

OCIL SPECIALTY LTD

Financial Statements

(With Independent Auditor's Report Thereon)

Years Ended November 30, 2023 and 2022



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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of OCIL Specialty Ltd

Opinion

We have audited the financial statements of OCIL Specialty Ltd (the "Company"), which comprise the balance sheets as of November 30, 2023 and 2022, and the related statements of operations, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of November 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional scepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required supplementary information

U.S. generally accepted accounting principles require that certain disclosures related to short-duration contracts on Note 5 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 financial statements, and other knowledge we obtained during our audit of the basic 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 27, 2024

OCIL SPECIALTY LTD

Balance Sheets

November 30, 2023 and 2022

(Expressed in Thousands of United States Dollars)

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents (Note 2(e))	\$ 23,313	\$ 11,992
Investments in marketable securities (Notes 2(c), 2(d), 3 and 4)	46,043	43,642
Restricted assets and restricted cash (Notes 2(c) and 4(b))	6,803	5,419
Accrued investment income	415	157
Losses recoverable from reinsurers (Notes 5 and 8)	23,396	6,574
Accounts receivable	3,290	2,363
Prepaid reinsurance premiums	7,626	5,251
Deferred acquisition costs (Note 2(a))	392	471
Deferred tax asset (Notes 2(f) and 9)	549	351
Other assets	<u>8</u>	<u>6</u>
 Total assets	 \$ 111,835	 \$ 76,226
	<hr/>	<hr/>
Liabilities		
Outstanding losses and loss expenses (Note 5)	\$ 33,700	\$ 9,392
Unearned premiums	12,228	8,436
Amounts due to affiliates	53	33
Investment purchases pending settlement	1,134	300
Accounts payable	794	900
Reinsurance premium payable	<u>3,632</u>	<u>2,627</u>
 Total liabilities	 51,541	 21,688
	<hr/>	<hr/>
Shareholder's equity		
Common shares (Note 6)	120	120
Contributed surplus	61,880	55,380
Retained earnings	<u>(1,706)</u>	<u>(962)</u>
 Total shareholder's equity	 60,294	 54,538
	<hr/>	<hr/>
 Total liabilities and shareholder's equity	 \$ 111,835	 \$ 76,226
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See accompanying notes to financial statements

OCIL SPECIALTY LTD

Statements of Operations

Years ended November 30, 2023 and 2022
(Expressed in Thousands of United States Dollars)

	<u>2023</u>	<u>2022</u>
Gross premiums written	\$ 22,519	\$ 14,535
Change in unearned premiums	<u>(3,791)</u>	<u>(2,928)</u>
Premiums earned	18,728	11,607
Ceded premiums	14,143	9,193
Change in prepaid reinsurance premiums	<u>(2,375)</u>	<u>(1,527)</u>
Ceded premiums earned	11,768	7,666
Net premiums earned	6,960	3,941
Losses and loss expenses incurred, net of reinsurance (Note 5)	(8,989)	(2,165)
Commission and brokerage fees, net	<u>(695)</u>	<u>(691)</u>
Net underwriting (loss) income	(2,724)	1,085
Interest income	1,632	520
Net gains (losses) on investments (Note 3)	1,089	(980)
Investment advisory and custodian fees (Note 3)	<u>(51)</u>	<u>(58)</u>
Net investment income (loss)	2,670	(518)
General and administrative expenses (Note 7(a))	<u>(913)</u>	<u>(843)</u>
Loss before income taxes	<u>(967)</u>	<u>(276)</u>
Income tax benefit (Note 9)	<u>223</u>	<u>48</u>
Net loss	<u>\$ (744)</u>	<u>\$ (228)</u>

See accompanying notes to financial statements

OCIL SPECIALTY LTD

Statements of Changes in Shareholder's Equity

Years ended November 30, 2023 and 2022
(Expressed in Thousands of United States Dollars)

Total shareholder's equity as at November 30, 2021	\$ 54,766
Amount contributed during period	—
Net loss	<u>(228)</u>
Total shareholder's equity as at November 30, 2022	\$ 54,538
Amount contributed during period	6,500
Net loss	<u>(744)</u>
Total shareholder's equity as at November 30, 2023	<u><u>\$ 60,294</u></u>

