OIL
CASUALTY
INSURANCE,
LTD.

2019 REVIEW

Over the past thirty-four years, OCIL has fulfilled its obligations and paid claims emanating from all business segments such as gas pipeline explosions, California wildfires on utilities, explosions at petrochemical and chemical plants, tailing dam collapses on mining companies, and pollution claims on integrated oil companies.

2019 REVIEW

Last year's annual report theme of Trusted Relationships remains true as we reflect on 2019 and look ahead to 2020. The insurance market has seen many changes over the past twelve months, and while there has been a substantial amount of dislocation in the wider market, OCIL's strong relationships with both its members and other stakeholders is what sets us apart from many other insurers.

Over the past thirty-four years, OCIL has fulfilled its obligations and paid claims emanating from all business segments such as gas pipeline explosions, California wildfires on utilities, explosions at petrochemical and chemical plants, tailing dam collapses on mining companies, and pollution claims on integrated oil companies. Evolving litigation and surprisingly large payouts have continued to increase the cost of these claims. Despite this very challenging underwriting environment, the Company remains committed to its long term objective; a provider of large capacity.

During the Annual General Meeting in March 2019, a key message communicated to shareholders was the need for underwriting changes in order to deliver on this objective and ensure the sustainability of the mutual over the near and long term. The message was well received by our shareholders and has been repeated in meetings with brokers and insureds throughout 2019.

The changes that were implemented involved adjustments to pricing, attachment points, and coverage terms. As a result, OCIL saw exposure adjusted rate increases across all sectors – direct and facultative property and liability and assumed reinsurance. The tightening market environment certainly accelerated some of the rate increases and we recognize the challenges experienced by our clients but are pleased to have been able to implement these changes while maintaining our traditionally high renewal retention rates.

To execute on this plan, OCIL's underwriters have had to work closely with brokers and clients to explain our underwriting rationales and to find solutions that work for all parties. We believe a solution-oriented approach is key and at a time when other markets are unilaterally reducing limits, or simply walking away from various industry segments, it allows OCIL to remain a reliable source of capacity. It also demonstrates our value as an industry mutual, something that is reflected in the rapidly growing number of new members we saw in 2019.

For the year ending November 30, 2019, OCIL reported $373 million in gross written premiums, reflecting a robust increase when compared to year-end 2018. While a significant portion of the premium growth was driven by the continued expansion of the assumed reinsurance and delegated underwriting authority segments, we also experienced rate increases on our direct liability and property books. That said, and despite the underwriting efforts noted above, OCIL ultimately reported a net underwriting loss of $39 million, which was impacted by current and prior underwriting year loss and loss expenses incurred. This however, was tempered by favorable net investment income of $58 million. For the year, OCIL's investment portfolio generated a return of 6.3%. OCIL's investment portfolio remains well diversified, meeting its investment objective of providing adequate liquidity to meet future obligations to its shareholders and insureds, while maximizing its return subject to an acceptable level of risk. For the 2019 fiscal year end, OCIL experienced a net loss of $546,000.

As we enter another challenging underwriting year in 2020, OCIL's relationships with brokers and clients remains of utmost importance to us. We continue to serve each responsibly and with integrity throughout the tightening market conditions and will continue our solution-based approach to underwriting.

In closing, I would like to acknowledge the consistent dedication and commitment of our employees who provide superior service to our insureds. I would also like to thank our Directors, shareholders, non-shareholder insureds, reinsurance partners and brokers for their continued support and whose relationships we continue to value greatly.

Bertil C. Olsson
President,
Chief Executive Officer

Jerry Rivers
Senior Vice President,
Chief Operating Officer

NEW SHAREHOLDERS

(Fiscal year end November 30, 2019)

Ameren Corporation
CenterPoint Energy, Inc.
Dominion Energy, Inc.
Duke Energy Corporation
Emera Inc.
Formosa Plastics Corporation, U.S.A
Kinder Morgan, Inc.
Magellan Midstream Partners, L.P.
Noble Energy
Southwest Gas Holdings, Inc.
Targa Resources Corp.
Tennessee Valley Authority
Xcel Energy Inc.

