also been actively upgrading our underwriting, actuarial and reporting processes to maximize efficiency through technological advances.

OCIL is focused on the development of our three risk pillars; our direct and facultative casualty and property lines, our assumed reinsurance book of business and more recently, our Lloyds corporate member, OCIL Limited.

#### **Direct & Facultative Insurance**

The company began reducing its maximum available liability limits from \$100 million to \$75 million on policies that inceptioned on or after April 1, 2017. With a limited number of insureds [less than 15%] purchasing limits in excess of \$75 million, it was an inefficient use of capital and economically unsound. The rationale behind this change was to

reduce loss volatility and the cost of reinsurance.

The direct excess liability market has remained competitive and we continue to see downward pressure on insurance rates across most energy segments. Non-energy submission activity has picked up since 2016, but we remain selective and strategic in our underwriting process. As of November 30, 2017, there were 123 liability insureds, not including the business written by managing agents on OCIL's behalf. Five of the 123 insureds are companies outside of the energy industry.

Since OCIL began underwriting direct property insurance in late 2012, it has seen consistent growth, despite continued rate reductions throughout 2016 and first half of 2017. The HIM hurricanes impacted the direct property book primarily on the habitational line of business. As a result, there has been robust rate improvement in this sector, as well as in the retail sector. We believe there is still an opportunity in the current marketplace to generate an acceptable margin through selective underwriting. As at November 30, 2017, the property team had a total of 107 in-force policies, 46 of which are non-energy; a significant increase from 88 total accounts at 2016 fiscal year end.



### Assumed Reinsurance

The Company's assumed reinsurance business has also seen steady progress and is now OCIL's largest book of business. The ability to write reinsurance coverage has enabled OCIL to extend its reach, diversify the Company's risk exposures, access new distribution and production sources, and develop partnerships that deliver underwriting expertise. The reinsurance book has continued to deliver profitable results through the soft market due to long-standing relationships with disciplined underwriters who are focused on bottom-line results, rather than top-line growth. Gross premiums earned for the assumed reinsurance book totaled \$115.7 million for fiscal year end November 30, 2017, generating an underwriting profit of \$17.6 million.

### OCIL Limited

The final risk pillar of OCIL is the Company's 100% owned subsidiary, OCIL Limited, which is an approved member at Lloyd's of London. Created in 2016, OCIL took a significant and strategic step to expand its distribution and underwriting diversification through the registration of a UK subsidiary. Since being approved, OCIL Limited has been participating with numerous Lloyd's syndicates, which is intended to improve capital efficiency, drive strategic

relationships and provide greater underwriting risk diversification.

The insurance industry will remember 2017 as a time of trial and tribulation that tested the strength of both the energy industry and insurance markets. As J.R.R. Tolkien once said, "Deep roots are not touched by the frost"; OCIL remains a strong and enduring force due to the Company's strong roots, storied history, longevity and stability. I would like to take this opportunity to thank our Directors, shareholders, non-shareholder insureds, reinsurance partners and brokers for supporting the Company throughout the year. Finally, I wish to thank our remarkable employees who consistently work with dedication to execute our strategic initiatives, while also providing superior service to our insureds.

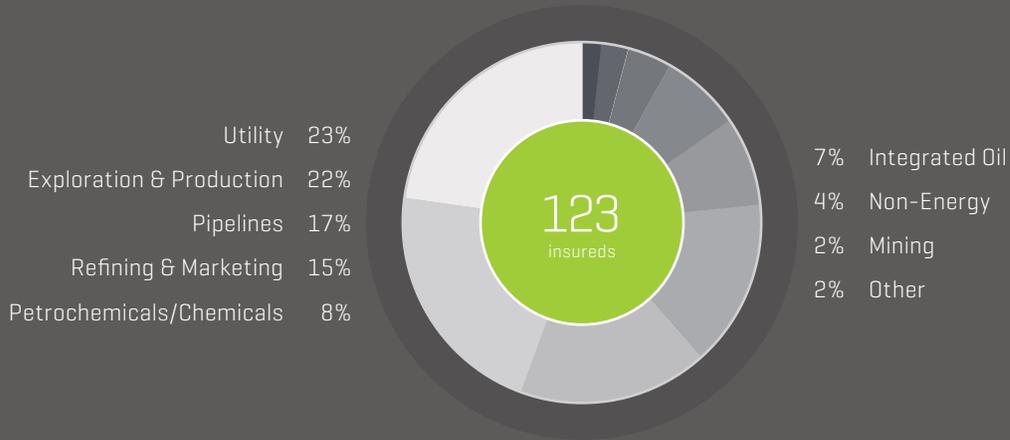


**Jerry Rivers**

Senior Vice President and Chief Operating Officer

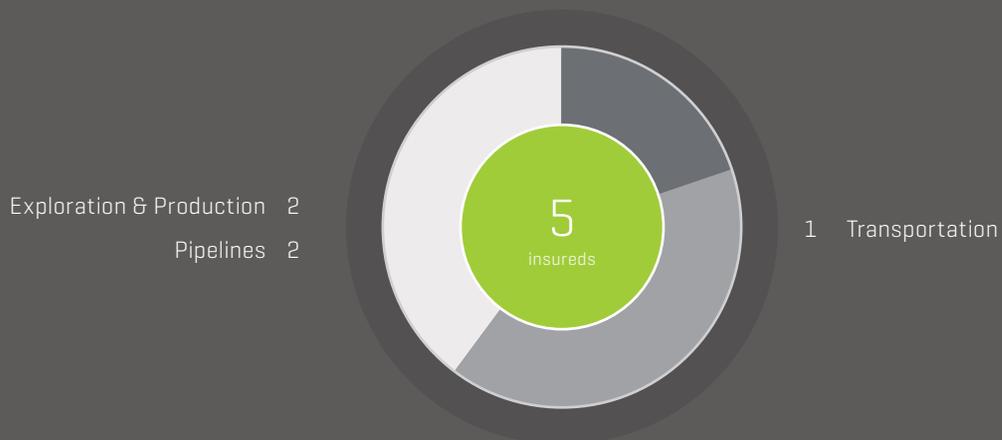
## INDUSTRY SEGMENT

[Percent of total insureds]



