OIL CASUALTY INSURANCE, LTD.

Consolidated Financial Statements
(With Independent Auditor's Report Thereon)

Years Ended November 30, 2017 and 2016

KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton HM 08 Bermuda

Mailing Address:
P.O. Box HM 906
Hamilton HM DX Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 9132
Internet www.kpmg.bm

INDEPENDENT AUDITOR'S REPORT

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.

KPMG

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

OIL CASUALTY INSURANCE, LTD.

Consolidated Balance Sheets

November 30, 2017 and 2016
(Expressed in Thousands of United States Dollars)

	2017	2016
Assets		
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 (Note 2(k))	19,347	14,104
Total assets	$ 1,619,081	$ 1,473,583
Liabilities		
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 (Notes 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
Total liabilities	1,073,177	934,462
Shareholders' equity		
Common shares (Note 7)	270	280
Retained earnings	545,634	538,841
Total shareholders' equity	545,904	539,121
Total liabilities and shareholders' equity	$ 1,619,081	$ 1,473,583

See accompanying notes to consolidated financial statements

OIL CASUALTY INSURANCE, LTD.

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 (Notes 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 (Notes 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

OIL CASUALTY INSURANCE, LTD.

Consolidated Statements of Changes in Shareholders' Equity

Years Ended November 30, 2017 and 2016
(Expressed in Thousands of United States Dollars)

	Common shares			
	Number of shares		Retained earnings	Total
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

OIL CASUALTY INSURANCE, LTD.

Consolidated Statements of Cash Flows

Years Ended November 30, 2017 and 2016
(Expressed in Thousands of United States Dollars)

	2017	2016
Cash flows from operating activities		
Net income	$ 6,793	$ 1,667
Adjustments to reconcile net income to cash provided (used) 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)
Cash flows from financing activities		
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
Supplemental disclosure of cash flow information:		
Interest paid	$ 11,384	$ 11,605

See accompanying notes to consolidated financial statements

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.

2. **Summary of significant accounting policies** (continued)

(b) Premiums and acquisition costs (continued)

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 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.

2. **Summary of significant accounting policies** (continued)

(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 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.

2. **Summary of significant accounting policies** (continued)

(h) Fair value of financial instruments

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

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

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

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

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

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

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

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

(i) Short selling

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

2. **Summary of significant accounting policies** (continued)

(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.

3. Investments

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

	2017 ($'000)	2016 ($'000)
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:

	2017 ($'000)	2016 ($'000)
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.

3. **Investments** (continued)

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.

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

	2017 ($'000)	2016 ($'000)
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:

	2017 ($'000)	2016 ($'000)
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

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).

3. **Investments** (continued)

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 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.

3. **Investments** (continued)

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 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.

3. **Investments** (continued)

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.

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:

November 30, 2017 Assets	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	NAV [1] ($'000)	Total ($'000)
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 [1]					$ 88,260

November 30, 2017 Liabilities	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	NAV [1] ($'000)	Total ($'000)
Equity Securities sold short	$ (16,336)	$ –	$ –	$ –	$ (16,336)

November 30, 2016 Assets	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	NAV [1] ($'000)	Total ($'000)
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 [1]					$ 85,203

3. **Investments** (continued)

November 30, 2016 Liabilities	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	NAV [1] ($'000)	Total ($'000)
Equity Securities sold short	$ (18,022)	$ –	$ –	$ –	$ (18,022)

[1] 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.

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:

	Short Term Investments ($'000)	Total ($'000)
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

	Short Term Investments ($'000)	Total ($'000)
Beginning balance at December 1, 2015	$ 732	$ 732
Purchases and issuances	–	–
Sales and settlements	(696)	(696)
Transfers into Level 3	–	–
Transfers out of Level 3	–	–
Reclassification	–	–
Realized and unrealized gains included in net income for the year	34	34
Ending balance at November 30, 2016	$ 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.

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:

	Derivative Assets	Derivative Liabilities
	2017	2017
	Fair Value ($'000)	Fair Value ($'000)
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

	Derivative Assets	Derivative Liabilities
	2016	2016
	Fair Value ($'000)	Fair Value ($'000)
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

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:

	2017		
	Net realized gains and (losses) ($'000)	Change in unrealized gains and (losses) ($'000)	Net gains and (losses) ($'000)
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
Total	$ 3,104	$ (7,888)	$ (4,784)

	2016		
	Net realized gains and (losses) ($'000)	Change in unrealized gains and (losses) ($'000)	Net gains and (losses) ($'000)
Interest rate swaps	$ (209)	$ 1,832	$ 1,623
Credit default swaps	–	(142)	(142)
Equity swaps	(15)	166	151
Fixed income and currency options	872	73	945
Forward foreign currency contracts	(1,583)	3,239	1,656
Equity futures	719	(155)	564
Interest rate futures	(2,220)	519	(1,701)
Total	$ (2,436)	$ 5,532	$ 3,096

(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.