OPERATIONS

GROSS WRITTEN PREMIUMS

2019

$372,942

2018

$239,408

IN THOUSANDS OF US DOLLARS AS OF NOVEMBER 30

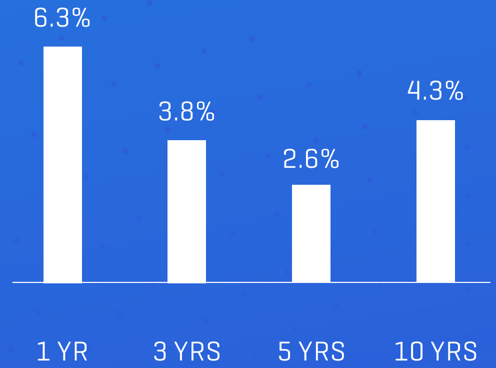
FINANCE & INVESTMENT

ASSET ALLOCATION

GLOBAL BONDS	BONDS HELD IN TRUST	GLOBAL EQUITY	FUNDS OF HEDGE FUNDS	CASH
53%	15%	12%	10%	10%

OCICL STRATEGIC PORTFOLIO RETURN *

OCIL TOTAL PORTFOLIO RETURN **



FISCAL YEAR ENDED NOVEMBER 30, 2019

*PORTFOLIO RETURNS EXCLUDE CASH AND BONDS IN TRUST | ** PORTFOLIO RETURNS INCLUDE CASH AND BONDS IN TRUST

FINANCE & INVESTMENT
CONT.

TOTAL ASSETS	SHAREHOLDERS' EQUITY
$1,779,237	$506,206

IN THOUSANDS OF US DOLLARS AS OF NOVEMBER 30, 2019

PREMIUM	2019	2018
Gross Written Premium	372,942	239,408
Gross Earned Premium	312,206	230,170
FINANCIAL CONDITION		
Net Loss	(546)	(39,157)
Total Assets	1,779,237	1,679,001
Shareholders' Equity	506,206	506,727
LOSS AND LOSS EXPENSES INCURRED		
Gross Losses and Loss Expenses	269,306	202,282
Reinsurance Recoveries	47,307	64,422
Net Losses and Loss Expenses	221,999	137,860

DIRECTORS

Bertil C. Olsson
President,
Chief Executive Officer
Oil Casualty Insurance, Ltd.

Roberto Benzan
(Chairman)
Director, Risk Management
& Insurance, Husky Energy Inc.

Lars Ostebo
(Deputy Chair)
Vice President, Head of Insurance
Equinor ASA

Anne J. Chalmers
Vice President,
Risk and Security – Teck Resources Limited

Theodore Guidry II
Senior Vice President,
Business Risk Management –
Valero Energy Corporation

Veronique Lemoues
Vice President,
Risk Management & Insurance –
TOTAL, S.A.

Fabrizio Mastrantonio
Senior Vice President,
Insurance Activities Management –
ENI S.p.A

Pamela F. Mihovil
Insurance Manager –
Marathon Oil Corporation

Peter F. Roueche
Director, Enterprise Risk & Insurance –
Eastman Chemical Company

John P. Talarcio
Director, Corporate Insurance –
Hess Corporation

John Weisner
Manager, Corporate Insurance –
ConocoPhillips Company

OIL
CASUALTY
INSURANCE,
LTD.

CONSOLIDATED FINANCIAL STATEMENTS

(With Independent Auditor's Report Theron)

Years Ended November 30, 2019 and 2018

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

Telephone +1 441 295 5063
Fax +1 441 295 8280
Internet www.kpmg.bm

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of 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, 2019 and 2018, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Oil Casualty Insurance, Ltd. and its subsidiaries as of November 30, 2019 and 2018, 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's Audit Opinion

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The report to the shareholders is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subject to the auditing procedures applied in the audit of consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
February 21, 2020

OIL CASUALTY INSURANCE, LTD.