# LIABILITY

AS OF NOVEMBER 30, 2017

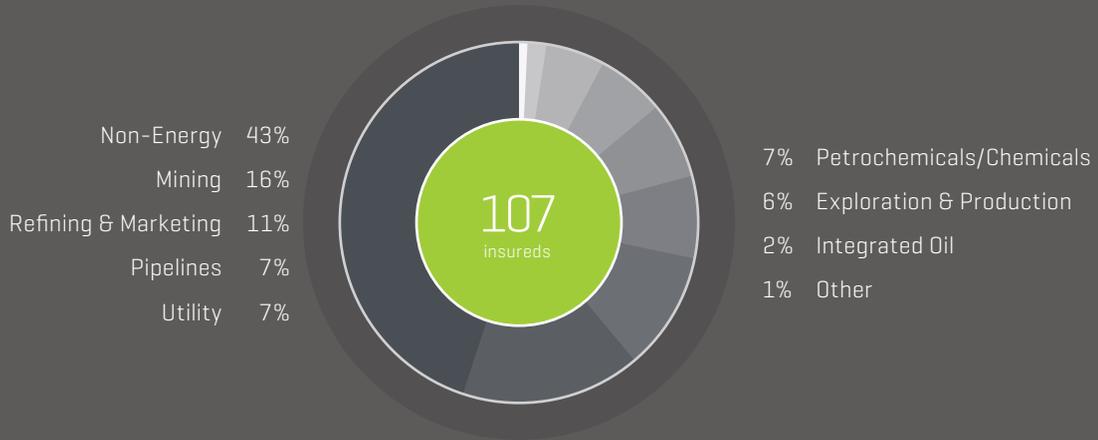


## NEW BUSINESS

NUMBER OF INSUREDS AS OF NOVEMBER 30, 2017

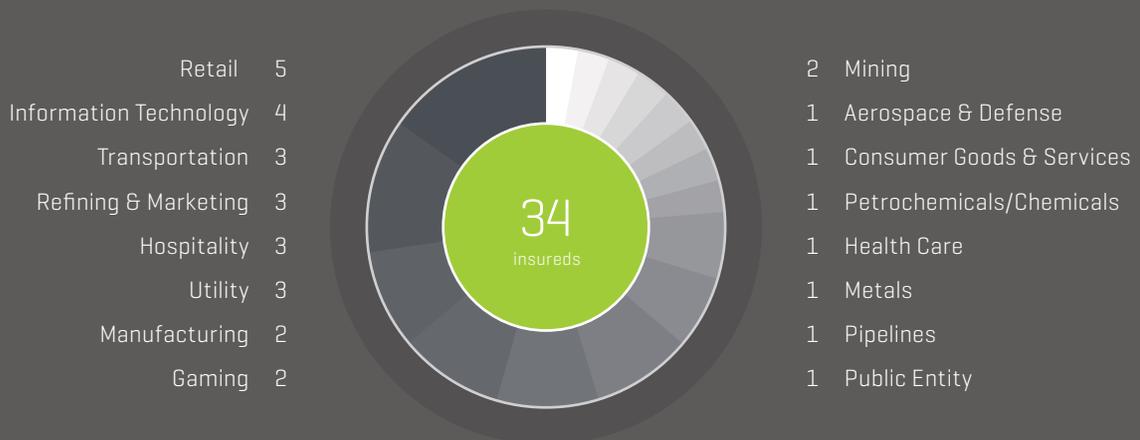
## INDUSTRY SEGMENT

[Percent of total insureds]



# PROPERTY

AS OF NOVEMBER 30, 2017



## NEW BUSINESS

NUMBER OF INSUREDS AS OF NOVEMBER 30, 2017



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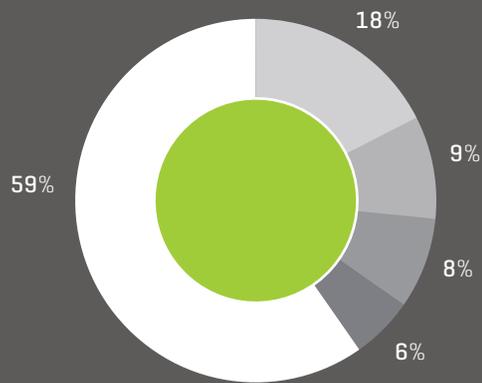
While the markets continue to move higher, this broad global advance highlights the importance of following an investment approach based on diversification and discipline.

INVESTMENT  
REVIEW



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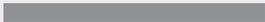
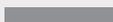
## ASSET ALLOCATION



|                      |     |
|----------------------|-----|
| Global Bonds         | 59% |
| Bonds Held in Trust  | 18% |
| Global Equity        | 9%  |
| Funds of Hedge Funds | 8%  |
| Cash                 | 6%  |



### STRATEGIC PORTFOLIO RETURN\*

|        |   |      |
|--------|---|------|
| 1 YR   |  | 6.8% |
| 3 YRS  |  | 2.9% |
| 5 YRS  |  | 3.7% |
| 10 YRS |  | 3.9% |

### TOTAL PORTFOLIO RETURN\*\*

|        |   |      |
|--------|---|------|
| 1 YR   |  | 5.5% |
| 3 YRS  |  | 2.3% |
| 5 YRS  |  | 3.2% |
| 10 YRS |  | 3.5% |

FISCAL YEAR ENDED NOVEMBER 30, 2017

\* PORTFOLIO RETURNS EXCLUDE CASH AND BONDS IN TRUST

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

Given the theme for this year's annual report, Sir Winston Churchill once quoted, "Solitary trees, if they grow at all, grow strong". In essence, OCIL can be considered a "solitary tree"; a single entity, single jurisdiction and standing on its own financial footing. OCIL has also grown strong over the past thirty plus years. No longer relying on a single product line since its formation in 1986, OCIL today has a deep-rooted and diversified product line, and is constantly engaged in reviewing strategic initiatives, which might be accretive to its bottom line. For the year ending November 30, 2017 OCIL generated net income of \$6.7 million with total assets of \$1.6 billion and shareholder's equity of \$546 million. The importance of product diversification



continues to bode well for the company as OCIL reported total gross written premiums of \$217.4 million, split \$62.2 million, \$124.7 million and \$30.5 million between its direct insurance, assumed reinsurance and OCIL Limited operations respectively. Although OCIL experienced a net underwriting loss of \$22.2 million, this was more than offset by net investment income of \$44.6 million. General and administrative expenses were \$15.7 million for the calendar year.

Turning to investments, 2017 saw strong synchronized global growth, low and stable inflation and easy monetary policy, which provided an environment for robust and broad based earnings growth. As a result, global equity markets posted another year of positive returns. As at November 30, 2017, the S&P 500 Index recorded a 22.9% total return, while the MSCI World ex USA Index and the MSCI Emerging Markets Index posted returns of 23.7% and 32.8% respectively. On the fixed income front, both US and non-US

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OCIL's investment portfolio generated strong returns in 2017, while maintaining our investment objective of providing adequate liquidity and preserving the value of our invested assets for our shareholders.

fixed income markets posted positive results. The Bloomberg Barclays Global Aggregate Bond Index (hedged to USD) returned 3.1%, while the Bloomberg Barclays US Aggregate Bond Index gained 3.2%.

While the markets continue to move higher, this broad global advance highlights the importance of following an investment approach based on diversification and discipline. There is no shortage of risk and, as investors, we must remain diligent in assessing these risks and the potential impact on our invested assets. Heightened geopolitical tensions, growing populism worldwide and rising polarization in the US were all prevalent in 2017, and will continue to be at the forefront in 2018. China remains a wild card in the conceivable future, especially if the US – China relationship continues to deteriorate, which is being driven by changing trade and foreign policy toward China.

During 2017, the US Federal Reserve raised the fed funds rate three times and in December, they reiterated plans for three more hikes in 2018. As OCIL's global fixed income portfolio is by far its largest asset allocation, management spent considerable time and effort in reviewing the current duration within our portfolio to ensure that both our investment objective and investment risk tolerance are not compromised. While no changes were ultimately made, it is an area that we plan to keep a watchful eye over in the foreseeable future. OCIL's investment portfolio generated strong returns in 2017, while maintaining

our investment objective of providing adequate liquidity and preserving the value of our invested assets for our shareholders. As a result of being tactically underweight in global fixed income and slightly overweight in global equities and fund of hedge funds for the majority of 2017, OCIL's total invested assets generated a return of 5.5%. As at November 30, 2017, OCIL's investment allocation was comprised of 59% global bonds, 8% fund of hedge funds, 9% global equities, 18% bonds held in insurance trust and 6% cash.

As we enter into 2018, we are cognizant that we enter a ninth year of the bull market for equities together with the prospect of higher interest rates, especially in the U.S. That said, OCIL invests for the long term and maintains a highly diversified global portfolio. We will uphold our disciplined approach and diligence.

In closing, I would like to acknowledge the ongoing dedication of OCIL's Operating Board and the Investment Board of Directors at Oil Casualty Investment Corporation, Ltd. [OCICL]. Together, with my team of talented professionals within finance and investments who provide vital guidance, support and leadership – I thank you.