OCIL SPECIALTY LTD

Statements of Cash Flows

Years ended November 30, 2023 and 2022
(Expressed in Thousands of United States Dollars)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Net loss	\$ (744)	\$ (228)
Adjustments to reconcile net loss to net cash (used) provided by operating activities:		
Net (gains) losses on investments	(1,089)	980
Proceeds from the sale of investments	37,925	25,074
Purchase of investments	(38,688)	(25,689)
Changes in operating assets and liabilities:		
Accrued investment income	(258)	(88)
Amounts due from affiliates	–	248
Accounts receivable	(927)	(102)
Losses recoverable from reinsurance	(16,822)	(5,542)
Deferred acquisition costs	79	(143)
Prepaid reinsurance premiums	(2,375)	(1,526)
Other assets	(2)	–
Deferred tax asset	(198)	(171)
Reserve for unearned premium	3,792	2,928
Reserve for outstanding losses	24,308	7,707
Amounts due to affiliates	20	(13)
Accounts payable	(106)	317
Reinsurance premium payable	1,005	224
Restricted assets	<u>(655)</u>	<u>(5,400)</u>
Net cash provided (used) by operating activities	<u>5,265</u>	<u>(1,424)</u>
Cash flows from financing activities		
Capital contribution	<u>6,500</u>	<u>–</u>
Net cash provided by financing activities	<u>6,500</u>	<u>–</u>
Net increase (decrease) in cash and cash equivalents and restricted cash	11,765	(1,424)
Cash and cash equivalents and restricted cash at beginning of period	<u>11,994</u>	<u>13,418</u>
Cash and cash equivalents and restricted cash at end of period	<u>\$ 23,759</u>	<u>\$ 11,994</u>
Supplementary Disclosure of Cash Flow Information		
Cash and cash equivalents	23,313	11,992
Restricted cash included in Restricted assets (Note 4(b))	<u>446</u>	<u>2</u>
Total cash and cash equivalents and restricted cash shown in the Statement of Cash Flows	<u>\$ 23,759</u>	<u>\$ 11,994</u>

See accompanying notes to financial statements

1. Nature of the business

OCIL Specialty Ltd (the “Company”) was incorporated under the laws of Bermuda on April 16, 2020. The Company is a wholly owned subsidiary of Olivewood Holdings, Ltd (“OHL”), a holding company incorporated in Delaware during 2020. OHL is a wholly owned subsidiary of Everen Specialty Ltd (“ESL”), a company incorporated in Bermuda. Everen Specialty Ltd changed its name from Oil Casualty Insurance, Ltd effective June 28, 2022. The Company holds a Class 3A license under The Insurance Act 1978 of Bermuda and related regulations. On December 10, 2020 the Company received approval from the National Association of Insurance Commissioners’ (“NAIC”) International Insurers Department for inclusion on the Listing of Alien Insurers. During the year ended November 30, 2021, the Company began underwriting excess liability for small to medium size companies in various energy sectors in North America.

2. Summary of significant accounting policies

The accompanying 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) *Premiums and acquisition costs*

Insurance premiums are earned and recognized as income in the 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.

In the ordinary course of business, the Company uses reinsurance to minimize its net loss exposure to any one 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.

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

(b) *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 for the loss adjustment expenses. The reserve for outstanding losses and loss expenses for the Company’s insurance operations is established by management based on claims reported from insureds at or before the balance sheet date, and represent the estimated 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 industry data.

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)

(c) *Investments in marketable securities and investment income*

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

Restricted assets are carried in the Balance Sheet at fair value. Realized and unrealized gains and losses are included in the Statement of Operations.

Investment gains and losses are computed using the average cost of securities sold and are recorded in the Statement of Operations. Interest income is accrued to the balance sheet date.

At the date of purchase, short term investments comprise securities due to mature within one year of the balance sheet date.

(d) *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 including restricted cash: The carrying amounts reported in the Balance Sheet for these instruments approximate their fair values.

Investments in marketable securities including investments held within restricted assets: Fair values of fixed maturity securities and short term investments are based on market prices quoted by broker dealers in that market or quoted on the relevant exchange.