Consolidated Balance Sheets

November 30, 2019 and 2018
(Expressed in Thousands of United States Dollars)

	2019	2018
Assets		
Cash and cash equivalents (Notes 2(i))	$ 134,150	$ 87,821
Investments in marketable securities and derivatives (Notes 2(d), 2(e), 3 and 4)	710,938	711,894
Other investments (Notes 2(d) and 3)	102,371	94,056
Restricted assets (Note 2(i), 4 (c))	216,594	210,994
Investment sales pending settlement	56,790	13,394
Accrued investment income	4,799	3,978
Losses recoverable from reinsurers (Notes 5 and 9)	247,004	294,616
Accounts receivable	191,281	183,707
Funds withheld	42,545	23,799
Prepaid reinsurance premiums	33,987	26,550
Other assets	38,778	28,192
Total assets	$ 1,779,237	$ 1,679,001
Liabilities		
Outstanding losses and loss expenses (Note 5)	$ 715,753	$ 732,351
Unearned premiums	207,208	146,472
Investment purchases pending settlement	96,946	34,579
Loan payable (Notes 6(a) and 6(c))	136,591	136,468
Reinsurance premium payable	43,719	52,613
Amounts due to affiliates (Note 8(b))	2,629	1,144
Accounts payable	70,185	68,647
Total liabilities	1,273,031	1,172,274
Shareholders’ equity		
Common shares (Note 7)	275	250
Retained earnings	505,931	506,477
Total shareholders’ equity	506,206	506,727
Total liabilities and shareholders’ equity	$ 1,779,237	$ 1,679,001

See accompanying notes to consolidated financial statements

OIL CASUALTY INSURANCE, LTD.

Consolidated Statements of Operations

Years Ended November 30, 2019 and 2018
(Expressed in Thousands of United States Dollars)

	2019	2018
Gross premiums written	$ 372,942	$ 239,408
Change in unearned premiums	(60,736)	(9,238)
Premiums earned	312,206	230,170
Ceded premiums	75,222	56,843
Change in prepaid reinsurance premiums	(7,437)	255
Ceded premiums earned	67,785	57,098
Net premiums earned	244,421	173,072
Losses and loss expenses incurred, net of reinsurance (Note 5)	(221,999)	(137,860)
Commission and brokerage fees, net	(61,719)	(41,512)
Net underwriting loss	(39,297)	(6,300)
Interest income	26,046	23,891
Net gains (losses) on investments (Note 3)	45,773	(26,146)
Dividends	913	1,424
Investment advisory and custodian fees	(3,425)	(3,784)
Interest and debt expense (Notes 6(a) and 6(c))	(11,662)	(11,579)
Net investment income (loss)	57,645	(16,194)
General and administrative expenses (Note 8(a))	(18,894)	(16,663)
Net loss	$ (546)	$ (39,157)

See accompanying notes to consolidated financial statements

OIL CASUALTY INSURANCE, LTD.

Consolidated Statements of Changes in Shareholders' Equity

Years Ended November 30, 2019 and 2018
(Expressed in Thousands of United States Dollars)

	Common shares			
	Number of shares		Retained earnings	Total
Balance at November 30, 2017	54	$ 270	$ 545,634	$ 545,904
Shares issued in year	–	–	–	–
Shares redeemed in year	(4)	(20)	–	(20)
Net loss	–	–	(39,157)	(39,157)
Balance at November 30, 2018	50	$ 250	$ 506,477	$ 506,727
Shares issued in year	12	60	–	60
Shares redeemed in year	(7)	(35)	–	(35)
Net loss	–	–	(546)	(546)
Balance at November 30, 2019	55	$ 275	$ 505,931	$ 506,206

See accompanying notes to consolidated financial statements

OIL CASUALTY INSURANCE, LTD.

Consolidated Statements of Cash Flows

Years Ended November 30, 2019 and 2018
(Expressed in Thousands of United States Dollars)