**Ricky E. Lines, CFA**

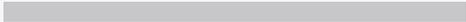
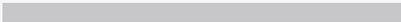
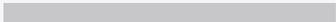
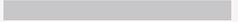
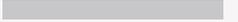
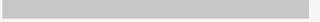
Senior Vice President and Chief Financial Officer

## TEN-YEAR FINANCIAL HISTORY

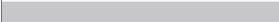
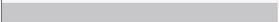
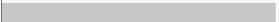
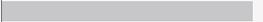
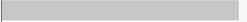
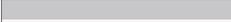
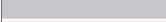
|   | 2017      | 2016      | 2015      | 2014      | 2013      | 2012      | 2011      | 2010     | 2009      | 2008      |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|
| <b>PREMIUM</b>                          |           |           |           |           |           |           |           |          |           |           |
| Gross Written Premium                   | 217,379   | 166,566   | 152,684   | 174,234   | 152,720   | 145,870   | 82,105    | 56,708   | 49,028    | 44,009    |
| Gross Earned Premium                    | 189,884   | 153,990   | 155,459   | 159,893   | 145,396   | 111,924   | 64,919    | 49,690   | 45,073    | 46,048    |
| <b>FINANCIAL CONDITION</b>              |           |           |           |           |           |           |           |          |           |           |
| Net Income/[(Loss)]                     | 6,793     | 1,667     | 4,748     | 3,607     | 39,648    | 28,359    | 29,614    | (19,287) | 124,616   | (160,270) |
| Total Assets                            | 1,619,081 | 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 |
| Shareholders Equity                     | 545,904   | 539,121   | 537,464   | 532,701   | 529,094   | 489,471   | 461,117   | 431,503  | 450,785   | 326,174   |
| <b>LOSS AND LOSS EXPENSES INCURRED</b>  |           |           |           |           |           |           |           |          |           |           |
| Gross Losses and Loss Expenses Incurred | 237,088   | 121,680   | 63,021    | 132,781   | 17,884    | 137,316   | 21,642    | (9,405)  | (2,707)   | 81,698    |
| Reinsurance Recovery                    | 99,206    | 54,018    | 5,744     | 28,336    | (49,599)  | 36,733    | 21,449    | (88,705) | -         | 92,300    |
| Net-Losses and Loss Expenses Incurred   | 137,882   | 67,662    | 57,277    | 104,445   | 67,483    | 100,583   | 193       | 79,300   | (2,707)   | (10,602)  |

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

**SUMMARY  
OF TOTAL  
ASSETS**

|             |   |                  |
|-------------|---|------------------|
| <b>2017</b> |    | <b>1,619,081</b> |
| 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        |

**SUMMARY OF  
SHAREHOLDERS'  
EQUITY**

|   |                |
|---|----------------|
|    | <b>545,904</b> |
|  | 539,121        |
|  | 537,464        |
|  | 532,701        |
|  | 529,094        |
|  | 489,471        |
|  | 461,117        |
|  | 431,503        |
|  | 450,785        |
|  | 326,174        |

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



04

CONSOLIDATED  
FINANCIAL  
STATEMENTS

## CONSOLIDATED BALANCE SHEETS

November 30, 2017 and 2016

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS

|  | 2017               | 2016               |
|--|--------------------|--------------------|
| <b>ASSETS</b>  |                    |                    |
| Cash and cash equivalents (Notes 2(j) and 4(b))                                  | \$96,042           | \$93,058           |
| Investments in marketable securities and derivatives (Notes 2(d), 2(e), 3 and 4) | 733,272            | 765,712            |
| Other investments (Notes 2(d) and 3)   | 88,260             | 85,203             |
| Restricted assets (Note 4 (e))   | 218,110            | 150,244            |
| Investment sales pending settlement  | 29,675             | 52,882             |
| Accrued investment income  | 3,763              | 4,132              |
| Losses recoverable from reinsurers (Notes 5 and 9)                               | 247,680            | 192,944            |
| Accounts receivable  | 135,603            | 81,514             |
| Funds withheld   | 20,524             | 15,822             |
| Prepaid reinsurance premiums   | 26,805             | 17,968             |
| Other assets (Notes 2(k))  | 19,347             | 14,104             |
| <b>Total assets</b>  | <b>\$1,619,081</b> | <b>\$1,473,583</b> |
| <b>LIABILITIES</b>   |                    |                    |
| Outstanding losses and loss expenses (Note 5)                                    | \$622,240          | \$522,691          |
| Unearned premiums  | 137,234            | 109,739            |
| Securities sold short (Notes 2(i), 3 and 4)                                      | 16,336             | 18,022             |
| Investment purchases pending settlement  | 64,642             | 82,691             |
| Loan payable (Note 2(k), 6 (a) and 6(c))   | 139,301            | 141,144            |
| Reinsurance premium payable  | 49,731             | 36,616             |
| Amounts due to affiliates (Note 8(b))  | 3,120              | 949                |
| Accounts payable   | 40,573             | 22,610             |
| <b>Total liabilities</b>   | <b>\$1,073,177</b> | <b>\$934,462</b>   |
| <b>SHAREHOLDERS' EQUITY</b>  |                    |                    |
| Common shares (Note 7)   | 270                | 280                |
| Retained earnings  | 545,634            | 538,841            |
| <b>Total shareholders' equity</b>  | <b>545,904</b>     | <b>539,121</b>     |
| <b>Total liabilities and shareholders' equity</b>                                | <b>\$1,619,081</b> | <b>\$1,473,583</b> |

See accompanying notes to consolidated financial statements

# CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended November 30, 2017 and 2016

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS                | 2017      | 2016      |
|--|-----------|-----------|
| Gross premiums written   | \$217,379 | \$166,566 |
| Change in unearned premiums                                    | [27,495]  | [12,576]  |
| Premiums earned  | 189,884   | 153,990   |
| Premiums ceded   | 54,607    | 50,936    |
| Change in prepaid reinsurance premiums                         | [8,837]   | 2,979     |
| Premiums ceded   | 45,770    | 53,915    |
| Net premiums earned  | 144,114   | 100,075   |
| Losses and loss expenses incurred, net of reinsurance [Note 5] | [137,882] | [67,662]  |
| Commission and brokerage fees, net                             | [28,414]  | [19,796]  |
| Net underwriting [loss] income                                 | [22,182]  | 12,617    |
| Interest income  | 22,198    | 15,118    |
| Net gains on investments [Note 3]                              | 35,545    | 3,026     |
| Dividends  | 2,665     | 1,649     |
| Investment advisory and custodian fees                         | [4,162]   | [3,589]   |
| Interest and debt expense [Note 6(a) and 6(c)]                 | [11,560]  | [11,937]  |
| Net investment income  | 44,686    | 4,267     |
| General and administrative expenses [Note 8(a)]                | [15,711]  | [15,217]  |
| Net income   | \$6,793   | \$1,667   |

See accompanying notes to consolidated financial statements

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended November 30, 2017 and 2016

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS | Common Shares    |       |                   | Total     |
|---|------------------|-------|-------------------|-----------|
|   | Number of Shares |       | Retained Earnings |           |
| 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 |
| Shares issued in year                           | -                | -     | -                 | -         |
| Shares redeemed in year                         | [2]              | [10]  | -                 | [10]      |
| Net income                                      | -                | -     | 6,793             | 6,793     |
| Balance at November 30, 2017                    | 54               | \$270 | \$545,634         | \$545,904 |

See accompanying notes to consolidated financial statements

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended November 30, 2017 and 2016

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS

|  | 2017        | 2016        |
|--|-------------|-------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |             |             |
| Net income   | \$6,793     | \$1,667     |
| Adjustments to reconcile net income to cash [used] provided by operating activities: |             |             |
| Amortization of deferred debt issuance costs   | 104         | 77          |
| Net gains on investments   | (35,545)    | (3,026)     |
| Proceeds from the sale of securities sold short                                      | 46,495      | 82,440      |
| Purchase of securities sold short  | (50,880)    | (82,794)    |
| Proceeds from the sale of investments  | 1,330,585   | 1,218,258   |
| Purchase of investments  | (1,257,428) | (1,228,204) |
| Changes in operating assets and liabilities:   |             |             |
| Accrued investment income  | 369         | 207         |
| Losses recoverable from reinsurers   | (54,736)    | (27,377)    |
| Accounts receivable  | (54,089)    | (25,981)    |
| Funds withheld   | (4,702)     | 6,935       |
| Prepaid reinsurance premiums   | (8,837)     | 2,979       |
| Other assets   | (5,243)     | (1,177)     |
| Outstanding losses and loss expenses   | 99,549      | 81,636      |
| Unearned premiums  | 27,495      | 12,576      |
| Reinsurance premium payable  | 13,115      | 9,640       |
| Amounts due to affiliates  | 2,171       | (105)       |
| Accounts payable   | 17,963      | 4,220       |
| Restricted assets  | (67,785)    | (60,247)    |
| Net cash provided [used] by operating activities                                     | 5,394       | (8,276)     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |             |             |
| Repurchase of deferrable subordinated debentures                                     | (2,400)     | (5,500)     |
| Redemption of common shares, net   | (10)        | (10)        |
| Net cash used by financing activities  | (2,410)     | (5,510)     |
| Net increase [decrease] in cash and cash equivalents                                 | 2,984       | (13,786)    |
| Cash and cash equivalents at beginning of year                                       | 93,058      | 106,844     |
| Cash and cash equivalents at end of year   | \$96,042    | \$93,058    |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                              |             |             |
| Interest paid  | \$11,384    | \$11,605    |

See accompanying notes to consolidated financial statements

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

## 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 from January 1, 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 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

2. Summary of significant accounting policies (continued).

(b) Premiums and acquisition costs (continued).