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

(e) *Cash and cash equivalents*

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

(f) *Income taxes*

The Company provides for income taxes for its operations in income tax paying jurisdictions. The Company's provision relies on estimates and interpretations of currently enacted tax laws.

The Company recognizes deferred tax assets and liabilities based on temporary differences between the tax basis of assets and liabilities and their reported amounts in the Financial Statements, which will result in taxable or deductible amounts in the future. Such temporary differences are primarily due to tax basis discounts on loss and loss adjustment expense reserves and unearned premiums, deferred acquisition costs, and unrealized gains (losses) on investments.

A valuation allowance against deferred tax assets is recorded if it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will be not be realized. Any adjustments to deferred income taxes are accounted for as changes in estimates and are reflected in the Statement of Operations in the year in which they are made.

OCIL SPECIALTY LTD

Notes to Financial Statements

November 30, 2023 and 2022

3. Investments

The fair values of investments as at November 30, 2023 and 2022 are as follows:

	<u>2023</u> (\$'000)	<u>2022</u> (\$'000)
<u>Short Term Investments</u>	\$ <u>15,295</u>	\$ <u>23,024</u>
<u>Fixed Maturities</u>		
US Treasury	3,443	–
State and Municipal Bonds	381	484
Non-US Government Bonds	200	–
Corporate Bonds	19,969	15,698
Asset-Backed Securities	5,837	4,436
Residential Mortgage-Backed Securities	<u>918</u>	<u>–</u>
Total Fixed Maturities	<u>30,748</u>	<u>20,618</u>
Total Investments in Marketable Securities	\$ <u>46,043</u>	\$ <u>43,642</u>

The credit qualities of fixed maturities and short term investments as at November 30, 2023 and 2022, are as follows:

	<u>2023</u> (\$'000)	<u>2022</u> (\$'000)
US Treasury	\$ 3,443	\$ 1,441
AAA	6,068	4,668
AA	11,237	10,575
A	18,697	17,597
BBB	<u>6,598</u>	<u>9,361</u>
Total Fixed Maturities and Short Term Investments	\$ <u>46,043</u>	\$ <u>43,642</u>

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.

OCIL SPECIALTY LTD

Notes to Financial Statements

November 30, 2023 and 2022

3. Investments (continued)

The contractual maturities of fixed maturities and short term investments as at November 30, 2023 and 2022 are as follows:

	<u>2023</u> (\$'000)	<u>2022</u> (\$'000)
Due in one year or less	\$ 15,295	\$ 23,024
Due after one year through five years	<u>23,993</u>	<u>16,182</u>
	39,288	39,206
Asset-Backed Securities	5,837	4,436
Mortgage-Backed Securities	<u>918</u>	<u>—</u>
Total Fixed Maturities and Short Term Investments	<u>\$ 46,043</u>	<u>\$ 43,642</u>

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 gross realized losses on investments and the change in unrealized gains and losses for the years ended November 30, 2023 and 2022 are as follows:

	<u>2023</u> (\$'000)	<u>2022</u> (\$'000)
Gross realized gains on investments and restricted assets	\$ 546	\$ 1
Gross realized losses on investments and restricted assets	(372)	(109)
Change in net unrealized gains and (losses) during the period on investments and restricted assets	<u>915</u>	<u>(872)</u>
Net gains (losses) on investments	<u>\$ 1,089</u>	<u>\$ (980)</u>

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 short term investments and U.S. treasury securities.

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 corporate debt, state and municipal bonds, non-US government bonds, and U.S. agency and non-agency mortgage and asset-backed securities.

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).

3. Investments (continued)

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.

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:

- 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.
- State and 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 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.

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Notes to Financial Statements

November 30, 2023 and 2022

3. Investments (continued)

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

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.