	2019	2018
Cash flows from operating activities		
Net loss	$ (546)	$ (39,157)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of deferred debt issuance costs	123	87
Interest on deferrable subordinated debentures	11,072	11,219
Net (gains) losses on investments	(45,773)	26,146
Proceeds from the sale of securities sold short	–	16,211
Purchase of securities sold short	–	(18,046)
Proceeds from the sale of investments	1,489,873	1,411,960
Purchase of investments	(1,434,835)	(1,450,516)
Changes in operating assets and liabilities:		
Accrued investment income	(821)	(215)
Losses recoverable from reinsurers	47,612	(46,936)
Accounts receivable	(7,574)	(48,104)
Funds withheld	(18,746)	(3,275)
Prepaid reinsurance premiums	(7,437)	255
Other assets	(10,586)	(8,845)
Outstanding losses and loss expenses	(16,598)	110,111
Unearned premiums	60,736	9,238
Reinsurance premium payable	(8,894)	2,882
Amounts due to affiliates	1,485	(1,976)
Accounts payable	1,538	28,125
Restricted assets	14,607	17,746
Net cash provided by operating activities	75,236	16,910
Cash flows from financing activities		
Repurchase of deferrable subordinated debentures	–	(3,532)
Interest paid on deferrable subordinated debentures	(11,072)	(11,270)
Issuance (redemption) of common shares, net	25	(20)
Net cash used by financing activities	(11,047)	(14,822)
Net increase in cash and cash equivalents and restricted cash	64,189	2,088
Cash and cash equivalents and restricted cash at beginning of year	134,750	132,662
Cash and cash equivalents and restricted cash at end of year	$ 198,939	$ 134,750
Supplementary Disclosure of Consolidated Cash Flow Information		
Cash and cash equivalents	134,150	87,821
Restricted cash included in Restricted assets (note 4(c))	64,789	46,929
Total cash and cash equivalents and restricted cash shown in the Consolidated Statement of Cash Flows	$ 198,939	$ 134,750

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.

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.

2. Summary of significant accounting policies (continued)

(b) Premiums and acquisition costs (continued)

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 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 the past loss history of the Company and industry data. In establishing a provision for unpaid claims and claims expenses related to environmental exposure and clean-up, management considers facts currently known and the current state of laws and litigation.

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

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

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

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

Investments are classified as trading and are carried in the Consolidated Balance Sheet at fair value. Realized and unrealized gains and losses are included in the Consolidated Statement of Operations. Security transactions are accounted for on a trade date basis with investment purchases and sales pending settlement accrued in the Consolidated Balance Sheet. As at November 30, 2019, $1.0 million (2018: $Nil) of the investments pending settlement relate to restricted assets.

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.

2. Summary of significant accounting policies (continued)

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, funds withheld and investments held in trust which are denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Realized and unrealized exchange gains and losses are included in the Consolidated Statement of Operations.

(h) Fair value of financial instruments

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

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

Investments in marketable securities: Fair values of fixed maturity securities, equity securities and short term investments are based on market prices quoted by broker dealers in that market or quoted on the relevant exchange. The Company invests in fixed income and equity funds. When there is no market price available for the funds on a recognized exchange, the Company values the funds 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.

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.

2. Summary of significant accounting policies (continued)

(h) Fair value of financial instruments (continued)

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) 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, 2019, restricted cash in the amount of $64.8 million (2018: $46.9 million) was included in restricted assets (Note 4(c)).

As at November 30, 2019, cash in the amount of $2.5 million (2018: $3.0 million) was on deposit with counterparties as collateral for positions held in derivative financial instruments (Note 4).

(j) Recently adopted accounting pronouncements

In November 2016, the FASB issued an accounting standard that provides guidance on the presentation of restricted cash in the Statement of Cash Flows. Entities are required to explain the changes during a reporting period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents in the Statement of Cash Flows.

The Company early adopted the standard retrospectively effective for the year ended November 30, 2019. This standard addresses presentation of restricted cash in the Consolidated Statement of Cash Flows only and had no impact on the Company's reported Consolidated Balance Sheet, Consolidated Statement of Operations, Consolidated Statement of Changes in Shareholders' Equity, or required disclosures.

3. Investments

The fair values of investments as at November 30, 2019 and 2018 are as follows:

	2019 ($'000)	2018 ($'000)
Short Term Investments	$ 42,982	$ 94,784
Derivatives, net	869	850
Equity Securities	123,590	124,647
Fixed Maturities		
US Treasury and Government Agency	72,142	32,471
State and Municipal Bonds	11,347	12,116
Non-US Government Bonds	74,035	81,803
Supranationals	1,339	262
Corporate Bonds	237,117	232,588
Asset-Backed Securities	68,237	80,225
Mortgage-Backed Securities	79,280	52,148
Total Fixed Maturities	543,497	491,613
Total Investments in Marketable Securities and Derivatives	$ 710,938	$ 711,894
Other Investments	$ 102,371	$ 94,056

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, 2019, approximately 68% (2018 - 57%) 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, 2019 and 2018, are as follows:

	2019 ($'000)	2018 ($'000)
US Government and Agency	$ 72,232	$ 73,153
AAA	86,471	85,795
AA	79,304	117,031
A	130,755	114,651
BBB	167,525	150,137
Below BBB	50,192	45,630
Total Fixed Maturities and Short Term Investments	$ 586,479	$ 586,397

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, 2019, had a net unrealized gain of $0.8 million (2018 - $1.9 million net unrealized loss) at the same date, which has been recorded in the Consolidated Statement of Operations.