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.

Restricted assets are carried in the Consolidated Balance Sheet at fair value. Realized and unrealized gains and losses are 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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

2. Summary of significant accounting policies (continued).

(d) Investments in marketable securities, other investments and investment income (continued).

declared. Interest income is accrued to the balance sheet date.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

2. Summary of significant accounting policies (continued).

(i) Short selling (continued).

borrowed. A gain, limited to the price at which the Company sold the security short, or a loss, unlimited 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, 2017, cash in the amount of \$16.1 million (2016: \$26.0 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, 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.

Effective for the year ended November 30, 2017, the Company adopted FASB ASU No. 2015-09, Financial Services-Insurance [Topic 944]: Disclosures about Short-Duration Contracts. ASU No. 2015-09 requires significant new disclosures for insurers relating to short-duration insurance contract claims and the unpaid claims liability roll forward for long and

short-duration contracts. The guidance requires annual tabular disclosure, on a disaggregated basis, of undiscounted incurred and paid claim and allocated claim adjustment expense development by accident year, net of reinsurance, for up to 10 years. Tables must also include the total incurred but not reported claims liabilities, plus expected development on reported claims, and claims frequency for each accident year. A description of estimation methodologies and any significant changes in methodologies and assumptions used to calculate the liability and frequency is also required. Based on the disaggregated claims information in the tables, disclosure of historical average annual percentage payout of incurred claims is also required. The ASU requires retrospective application by providing comparative disclosures for each period presented, other than those that are only required for the most recent reporting period. These new annual disclosures have been included in note 5.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

## 3. INVESTMENTS

The fair values of investments as at November 30, 2017 and 2016 are as follows:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS            | 2017      | 2016      |
|--|-----------|-----------|
| Short Term Investments                                     | \$147,374 | \$142,085 |
| Derivatives, net   | [2,472]   | 5,416     |
| Equity Securities  | 92,167    | 87,417    |
| Fixed Maturities   |           |           |
| US Treasury and Government Agency                          | 97,754    | 143,007   |
| State and Municipal Bonds                                  | 18,458    | 12,542    |
| Non-US Government Bonds                                    | 98,247    | 90,885    |
| Supranationals   | 531       | 3,774     |
| Corporate Bonds  | 168,501   | 170,940   |
| Asset-Backed Securities                                    | 59,347    | 41,810    |
| Mortgage-Backed Securities                                 | 53,365    | 67,836    |
| Total Fixed Maturities                                     | 496,203   | 530,794   |
| Total Investments in Marketable Securities and Derivatives | \$733,272 | \$765,712 |
| Other Investments  | \$88,260  | \$85,203  |

In the table above, 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, 2017, approximately 63% [2016: 66%] 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, 2017 and 2016, are as follows:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS   | 2017      | 2016      |
|---|-----------|-----------|
| US Government and Agency                          | \$172,938 | \$213,459 |
| AAA   | 109,731   | 116,761   |
| AA  | 79,135    | 69,055    |
| A   | 127,225   | 104,985   |
| BBB   | 105,012   | 105,865   |
| Below BBB   | 49,536    | 62,754    |
| Total fixed maturities and short term investments | \$643,577 | \$672,879 |

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, 2017, had an unrealized gain of \$2.5 million [2016: \$1.6 million

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

At November 30, 2017, \$73.3 million [2016: \$66.9 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 3.9% [2016: 4.0%] 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

### 3. Investments (continued).

The contractual maturities of fixed maturities and short term investments as at November 30, 2017 and 2016 are as follows:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS   | 2017      | 2016      |
|---|-----------|-----------|
| Due in one year or less                           | \$147,374 | \$142,085 |
| Due after one year through five years             | 158,618   | 193,898   |
| Due after five years through ten years            | 112,307   | 112,084   |
| Due after ten years                               | 112,566   | 115,166   |
|   | 530,865   | 563,233   |
| Asset-Backed Securities                           | 59,347    | 41,810    |
| Mortgage-Backed Securities                        | 53,365    | 67,836    |
| Total Fixed Maturities and short term investments | \$643,577 | \$672,879 |

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.

The gross realized gains and losses on investments and the change in unrealized gains and losses for the years ended November 30, 2017 and 2016 are as follows:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS  | 2017      | 2016      |
|--|-----------|-----------|
| Gross realized gains on investments and restricted assets                                      | \$99,573  | \$100,297 |
| Gross realized losses on investments and restricted assets                                     | (100,736) | (106,197) |
| Gross realized gains on derivative instruments   | 45,310    | 48,968    |
| Gross realized losses on derivative instruments  | (42,206)  | (51,404)  |
| Gross realized gains on other investments  | 22,358    | 129       |
| Gross realized losses on other investments   | (8)       | (583)     |
| Change in net unrealized gains and losses during the year on investments and restricted assets | 37,979    | 6,659     |
| Change in net unrealized gains and losses during the year on other investments                 | (18,837)  | (375)     |
| Change in net unrealized gains and losses during the year on derivative instruments            | (7,888)   | 5,532     |
| Net gains (losses) on investments  | \$35,545  | \$3,026   |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

## 3. Investments (continued).

During the year ended November 30, 2017, 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 \$24.6 million gain (2016: \$4.6 million gain), equity securities of a \$13.3 million gain (2016: \$1.7 million gain) and restricted assets of a \$0.1 million gain (2016: \$0.3 million gain).

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 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

### 3. Investments (continued).

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.

The ability to obtain quoted market prices is reduced in periods of decreasing liquidity, which generally increases the

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

## 3. Investments [continued].

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, 2017, the “fund of funds” portfolio was invested in a variety of strategies, with the common strategies being long / short equity, global macro, event driven, multistrategy and co-investments. In general, the fund of funds in which the Company is invested have daily liquidity. One strategy requires at least 95 days’ prior notice of redemption, and may be redeemed on a semi-annual basis. Only one fund of funds has 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, 2017, the fair value of hedge funds held in lock ups, side-pockets or gates was \$3.9 million (2016: \$8.1 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, 2017 or 2016. Hedge fund investments measured at net asset value are not required to be disclosed within the fair value hierarchy.

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, 2017 and 2016

### 3. Investments (continued).

The following tables summarize the levels of inputs used as at November 30, 2017 and 2016, in determining the classification of investment assets and liabilities held at fair value:

#### 2017

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS            | Level 1    | Level 2   | Level 3 | NAV <sup>1</sup> | TOTAL      |
|--|------------|-----------|---------|------------------|------------|
| <b>ASSETS</b>  |            |           |         |                  |            |
| Short Term Investments                                     | \$77,636   | \$69,668  | \$70    | \$-              | \$147,374  |
| Derivatives, net   | -          | (2,472)   | -       | -                | (2,472)    |
| Equity Securities  | 81,102     | -         | -       | 11,065           | 92,167     |
| US Treasury and Government Agency                          | 97,656     | 98        | -       | -                | 97,754     |
| State and Municipal Bonds                                  | -          | 18,458    | -       | -                | 18,458     |
| Non-US Government Bonds                                    | -          | 96,544    | -       | 1,703            | 98,247     |
| Supranationals   | -          | 531       | -       | -                | 531        |
| Corporate Bonds  | -          | 159,338   | -       | 9,163            | 168,501    |
| Asset-Backed Securities                                    | -          | 59,347    | -       | -                | 59,347     |
| Mortgage-Backed Securities                                 | -          | 52,992    | -       | 373              | 53,365     |
| Total Investments in Marketable Securities and Derivatives | \$256,394  | \$454,504 | \$70    | \$ 22,304        | \$733,272  |
| Other Investments measured at net asset value <sup>1</sup> |            |           |         |                  | \$88,260   |
| <b>LIABILITIES</b>   |            |           |         |                  |            |
| Equity Securities sold short                               | \$(16,336) | \$-       | \$-     | \$-              | \$(16,336) |