4. **Commitments and contingencies** (continued)

(a) Derivative instruments (continued)

(i) Foreign currency exposure management (continued)

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:

Currency	2017 Notional Receivable ($'000)	2017 Notional Payable ($'000)	2016 Notional Receivable ($'000)	2016 Payable ($'000)
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)

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.

4. **Commitments and contingencies** (continued)

(a) Derivative instruments (continued)

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

Futures

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

All financial futures contracts are held on a non-leveraged basis, fully backed at all times by short term investments and cash equivalents that are posted as margin collateral.

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

When entering a financial futures contract, the Company is required to provide initial margin which is a deposit of either cash or securities in an amount equal to a certain percentage of the contract value. The initial margin is adjusted to reflect changes in the value of the futures contract which are marked to market on a daily basis. The Company recognizes a realized gain or loss when the contract is closed. Futures contracts expose the Company to market and liquidity risks. The Company is exposed to market risk to the extent that adverse changes occur in the market values of the underlying securities or indices. This market risk is in excess of the amount recognized in the Consolidated Balance Sheet. Liquidity risk represents the possibility that the Company may not be able to rapidly adjust the size of its futures positions in times of high volatility and financial stress at a reasonable price. Exchange-traded futures are subject, however, to a number of safeguards to ensure that obligations are met, including the use of clearing houses, the posting of margins and the daily settlement of futures profits and losses and the amount of credit risk is therefore considered low.

At November 30, 2017 and 2016 the contractual values of financial futures contracts are:

	2017		2016	
	Long ($'000)	Short ($'000)	Long ($'000)	Short ($'000)
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.

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:

	2017 ($'000)	2016 ($'000)
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:

	2017 ($'000)	2016 ($'000)
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.

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.

4. **Commitments and contingencies** (continued)

(e) Restricted assets

At November 30, 2017 and 2016, the fair values of the Company's restricted assets are as follows:

	2017 ($'000)	2016 ($'000)
Assets pledged under Insurance Trusts *(i)*	$ 188,297	$ 135,744
Funds at Lloyd's *(ii)*	29,813	14,500
Total Restricted Assets	$ 218,110	$ 150,244

(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:

	2017 ($'000)	2017 Level	2016 ($'000)	2016 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:

	2017 ($'000)	2016 ($'000)
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

4. **Commitments and contingencies** (continued)

(c) *Restricted assets* (continued)

(i) *Assets pledged under Insurance Trusts* (continued)

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:

	2017 ($'000)	2016 ($'000)
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.

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:

	2017 ($'000)	2016 ($'000)
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)

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

	2017 ($'000)	2016 ($'000)
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 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.

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

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.

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
($'000)

	Years Ended November 30, unaudited										November 30, 2017	
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total of IBNR Reserves, net of reinsurance	Cumulative Reported Claims Count
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
Total										236,733		

Cumulative Paid Losses and Loss Expenses, Net of Reinsurance
($'000)

	Years Ended November 30, unaudited									
Accident Year	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
2011				–	–	16,960	39,385	39,385	39,385	39,385
2012					–	–	–	–	–	–
2013						–	–	–	–	3,070
2014							–	–	–	–
2015								–	15,000	57,500
2016									–	–
2017										–
Total										129,955

Reserves for outstanding losses and loss expenses, before 2008, net of reinsurance	21,603
Reserves for outstanding losses and loss expenses, net of reinsurance	128,381

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
($0'000)

	Years Ended November 30,					November 30, 2017	
	unaudited						
Accident Year	2013	2014	2015	2016	2017	Total of IBNR Reserves, net of reinsurance	Cumulative Reported Claims Count
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
Total					28,190		

Cumulative Paid Losses and Loss Expenses, Net of Reinsurance
($0'000)

	Years Ended November 30,				
	unaudited				
Accident Year	2013	2014	2015	2016	2017
2013	$ –	$ –	$ –	$ –	$ –
2014		–	180	180	180
2015			40	60	247
2016				–	618
2017					(4,972)
Total					(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

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
($'000)

	Years Ended November 30,									November 30, 2017	
	unaudited										
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total of IBNR Reserves, net of reinsurance	Cumulative Reported Claims Count
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
Total									375,915		

Cumulative Paid Losses and Loss Expenses, Net of Reinsurance
($'000)

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

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:

		November 30, 2017 ($'000s)
Outstanding losses and loss expenses, net of reinsurance		
Direct Liability	$	128,381
Direct Property		32,117
Assumed Reinsurance		198,082
Total outstanding losses and loss expenses, net of reinsurance		358,580
Loss reserves recoverable		
Direct Liability		222,768
Direct Property		331
Assumed Reinsurance		16,325
Total loss reserves recoverable		239,424
Outstanding loss and loss expenses - other		14,088
Unallocated loss adjustment expenses		10,148
Total outstanding losses and loss expenses	$	622,240

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%

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.

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:

	2017 ($'000)	2016 ($'000)
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.

11. Regulation (continued)

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 it's 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.