3. Investments (continued)

The contractual maturities of fixed maturities and short term investments as at November 30, 2019 and 2018 are as follows:

	2019 ($'000)	2018 ($'000)
Due in one year or less	$ 42,982	$ 94,784
Due after one year through five years	199,522	175,362
Due after five years through ten years	102,377	104,376
Due after ten years	94,081	79,502
	438,962	454,024
Asset-Backed Securities	68,237	80,225
Mortgage-Backed Securities	79,280	52,148
Total Fixed Maturities and Short Term Investments	$ 586,479	$ 586,397

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, 2019 and 2018 are as follows:

	2019 ($'000)	2018 ($'000)
Gross realized gains on investments and restricted assets	$ 62,516	$ 77,390
Gross realized losses on investments and restricted assets	(62,129)	(62,848)
Gross realized gains on derivative instruments	30,571	46,053
Gross realized losses on derivative instruments	(32,625)	(44,501)
Gross realized gains on other investments	364	180
Gross realized losses on other investments	(26)	(384)
Change in net unrealized gains and (losses) during the year on investments and restricted assets	41,786	(45,790)
Change in net unrealized gains and (losses) during the year on other investments	5,297	432
Change in net unrealized gains and (losses) during the year on derivative instruments	19	3,322
Net gains (losses) on investments	$ 45,773	$ (26,146)

During the year ended November 30, 2019, 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 $25.9 million gain (2018: $24.8 million loss), equity securities of a $14.6 million gain (2018: $21.5 million loss) and restricted assets of a $1.3 million gain (2018: $0.5 million gain).

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

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Level 1 financial instruments include certain short duration instruments such as money market funds, short term investments, U.S. treasury securities and exchange traded equities.

3. Investments (continued)

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.

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.

3. Investments (continued)

- 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, 2019, 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. One fund of funds in which the Company is invested has daily liquidity. The other fund of funds requires at least 95 days' prior notice of redemption, and may only be redeemed on a semi-annual basis. One fund of funds has a lock-up period, which refers to the initial amount of time an investor is contractually required to invest before having the ability to redeem.

Fund of funds that do provide for periodic redemptions may, depending on the fund of funds' governing documents, have the ability to deny or delay a redemption request, called a "gate". The fund of fund may implement this restriction because the aggregate amount of redemption requests as of a particular date exceeds a specified level, generally ranging from 20% to 35% of the fund of fund's net assets. The gate is a method for executing an orderly redemption process that allows for redemption requests to be executed in a timely manner to reduce the possibility of adversely affecting the remaining investors in the fund of funds. 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 funds, may investors redeem their interest in the side-pocket. As of November 30, 2019, the fair value of hedge funds held in lock ups, side-pockets or gates was $15.0 million (2018 - $13.5 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 funds 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, 2019 or 2018. 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.

3. Investments (continued)

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, 2019 and 2018, in determining the classification of investment assets and liabilities held at fair value:

November 30, 2019 Assets	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	NAV [1] ($'000)	Total ($'000)
Short Term Investments	$ 90	$ 42,878	$ 14	$ –	$ 42,982
Derivatives, net	–	869	–	–	869
Equity Securities	81,112	–	–	42,478	123,590
US Treasury and Government Agency	72,142	–	–	–	72,142
State and Municipal Bonds	–	11,347	–	–	11,347
Non-US Government Bonds	–	72,392	–	1,643	74,035
Supranationals	–	1,339	–	–	1,339
Corporate Bonds	9,726	225,974	–	1,417	237,117
Asset-Backed Securities	–	68,237	–	–	68,237
Mortgage-Backed Securities	–	79,280	–	–	79,280
Total Investments in Marketable Securities and Derivatives	$ 163,070	$ 502,316	$ 14	$ 45,538	$ 710,938
Other Investments measured at net asset value [1]					$ 102,371

[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.