#### 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) |

<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. 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, 2017 and 2016

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, 2017 and 2016:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS                   | Short Term Investments | TOTAL |
|---|------------------------|-------|
| Beginning balance at December 1, 2016                             | \$70                   | \$70  |
| Purchases and issuances   | -                      | -     |
| Sales and settlements   | (25)                   | (25)  |
| Transfers into Level 3  | -                      | -     |
| Transfers out of Level 3  | -                      | -     |
| Reclassification  | -                      | -     |
| Realized and unrealized gains included in net income for the year | 25                     | 25    |
| Ending balance at November 30, 2017                               | \$70                   | \$70  |

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS                   | Short Term Investments | TOTAL |
|---|------------------------|-------|
| Beginning balance at December 1, 2016                             | \$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, 2017                               | \$70                   | \$70  |

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

During the years ended November 30, 2017 and 2016, there were no transfers in or out of Levels 1, 2 or 3.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

### 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, 2017 and 2016:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS | Derivative Assets 2017 |            | Derivative Liabilities 2017 |            |
|---|------------------------|------------|-----------------------------|------------|
|   |                        | Fair Value |                             | Fair Value |
| Interest rate swaps                             |                        | \$1,488    |                             | \$1,801    |
| Credit default swaps                            |                        | -          |                             | 934        |
| Equity swaps                                    |                        | 392        |                             | 35         |
| Fixed income and currency options               |                        | 48         |                             | 216        |
| Forward foreign currency contracts              |                        | 2,390      |                             | 4,399      |
| Equity futures                                  |                        | 418        |                             | -          |
| Interest rate futures                           |                        | 942        |                             | 765        |
| Total   |                        | \$5,678    |                             | \$8,150    |

| 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    |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

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, 2017 and 2016:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS | <b>2017</b>                     |   |                        |
|---|---------------------------------|---|------------------------|
|   | Net realized gains and [losses] | Change in unrealized gains and [losses] | Net gains and [losses] |
| Interest rate swaps                             | \$189                           | \$1,150                                 | \$1,339                |
| Credit default swaps                            | -                               | [754]                                   | [754]                  |
| Equity swaps                                    | 4                               | 343                                     | 347                    |
| Fixed income and currency options               | 379                             | [182]                                   | 197                    |
| Forward foreign currency contracts              | 1,216                           | [8,868]                                 | [7,652]                |
| Equity futures                                  | 677                             | 247                                     | 924                    |
| Interest rate futures                           | 639                             | 176                                     | 815                    |
| <b>Total</b>                                    | <b>\$3,104</b>                  | <b>\$(7,888)</b>                        | <b>\$(4,784)</b>       |

| 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]                |
| <b>Total</b>                                    | <b>\$(2,436)</b>                | <b>\$5,532</b>                          | <b>\$3,096</b>         |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

4. Commitments and contingencies (continued).

(a) Derivative instruments (continued).

### (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, 2017 and 2016, the Company had the following open forward foreign currency contracts:

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS

| CURRENCY | 2017                   |                     | 2016                   |                     |
|----------|------------------------|---------------------|------------------------|---------------------|
|          | Notional<br>Receivable | Notional<br>Payable | Notional<br>Receivable | Notional<br>Payable |
| AUD      | \$8,812                | \$(13,113)          | \$6,177                | \$(14,074)          |
| BRL      | 6,246                  | [4,254]             | 1,294                  | [6,573]             |
| CAD      | 10,770                 | [21,378]            | 10,730                 | [19,093]            |
| CHF      | 2,161                  | [2,744]             | 654                    | [637]               |
| CNH      | 1,260                  | [1,161]             | 1,533                  | [1,546]             |
| CNY      | 1,655                  | [1,388]             | -                      | [6,820]             |
| CZK      | 2,644                  | [1,923]             | 767                    | [150]               |
| DKK      | 4,452                  | [12,713]            | 453                    | [20,410]            |
| EUR      | 47,971                 | [101,153]           | 25,935                 | [69,177]            |
| GBP      | 20,125                 | [38,332]            | 19,288                 | [38,527]            |
| INR      | 8,137                  | [3,489]             | 2,309                  | [457]               |
| JPY      | 8,651                  | [59,138]            | 2,604                  | [35,304]            |
| KRW      | 2,565                  | [11,347]            | 488                    | [5,142]             |
| MXN      | 5,048                  | [5,259]             | 4,206                  | [4,640]             |
| NOK      | 6,359                  | [3,239]             | 1,282                  | [1,290]             |
| NZD      | 4,928                  | [3,445]             | 1,590                  | [2,575]             |
| PLN      | 6,643                  | [8,389]             | 1,785                  | [5,101]             |
| RUB      | 5,451                  | [1,950]             | 1,446                  | [621]               |
| SEK      | 8,507                  | [10,505]            | 5,623                  | [1,425]             |
| SGD      | 4,709                  | [6,219]             | 2,144                  | [6,738]             |
| TRY      | 2,719                  | [2,219]             | 1,051                  | [1,162]             |
| TWD      | 235                    | [3,092]             | 2,467                  | [5,145]             |
| USD      | 273,781                | [132,530]           | 243,250                | [83,235]            |
| ZAR      | 2,562                  | [2,974]             | 643                    | [591]               |
| Other    | 9,617                  | [6,063]             | 2,224                  | [2,651]             |
|          | \$456,008              | \$(458,017)         | \$339,943              | \$(333,084)         |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

4. Commitments and contingencies (continued).

(a) Derivative instruments (continued).

(i) Foreign currency exposure management (continued).

At November 30, 2017, unrealized gains of \$2.4 million (2016: \$9.2 million) and unrealized losses of \$4.4 million (2016: \$2.3 million) on forward foreign currency contracts are included in investments in marketable securities and derivatives in the Consolidated Balance Sheet.

## (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, 2017 and 2016 the contractual values of financial futures contracts are:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS | 2017    |           | 2016    |           |
|---|---------|-----------|---------|-----------|
|   | Long    | Short     | Long    | Short     |
| Equity index futures contracts                  | \$5,322 | \$ -      | \$5,899 | \$ -      |
| Bond and note futures contracts                 | 277,909 | (269,194) | 260,567 | (206,842) |

The Company had gross gains of \$1.4 million and gross losses of \$0.8 million on open futures contracts for the year ended November 30, 2017 (2016: gross gains \$1.4 million and gross losses \$1.2 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, 2017 and 2016

4. Commitments and contingencies (continued).

(a) Derivative instruments (continued).

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

### 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, 2017 and 2016 the fair value of open interest rate swap contracts is:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS | 2017    | 2016      |
|---|---------|-----------|
| Interest rate swaps, net                        | \$(313) | \$(1,463) |

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, 2017 and 2016 the fair value of open fixed income and currency option contracts is:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS | 2017  | 2016  |
|---|-------|-------|
| Options purchased                               | \$48  | \$402 |
| Options written (liability)                     | (216) | (388) |

Premiums received for open written options as of November 30, 2017, amounted to \$0.3 million (2016: \$0.5 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, 2017 and 2016

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, 2017, under the Customer Prime Broker Account Agreement, \$18.9 million (2016: \$20.8 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, 2017 and 2016, the fair values of the Company's restricted assets are as follows:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS | 2017       | 2016      |
|---|------------|-----------|
| Assets pledged under Insurance Trusts (i)       | \$188,297  | \$135,744 |
| Funds at Lloyds (ii)                            | 29,813     | 14,500    |
| Total Restricted Assets                         | \$ 218,110 | \$150,244 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

4. Commitments and contingencies [continued].

(e) Restricted assets [continued].

### (i) Assets pledged under Insurance Trusts

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.