The following tables summarize the levels of inputs used as at November 30, 2023 and 2022, in determining the classification of investment assets and liabilities held at fair value:

November 30, 2023	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Short Term Investments	\$ –	\$ 15,295	\$ –	\$ 15,295
US Treasury	3,443	-	-	3,443
State and Municipal Bonds	-	381	-	381
Non-US Government Bonds	-	200	-	200
Corporate Bonds	-	19,969	-	19,969
Asset-Backed Securities	-	5,837	-	5,837
Residential Mortgage-Backed Securities	-	918	-	918
Total Investments in Marketable Securities and Derivatives	\$ 3,443	\$ 42,600	\$ –	\$ 46,043
<hr/>				
November 30, 2022	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Short Term Investments	\$ 1,441	\$ 21,583	\$ –	\$ 23,024
US Treasury	-	-	-	-
State and Municipal Bonds	-	484	-	484
Non-US Government Bonds	-	-	-	-
Corporate Bonds	-	15,698	-	15,698
Asset-Backed Securities	-	4,436	-	4,436
Residential Mortgage-Backed Securities	-	-	-	-
Total Investments in Marketable Securities and Derivatives	\$ 1,441	\$ 42,201	\$ –	\$ 43,642

During the years ended November 30, 2023 and 2022 there were no purchases or issues of Level 3 assets or liabilities or transfers in or out of Level 3.

4. Commitments and contingencies*(a) Concentrations of credit risk*

The investment portfolio is managed following prudent standards of diversification across counterparties, issuers, and geographical regions. Investments are allocated over to a fixed income portfolio. 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 believes that there are no significant concentrations of credit risk associated with its investments in any issuer or market.

OCIL SPECIALTY LTD

Notes to Financial Statements

November 30, 2023 and 2022

4. Commitments and contingencies (continued)*(b) Restricted assets*

At November 30, 2023 and 2022, the fair value of the Company's restricted assets are as follows:

	<u>2023</u> (\$'000)		<u>2022</u> (\$'000)
Assets Pledged under Insurance Trusts	\$ 6,803	\$	5,419
Total Restricted Assets	<u>\$ 6,803</u>	<u>\$</u>	<u>5,419</u>

Certain of the Company's invested assets were held in trust and pledged in support of its insurance activities.

The fair value of assets pledged under insurance trusts as at November 30, 2023 and 2022, and the level in the fair value hierarchy are as follows:

	<u>2023</u> (\$'000)	<u>2023</u> Level	<u>2022</u> (\$'000)	<u>2022</u> Level
Cash and Cash Equivalents	\$ 446	n/a	\$ 2	n/a
Short Term Investments - US Treasury	<u>6,357</u>	Level 1	<u>5,417</u>	Level 1
Total Assets Pledged under Insurance Trusts	<u>\$ 6,803</u>		<u>\$ 5,419</u>	

The contractual maturities of restricted assets held as fixed maturities and short term investments as at November 30, 2022 and 2021 are as follows:

	<u>2023</u> (\$'000)		<u>2022</u> (\$'000)
Due in one year or less	\$ 6,357	\$	5,417
Total Restricted Short Term investments	<u>\$ 6,357</u>	<u>\$</u>	<u>5,417</u>

The credit quality of the restricted assets held as fixed maturities and short term investments as at November 30, 2023 and 2022, are as follows:

	<u>2023</u> (\$'000)		<u>2022</u> (\$'000)
US Treasury	\$ 6,357	\$	5,417
Total Restricted Short term Investments	<u>\$ 6,357</u>	<u>\$</u>	<u>5,417</u>

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 2023 and 2022 is as follows:

	<u>2023</u> (\$'000)	<u>2022</u> (\$'000)
Gross balance, beginning of year	\$ 9,392	\$ 1,685
Less: losses recoverable from reinsurers	<u>(6,574)</u>	<u>(1,032)</u>
Net balance, beginning of year	<u>2,818</u>	<u>653</u>
Loss and loss expenses incurred related to:		
Current year	3,003	2,412
Prior years	<u>5,986</u>	<u>(247)</u>
Total loss and loss expenses incurred	<u>8,989</u>	<u>2,165</u>
Paid loss and loss expenses related to:		
Current year	-	-
Prior years	<u>(1,503)</u>	<u>-</u>
Total paid loss and loss expenses	<u>(1,503)</u>	<u>-</u>
Net balance, end of year	10,304	2,818
Plus: losses recoverable from reinsurers	<u>23,396</u>	<u>6,574</u>
Gross balance, end of year	<u>\$ 33,700</u>	<u>\$ 9,392</u>

The 2023 current year incurred losses of \$3.0 million relate to the establishment of \$2.9 million of IBNR and net loss expense incurred of \$0.1 million on the Company's direct liability insurance book of business for the 2023 year.