The fair values of assets pledged under Insurance Trusts as at November 30, 2017 and 2016, and the level in the fair value hierarchy are as follows:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS | 2017      |         | 2016      |         |
|---|-----------|---------|-----------|---------|
|   |           | Level   |           | Level   |
| Cash and Cash Equivalents                       | \$6,807   | Level 1 | \$1,489   | Level 1 |
| Short Term Investments - US Treasury            | 51,900    | Level 1 | 134,255   | Level 1 |
| Short Term Investments - Corporate              | 75,222    | Level 2 | -         | -       |
| Fixed Maturities                                |           |         |           |         |
| US Treasury and Government Agency               | 19,867    | Level 1 | -         | -       |
| Corporate Bonds                                 | 33,971    | Level 2 | -         | -       |
| Total Fixed Maturities                          | 53,838    |         | -         |         |
| Accrued Investment Income                       | 530       | Level 1 | -         | -       |
| Total Assets Pledged under Insurance Trusts     | \$188,297 |         | \$135,744 |         |

The contractual maturities of restricted assets held as fixed maturities and short term investments as at November 30, 2017 and 2016 are as follows:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS   | 2017      | 2016      |
|---|-----------|-----------|
| Due in one year or less                           | \$127,122 | \$134,255 |
| Due after one year through five years             | 53,838    | -         |
| Total Fixed Maturities and short term investments | \$180,960 | \$134,255 |

The credit quality of the restricted assets held as fixed maturities and short term investments as at November 30, 2017 and 2016, are as follows:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS   | 2017      | 2016      |
|---|-----------|-----------|
| US Government and Agency                          | \$71,767  | \$134,255 |
| AA  | 28,075    | -         |
| A   | 60,514    | -         |
| BBB   | 18,107    | -         |
| Below BBB   | 2,497     | -         |
| Total fixed maturities and short term investments | \$180,960 | \$134,255 |

### (ii) Funds at Lloyd's

The Company provides cash capital in the form of Funds at Lloyd's for use in Lloyd's business through a corporate member, OCIL Limited. OCIL Limited has participated in Lloyd's business through five Syndicates commencing in the Lloyd's 2017 year of account. The Company would classify these restricted assets within level 1 of the fair value hierarchy.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

## 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 2017 and 2016 is as follows:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS | 2017      | 2016      |
|---|-----------|-----------|
| Gross balance, beginning of year                | \$522,691 | \$441,055 |
| Less: losses recoverable from reinsurers        | [192,944] | [165,567] |
| Net balance, beginning of year                  | 329,747   | 275,488   |
| Loss and loss expenses incurred related to:     |           |           |
| Current year                                    | 150,485   | 87,302    |
| Prior years                                     | [12,603]  | [19,640]  |
| Total loss and loss expenses incurred           | 137,882   | 67,662    |
| Paid loss and loss expenses related to:         |           |           |
| Current year                                    | 1,915     | [1,321]   |
| Prior years                                     | [95,303]  | [12,082]  |
| Total paid loss and loss expenses               | [93,388]  | [13,403]  |
| Foreign exchange loss                           | 319       | -         |
| Net balance, end of year                        | 374,560   | 329,747   |
| Plus: losses recoverable from reinsurers        | 247,680   | 192,944   |
| Gross balance, end of year                      | \$622,240 | \$522,691 |

The 2017 current year incurred losses of \$150.5 million relate to: [i] the establishment of \$35.7 million of IBNR on the Company's direct insurance book of business for the 2017 underwriting year; [ii] the establishment of IBNR totaling \$56.6 million on the Company's assumed reinsurance book of business for the 2017 year; [iii] case reserves totaling \$33.2 million on

the Company's assumed reinsurance book of business for the 2017 year; [iv] case reserves totaling \$15.2 million on the Company's direct insurance book of business for the 2017 underwriting year; [v] losses incurred of \$9.0 million on the Lloyds corporate member business; and [vi] \$0.8 million of loss expenses incurred over the Company's entire book of business.

During the year ended November 30, 2017, the incurred losses for prior year claims of \$(12.6) million primarily relate to: [i] favorable development totaling \$(24.3) million on the Company's assumed reinsurance book of business for prior years; offset by [ii] incurred loss development on prior year claims of \$9.9 million on the Company's direct insurance book

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

5. Outstanding losses and loss expenses (continued).

of business; and (iii) \$1.8 million of loss expenses incurred over the Company's entire book of business.

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 Company's reserve for losses relating to pollution liabilities has been established in accordance with generally accepted accounting principles for loss contingencies. There are

significant uncertainties involved in estimating the Company's ultimate liability for pollution claims. These uncertainties include, amongst others, (i) potentially long latency periods, (ii) difficulty in establishing the commencement date of the pollution, (iii) delays in the reporting of claims, (iv) uncertainty regarding the extent of the underlying and/or other insurance coverages, which may respond before the Company and (v) the future outcome of litigation that is currently in process and the potential that exists for punitive and compensatory awards.

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.

### Short Duration Contract Disclosures

During the year ended November 30, 2017, the Company adopted ASU 2015-09 and has included the

required disclosures below. Refer to note 2(k) for further information.

The Company has disaggregated its information presented in the tables below by line of business as appropriate for direct liability, direct property and assumed reinsurance segments, including cumulative incurred and paid losses and allocated loss adjustment expenses, as well as the corresponding amount of IBNR reserves as of November 30, 2017. The level of disaggregation is consistent with how the Company analyzes loss reserves for both internal and external reporting purposes. The Company has not prepared loss development tables for the OCIL Limited segment as its reserves for losses and loss expenses as at November 30, 2017 of \$9.3 million are not significant.

Some of the information provided in the following tables is Required Supplementary Information ("RSI") under U.S. GAAP. Therefore it does not form part of these consolidated financial statements. Claims development information for all periods except the current reporting period and any information derived from it, including average annual percentage payout of claims incurred, is considered RSI.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

5. Outstanding losses and loss expenses (continued).

## Direct Liability

The direct liability loss development tables have been produced for accident years 2008 through to 2017. The tables below also include claim frequency information, by accident year. The Company defines a single claim incident, per policy, which may include multiple claimants and multiple coverages on a single policy. Claims counts include claims closed without a payment as well as claims where the Company is monitoring to determine if exposure exists, even if a reserve has not been established.

## Incurred Losses and Loss Expenses, Net of Reinsurance

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS

| Accident Year | unaudited |          |          |         |         |         |         |         |        |         | Total of IBNR Reserves, net of reinsurance | Cumulative Reported Claims Count |
|---------------|-----------|----------|----------|---------|---------|---------|---------|---------|--------|---------|--|----------------------------------|
|               | 2008      | 2009     | 2010     | 2011    | 2012    | 2013    | 2014    | 2015    | 2016   | 2017    |  |                                  |
| 2008          | \$16,225  | \$8,037  | \$8,037  | \$6,631 | \$3,548 | \$1,612 | \$1,020 | \$543   | \$509  | \$380   | \$380                                      | 283                              |
| 2009          |           | \$12,467 | \$12,467 | \$6,796 | \$6,227 | \$1,880 | \$1,625 | \$1,053 | 1,017  | 913     | 913  | 331                              |
| 2010          |           |          | 51,759   | 41,595  | 34,747  | 32,848  | 31,560  | 30,693  | 30,585 | 30,446  | 446  | 314                              |
| 2011          |           |          |          | 26,829  | 55,817  | 48,350  | 43,847  | 42,179  | 40,958 | 40,522  | 1,137                                      | 309                              |
| 2012          |           |          |          |         | 31,655  | 22,814  | 28,889  | 25,262  | 20,584 | 26,323  | 6,823                                      | 307                              |
| 2013          |           |          |          |         |         | 31,040  | 38,320  | 10,895  | 4,542  | 4,722   | 2,722                                      | 260                              |
| 2014          |           |          |          |         |         |         | 28,981  | 22,535  | 8,611  | 5,090   | 5,090                                      | 267                              |
| 2015          |           |          |          |         |         |         |         | 48,088  | 72,592 | 87,330  | 11,030                                     | 313                              |
| 2016          |           |          |          |         |         |         |         |         | 24,268 | 16,322  | 16,322                                     | 335                              |
| 2017          |           |          |          |         |         |         |         |         |        | 24,685  | 24,685                                     | 354                              |
| <b>Total</b>  |           |          |          |         |         |         |         |         |        | 236,733 |  |                                  |

## Cumulative Paid Losses and Loss Expenses, Net of Reinsurance

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS

| Accident Year  | unaudited |      |      |      |        |        |        |        |        |        | Total   |         |
|--|-----------|------|------|------|--------|--------|--------|--------|--------|--------|---------|---------|
|  | 2008      | 2009 | 2010 | 2011 | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   |         |         |
| 2008   | -         | -    | -    | -    | -      | -      | -      | -      | -      | -      | -       | -       |
| 2009   |           | -    | -    | -    | -      | -      | -      | -      | -      | -      | -       | -       |
| 2010   |           |      | -    | -    | 12,500 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000  | 30,000  |
| 2011   |           |      |      | -    | -      | 16,960 | 39,385 | 39,385 | 39,385 | 39,385 | 39,385  | 39,385  |
| 2012   |           |      |      |      | -      | -      | -      | -      | -      | -      | -       | -       |
| 2013   |           |      |      |      |        | -      | -      | -      | -      | -      | 3,070   | 3,070   |
| 2014   |           |      |      |      |        |        | -      | -      | -      | -      | -       | -       |
| 2015   |           |      |      |      |        |        |        | -      | 15,000 | 57,500 | 57,500  | 57,500  |
| 2016   |           |      |      |      |        |        |        |        | -      | -      | -       | -       |
| 2017   |           |      |      |      |        |        |        |        |        |        |         | -       |
| <b>Total</b>   |           |      |      |      |        |        |        |        |        |        | 129,955 | 129,955 |
| Reserves for outstanding losses and loss expenses, before 2008, net of reinsurance |           |      |      |      |        |        |        |        |        |        | 21,603  | 21,603  |
| Reserves for outstanding losses and loss expenses, net of reinsurance              |           |      |      |      |        |        |        |        |        |        | 128,381 | 128,381 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

5. Outstanding losses and loss expenses (continued).

### Direct Property

The direct property loss development tables have been produced for accident years 2013 through to 2017. For the property segment, the years presented in the tables comprise the majority of the period for which incurred losses typically remain outstanding. The tables below also include claim frequency information, by accident year. The Company defines a single claim incident, per policy, which may include multiple claimants and multiple coverages on a single policy. Claims counts include claims closed without a payment as well as claims where the Company is monitoring to determine if exposure exists, even if a reserve has not been established.

### Incurred Losses and Loss Expenses, Net of Reinsurance

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS

| Accident Year | unaudited |       |       |       | audited | Total of IBNR<br>Reserves, net of<br>reinsurance | Cumulative<br>Reported<br>Claims<br>Count |
|---------------|-----------|-------|-------|-------|---------|--|---|
|               | 2013      | 2014  | 2015  | 2016  | 2017    |  |   |
| 2013          | \$834     | \$567 | -     | -     | -       | -  | 8   |
| 2014          |           | 2,268 | 654   | 193   | 186     | 6  | 9   |
| 2015          |           |       | 1,569 | 895   | 503     | 34   | 9   |
| 2016          |           |       |       | 1,365 | 2,120   | 693  | 23  |
| 2017          |           |       |       |       | 25,381  | 11,060   | 60  |
| <b>Total</b>  |           |       |       |       | 28,190  |  |   |

### Cumulative Paid Losses and Loss Expenses, Net of Reinsurance

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS

| Accident Year  | unaudited |      |      |      | audited |
|--|-----------|------|------|------|---------|
|  | 2013      | 2014 | 2015 | 2016 | 2017    |
| 2013   | -         | -    | -    | -    | -       |
| 2014   |           | -    | 180  | 180  | 180     |
| 2015   |           |      | 40   | 60   | 247     |
| 2016   |           |      |      | -    | 618     |
| 2017   |           |      |      |      | (4,972) |
| <b>Total</b>   |           |      |      |      | (3,927) |
| Reserves for outstanding losses and loss expenses, before 2013, net of reinsurance |           |      |      |      | -       |
| Reserves for outstanding losses and loss expenses, net of reinsurance              |           |      |      |      | 32,117  |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

5. Outstanding losses and loss expenses (continued).

## Assumed Reinsurance

The assumed reinsurance loss development tables have been produced for accident years 2009 through to 2017. For the assumed reinsurance segment, the years presented in the tables comprise the majority of the period for which incurred losses typically remain outstanding. The Company provides treaty reinsurance products on a global basis and does not maintain claims count information associated with its assumed reinsurance claims. As such, the Company has determined that it is impracticable to provide this information.

## Incurred Losses and Loss Expenses, Net of Reinsurance

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS

| Accident Year | unaudited |        |        |        |        |        |        |        |                | Total of IBNR Reserves, net of reinsurance | Cumulative Reported Claims Count |
|---------------|-----------|--------|--------|--------|--------|--------|--------|--------|----------------|--|----------------------------------|
|               | 2009      | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017           |  |                                  |
| 2009          | \$766     | \$495  | \$362  | \$534  | \$380  | -      | \$75   | \$83   | \$81           | \$14                                       | N/A                              |
| 2010          |           | 30,364 | 29,313 | 30,252 | 29,057 | 28,116 | 27,672 | 27,348 | 27,832         | 1,377                                      | N/A                              |
| 2011          |           |        | 11,419 | 29,674 | 41,715 | 51,315 | 45,287 | 35,653 | 22,468         | 2,000                                      | N/A                              |
| 2012          |           |        |        | 36,507 | 56,655 | 47,648 | 54,536 | 65,136 | 64,342         | 3,345                                      | N/A                              |
| 2013          |           |        |        |        | 25,859 | 59,314 | 55,810 | 51,748 | 48,910         | 7,975                                      | N/A                              |
| 2014          |           |        |        |        |        | 25,821 | 58,647 | 70,058 | 71,796         | 30,195                                     | N/A                              |
| 2015          |           |        |        |        |        |        | 12,301 | 32,539 | 27,414         | 7,813                                      | N/A                              |
| 2016          |           |        |        |        |        |        |        | 27,849 | 62,042         | 36,243                                     | N/A                              |
| 2017          |           |        |        |        |        |        |        |        | 51,030         | 29,510                                     | N/A                              |
| <b>Total</b>  |           |        |        |        |        |        |        |        | <b>375,915</b> |  |                                  |

## Cumulative Paid Losses and Loss Expenses, Net of Reinsurance

EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS

| Accident Year  | unaudited |      |        |        |        |        |        |        |                | Total          |
|--|-----------|------|--------|--------|--------|--------|--------|--------|----------------|----------------|
|  | 2009      | 2010 | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017           |                |
| 2009   | -         | -    | -      | -      | -      | -      | \$66   | \$66   | \$66           | \$66           |
| 2010   |           | -    | 26,955 | 26,455 | 26,455 | 26,455 | 26,455 | 26,455 | 26,455         | 26,455         |
| 2011   |           |      | -      | -      | 3,421  | 6,627  | 12,627 | 13,682 | 16,441         | 16,441         |
| 2012   |           |      |        | -      | 16,368 | 26,215 | 39,057 | 42,174 | 57,890         | 57,890         |
| 2013   |           |      |        |        | 3,143  | 10,253 | 23,363 | 30,498 | 34,922         | 34,922         |
| 2014   |           |      |        |        |        | 337    | 4,158  | 13,478 | 22,615         | 22,615         |
| 2015   |           |      |        |        |        |        | 196    | 2,962  | 11,043         | 11,043         |
| 2016   |           |      |        |        |        |        |        | 99     | 7,822          | 7,822          |
| 2017   |           |      |        |        |        |        |        |        | 579            | 579            |
| <b>Total</b>   |           |      |        |        |        |        |        |        | <b>177,833</b> | <b>177,833</b> |
| Reserves for outstanding losses and loss expenses, before 2008, net of reinsurance |           |      |        |        |        |        |        |        |                | -              |
| Reserves for outstanding losses and loss expenses, net of reinsurance              |           |      |        |        |        |        |        |        |                | <b>198,082</b> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

5. Outstanding losses and loss expenses (continued).

### Reconciliation of Loss Development Information to the Reserves for Losses and Loss Expenses

The table below reconciles the net incurred and paid loss development tables, by segment, to the Company's outstanding losses and loss expenses in the consolidated balance sheet as at November 30, 2017:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS                       | November 30, 2017 |
|---|-------------------|
| Outstanding losses and loss expenses, net of reinsurance              |                   |
| Direct Liability  | \$128,381         |
| Direct Property   | 32,117            |
| Assumed Reinsurance   | 198,082           |
| <b>Total outstanding losses and loss expenses, net of reinsurance</b> | <b>358,580</b>    |
| Loss reserves recoverable   |                   |
| Direct Liability  | 222,768           |
| Direct Property   | 331               |
| Assumed Reinsurance   | 16,325            |
| <b>Total loss reserves recoverable</b>                                | <b>239,424</b>    |
| Outstanding loss and loss expenses - other                            | 14,088            |
| Unallocated loss adjustment expenses                                  | 10,148            |
| <b>Total outstanding losses and loss expenses</b>                     | <b>\$622,240</b>  |

The following table presents supplementary information about average historical claims duration as of November 30, 2017 based on cumulative incurred and paid losses and allocated loss adjustment expenses presented above.