During the year ended November 30, 2023, the negative development on prior year claims of \$6.0 million relates to \$1.7 million unfavorable IBNR loss development, incurred case reserves of \$3.9 million, and net loss expense incurred of \$0.4 million on the Company's direct liability insurance book of business.

The 2022 current year incurred losses of \$2.4 million relate to the establishment of \$1.8 million of IBNR and \$0.6 million of case reserves on the Company's direct liability insurance book of business for the 2022 year.

During the year ended November 30, 2022, the favorable development on prior year claims of \$0.2 million relate to favorable IBNR loss development on the Company's direct liability insurance book of business.

Short Duration Contract Disclosures

Under U.S. GAAP the Company is required to disclose, in tabular format, on a disaggregated basis, the 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 direct liability loss development tables have been produced for accident year 2021 to 2023. The table below also includes claim frequency information by accident year. 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.

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Notes to Financial Statements

November 30, 2023 and 2022

5. Outstanding losses and loss expenses (continued)

Incurred losses and loss expenses, net of reinsurance (\$'000)				November 30, 2023	
Years ended November 30,					
Unaudited					
Accident year	2021	2022	2023	Total of IBNR reserves, net of reinsurance	Cumulative reported claims count
2021	653	406	2,892	1,392	12
2022		2,412	5,487	2,487	45
2023			2,924	2,924	51
Total			11,303		

Cumulative paid losses and loss expenses, net of reinsurance (\$'000)			
Years ended November 30,			
Unaudited			
Accident year	2021	2022	2023
2021	-	-	1,500
2022		-	-
2023			-
Total			1,500
Reserves for outstanding losses and loss expenses, net of reinsurance			\$ 9,803

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, 2023:

	November 30, 2023 (\$'000)
Outstanding losses and loss expenses, net	
Direct Liability	\$ 9,803
Total outstanding losses and loss expenses, net	9,803
Loss reserves recoverable	
Direct Liability	23,396
Total loss reserves recoverable	23,396
Unallocated loss adjustment expenses	501
Total outstanding losses and loss expenses	\$ 33,700

The following table presents supplementary information about average historical claims duration as of November 31, 2023 based on cumulative incurred and paid losses and allocated loss adjustment expenses presented above.

Unaudited	Average Annual Percentage Payout of Incurred Losses by Age (in years)		
	1	2	3
Direct liability	0.0%	0.0%	17.3%

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Notes to Financial Statements

November 30, 2023 and 2022

6. Common shares

The Company's authorized share capital is \$120,000 divided into 120,000 common shares of par value \$1 each. The Class A shares carry full voting rights.

The following shares have been issued and fully paid:

	2023		2022	
	No. of shares	\$	No. of shares	\$
Class A	120,000	120,000	120,000	120,000

Contributed surplus represents cash and assets transferred by OHL in addition to its subscription to the issued share capital. During the year ended November 30, 2023, OHL contributed an additional \$6.5 million (2022 - \$nil) to the Company.

7. Related party transactions

The following transactions are classified as related party transactions as the counterparties are affiliated through common shareholders.

- In April 2020, the Company entered into a support services agreement with Everen Management Services Ltd ("EMSL") pursuant to which EMSL provides certain personnel, IT, legal and compliance, financial management, and other services to the Company. For the year ended November 30, 2023 total fees incurred under this agreement were \$0.5 million (2022: \$0.3 million).
- In January 2021, the Company entered into a sole binding authority agreement with OSL Insurance Services, Inc ("OISI") subject to which OISI has sought authority to bind insurances on behalf of the Company subject to exclusions and limitations stated in the agreement.
- In January 2023 and 2022, the Company entered in a quota share reinsurance contract with Everen Specialty, Ltd., the ultimate parent of the Company. The Balance Sheet and Statement of Operations include the following amounts related to the reinsurance contract for the year ended November 30, 2023 and 2022.