### Average Annual Percentage Payout of Incurred Losses by Age [in Years]

| Unaudited           | 1      | 2     | 3     | 4     | 5     |
|---------------------|--------|-------|-------|-------|-------|
| Direct Liability    | 0.0%   | 1.9%  | 16.4% | 16.1% | 10.8% |
| Direct Property     | (2.3%) | 32.5% | 12.4% | 0.0%  | 0.0%  |
| Assumed Reinsurance | 1.0%   | 20.6% | 14.0% | 10.3% | 8.1%  |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

## 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, 2017, the Company repurchased and retired a portion of the Deferrable Subordinated Debentures with a par value of \$2.0 million (2016: \$5.0 million). During prior years, the Company had repurchased and retired a portion of the Deferrable Subordinated Debentures with a par value of \$56.6 million. At November 30, 2017, the Deferrable Subordinated Debentures outstanding total was \$141.4 million (2016: \$143.4 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 Credit facility was not utilized at any time and was terminated effective November 18, 2016.

### **[c] Debt issuance costs**

At November 30, 2017, the Company recognized deferred debt issuance costs of \$2.1 million (2016: \$2.3 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 (2016: \$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, 2017, 54 (2016: 56) 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 performs periodic reviews of reinsurance recoverables and accordingly, provisions are made for amounts identified as potentially uncollectible.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended November 30, 2017 and 2016

### 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, 2017 and 2016, 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, 2017 and 2016.

### 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, 2017 and 2016:

| EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS | 2017      | 2016      |
|---|-----------|-----------|
| U.S. GAAP Shareholders' Equity                  | \$545,904 | \$539,121 |
| Plus: Loan Payable                              | 141,400   | 143,400   |
| Less: Non-admitted assets                       | [2,448]   | [3,197]   |
| Statutory Capital and Surplus                   | \$684,856 | \$679,324 |
| Minimum required statutory capital and Surplus  | \$54,794  | \$49,462  |

Non-admitted assets for statutory purposes include prepaid assets and deferred expenses.

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, 2017 the Company is required to maintain relevant assets of at least \$402.1 million. At that date relevant assets are approximately \$1,179.9 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, 2017, the Company met the capital requirements of the BSCR.

### 12. COMPARATIVE INFORMATION

Certain balances in the 2016 financial statements have been reclassified to conform to the 2017 consolidated financial statement presentation.

### 13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 23, 2018, 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, 2017 and 2016, 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, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

## Other matter

U.S. generally accepted accounting principles require that certain disclosures related to short-duration insurance contracts in Note 5 to the basic consolidated financial statements be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*KPMG Audit Limited*

**Chartered Professional Accountants**

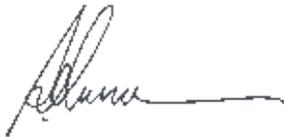
Hamilton, Bermuda  
February 23, 2018

## 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

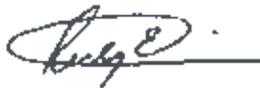
responsible for establishing and maintaining disclosure controls and procedures and we have: designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within the Company; evaluated 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 & 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  
Nexen Energy ULC

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 DAC]  
Enterprise Products Company  
Exxon Mobil Corporation  
Hess Corporation  
[Jamestown Insurance Company Limited]  
Husky Energy Inc.  
Loop LLC  
LyondellBasell Industries N.V.  
[Lyondell Chemical Company]

\* THESE ENERGY COMPANIES  
OR THEIR INSURANCE  
AFFILIATES (INDICATED  
IN BRACKETS) WERE  
SHAREHOLDERS AT  
NOVEMBER 30, 2017.

**Maersk Olie og Gas AS**  
**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.**  
**Santos Ltd.**  
 [Sanro Insurance Pte Ltd.]  
**Sasol Limited**  
 [Sasol International Insurance Limited]

**Sempra Energy**  
**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.**

**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**  
Chairman,  
Omnium Reinsurance  
Company SA



**Stephen J. Foster**  
Assistant Treasurer  
- Risk Management,  
Anadarko Petroleum Corporation



DIRECTORS\*

\* AS OF NOVEMBER 30, 2017



**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

**Bertil C. Olsson**

President & Chief  
Executive Officer



**Jerry Rivers**

Senior Vice President  
& Chief Operating Officer



**Ricky E. Lines**

Senior Vice President  
& Chief Financial Officer



**Matthew E. Pifer**

Senior Vice President  
General Counsel & Secretary



**Robert Foskey**

Senior Vice President &  
Chief Actuary



**Marlene J. Cechini**

Controller &  
Assistant Secretary



**Gail Miller**

Vice President  
Human Resources &  
Administration



EXECUTIVES\*

\* AS OF NOVEMBER 30, 2017

UNDERWRITING\*

LIABILITY



**Graham Kirk**  
Senior Underwriter,  
Team Leader



**Gina Butterfield**  
Senior Underwriter



**Margaret Jones**  
Underwriter



**Duncan Frith**  
Underwriter



**Katie Stevenson**  
Underwriting Assistant

PROPERTY



**Rolf Fischer**  
Senior Underwriter,  
Team Leader



**Ian Morrison**  
Underwriter



**Tare Brangman**  
Underwriting Assistant



**Daeshun Robinson**  
Underwriting Assistant

ASSUMED  
REINSURANCE



**Wanda Mello**  
Reinsurance Analyst

**Jill Burns-Leman**  
Senior Claims Analyst



**Jennifer Thomas**  
Claims Analyst



**Joe Amaral**  
Claims Manager



**Deborah Backeberg**  
Senior Claims Analyst



**Mikal Thomas**  
Claims Analyst



**LIABILITY**

**PROPERTY**

**CLAIMS\***

\* AS OF NOVEMBER 30, 2017

## **COMMITTEES OF THE BOARD**

### **EXECUTIVE**

Andre Levey  
Bertil C. Olsson  
Fabrizio Mastrantonio

### **AUDIT**

Fabrizio Mastrantonio  
James D. Lyness  
Theodore Guidry II

### **GOVERNANCE & RECRUITMENT**

John P. Talarico  
Lars Ostebo  
Robert Wondolleck

### **COMPENSATION**

Andre Levey  
Fabrizio Mastrantonio  
Pamela F. Mihovil

## **EXTERNAL SERVICE PROVIDERS**

### **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

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## 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

**Salvatore Corentii**

Chief Executive Officer [Retired], Conning

**Robert Gordan**

Assistant Treasurer - Insurance Division [Retired], Chevron Corporation

#### OFFICERS

**Ricky E. Lines**

Senior Vice President & Chief Financial Officer

**Marlene J. Cechini**

Controller & Assistant Secretary

**Andrew Rossiter**

Vice President & Director of Investments

**Matthew E. Pifer**

Senior Vice President General Counsel & Secretary

---

### OCIL Limited

#### BOARD OF DIRECTORS

**Bertil C. Olsson**

Jerome Rivers

James MacKay

APCL Corporate Director No.1\*\*

APCL Corporate Director No.2\*\*

\* AS OF NOVEMBER 30, 2017

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





3 BERMUDIANA ROAD  
HAMILTON HM 08  
BERMUDA

P.O. BOX HM 1751  
HAMILTON HM 6X  
BERMUDA

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FAX: 441 295 0351  
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