	2023 (\$'000)	2022 (\$'000)
Balance Sheet		
Prepaid reinsurance premiums	\$ 7,439	\$ 5,115
Deferred acquisitions costs	1,283	709
Losses recoverable from reinsurance	23,396	6,574
Reinsurance balances payable	3,435	2,477
Statement of Operations		
Gross reinsurance premiums ceded	\$ 13,759	\$ 8,837
Earned premiums ceded	11,435	7,047
Loss and loss adjustment expenses	20,328	5,542
Acquisition costs, net	(1,722)	(975)

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Notes to Financial Statements

November 30, 2023 and 2022

8. 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. Everen Specialty, Ltd. has a credit rating of A- from A.M. Best. All other 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.

9. Income Taxes

The Company provides for income tax expense or benefit based upon pre-tax income or loss reported in the Statement of Operations and the provisions of currently enacted tax laws.

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.

The Company has made an election to pay tax in the United States of America under Section 953(d) of the U.S. Internal Revenue Code of 1986, as amended. Accordingly, the related tax disclosures have been prepared on this basis.

For the years ended November 30, 2023 and 2022, the Company did not record any unrecognized tax benefits or expenses. The Company has not recorded any interest or penalties during the periods ended November 30, 2023 and 2022.

The following table presents a reconciliation of expected income taxes to income tax benefit for the years ended November 30, 2023 and 2022.

	2023 (\$'000)	2022 (\$'000)
Bermuda (expected tax expense at 0%)	\$ —	—
United States (expected tax expense at 21%)	(203)	(58)
Non-deductible expenses and other	(20)	10
Income tax benefit	\$ (223)	(48)

The following table presents the Company's current and deferred income taxes for the years ended November 30, 2023 and 2022.

	2023 (\$'000)	2022 (\$'000)
Current tax (benefit) expense	\$ (25)	123
Deferred tax benefit	(198)	(171)
Income tax benefit	\$ (223)	(48)

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Notes to Financial Statements

November 30, 2023 and 2022

9. Income Taxes (continued)

The following table presents the tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities as of November 30, 2023 and 2022.

	2023 (\$'000)	2022 (\$'000)
Deferred tax assets:		
Discounting of loss and loss adjustment expense reserves	\$ 191	\$ 52
Unearned premiums	193	134
Unrealized losses on investments	28	221
Net capital loss carryforward	7	43
Net operating loss carryforward	201	–
Temporary taxable income differences	11	–
Total deferred tax assets	<u>631</u>	<u>450</u>
Deferred tax liabilities:		
Deferred acquisition costs	<u>(82)</u>	<u>(99)</u>
Total deferred tax liabilities	<u>(82)</u>	<u>(99)</u>
Net deferred tax assets	<u>\$ 549</u>	<u>\$ 351</u>

To evaluate the recoverability of the deferred tax assets, the Company considers the timing of the reversal of deferred income and expense items as well as the likelihood that the Company will generate sufficient taxable income to realize future tax benefits. The Company believes that it is more likely than not it will generate sufficient taxable income to realize the future tax benefits in order to recover the deferred assets and, accordingly, no valuation allowance was recorded as of November 30, 2023 and 2022.

10. 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 shareholder’s equity to statutory capital and surplus, and the corresponding minimum capital adequacy levels as at November 30, 2023 and 2022:

	2023 (\$'000)	2022 (\$'000)
U.S. GAAP Shareholder’s Equity	\$ 60,294	\$ 54,538
Less: Non-admitted assets	<u>(8)</u>	<u>(6)</u>
Statutory Capital and Surplus	<u>\$ 60,286</u>	<u>\$ 54,532</u>
Minimum required Statutory Capital and Surplus	<u>\$ 1,556</u>	<u>\$ 1,068</u>

Non-admitted assets for statutory purposes include prepaid assets.

10. Regulation (continued)

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, 2023 and 2022, the Company met the minimum liquidity ratio.

As a Class 3A 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 3A 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, 2023 and 2022, the Company met the capital requirements of the BSCR.

Class 3A reinsurers are restricted from declaring or paying dividends of more than 25% of its prior year total statutory capital and surplus, unless it files with the BMA an affidavit stating that any dividend in excess of this amount will not cause the Company to fail to meet its relevant margins. Class 3A insurers must obtain BMA approval prior to any reduction of prior year total statutory capital of 15% or more.

11. Subsequent events

Subsequent events have been evaluated through February 27, 2024, which is the date the financial statements were available to be issued.