November 30, 2018 Assets	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	NAV [1] ($'000)	Total ($'000)
Short Term Investments	$ 40,682	$ 54,080	$ 22	$ –	$ 94,784
Derivatives, net	–	850	–	–	850
Equity Securities	87,626	–	–	37,021	124,647
US Treasury and Government Agency	30,289	2,182	–	–	32,471
State and Municipal Bonds	–	12,116	–	–	12,116
Non-US Government Bonds	1,539	80,264	–	–	81,803
Supranationals	–	262	–	–	262
Corporate Bonds	8,606	223,982	–	–	232,588
Asset-Backed Securities	–	80,225	–	–	80,225
Mortgage-Backed Securities	–	52,148	–	–	52,148
Total Investments in Marketable Securities and Derivatives	$ 168,742	$ 506,109	$ 22	$ 37,021	$ 711,894
Other Investments measured at net asset value [1]					$ 94,056

3. Investments (continued)

The following tables present the reconciliation of the beginning and ending fair value measurements of the Company's Level 3 assets, measured at fair value using significant unobservable inputs for the year ended November 30, 2019 and 2018:

	Short term investments ($'000)	Total ($'000)
Beginning balance at December 1, 2018	$ 22	$ 22
Purchases and issuances	–	–
Sales and settlements	(12)	(12)
Reclassification	–	–
Realized and unrealized gains included in net loss for the year	4	4
Ending balance at November 30, 2019	$ 14	$ 14

	Short term investments ($'000)	Total ($'000)
Beginning balance at December 1, 2017	$ 70	$ 70
Purchases and issuances	–	–
Sales and settlements	(29)	(29)
Reclassification	–	–
Realized and unrealized (losses) included in net loss for the year	(19)	(19)
Ending balance at November 30, 2018	$ 22	$ 22

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, 2019, and 2018, 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.

4. Commitments and contingencies (continued)

(a) Derivative instruments (continued)

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, 2019 and 2018:

	Derivative assets 2019 Fair value ($'000)	Derivative liabilities 2019 Fair value ($'000)
Interest rate swaps	$ 865	$ 720
Credit default swaps	–	306
Fixed income and currency options	134	305
Forward foreign currency contracts	936	699
Interest rate futures	1,287	323
Total	$ 3,222	$ 2,353

	Derivative assets 2018 Fair value ($'000)	Derivative liabilities 2018 Fair value ($'000)
Interest rate swaps	$ 1,890	$ 1,070
Credit default swaps	13	486
Fixed income and currency options	29	99
Forward foreign currency contracts	2,910	2,140
Interest rate futures	714	911
Total	$ 5,556	$ 4,706

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, 2019 and 2018:

	2019		
	Net realized gains and (losses) ($'000)	Change in unrealized gains and (losses) ($'000)	Net gains and (losses) ($'000)
Interest rate swaps	$ (252)	$ (675)	$ (927)
Credit default swaps	–	167	167
Equity swaps	–	–	–
Fixed income and currency options	615	(101)	514
Forward foreign currency contracts	3,931	(533)	3,398
Equity futures	–	–	–
Interest rate futures	(6,348)	1,161	(5,187)
Total	$ (2,054)	$ 19	$ (2,035)

	2018		
	Net realized gains and (losses) ($'000)	Change in unrealized gains and (losses) ($'000)	Net gains and (losses) ($'000)
Interest rate swaps	$ (44)	$ 1,133	$ 1,089
Credit default swaps	–	461	461
Equity swaps	8	(357)	(349)
Fixed income and currency options	389	98	487
Forward foreign currency contracts	1,286	2,779	4,065
Equity futures	667	(418)	249
Interest rate futures	(754)	(374)	(1,128)
Total	$ 1,552	$ 3,322	$ 4,874

(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, 2019 and 2018, the Company had the following open forward foreign currency contracts:

	2019		2018	
Currency	Notional receivable ($'000)	Notional payable ($'000)	Notional receivable ($'000)	Notional payable ($'000)
AUD	$ 6,184	$ (6,978)	$ 10,527	$ (13,461)
BRL	3,527	(2,406)	2,251	(2,776)
CAD	4,008	(9,964)	7,670	(15,424)
CHF	2,037	(4,044)	2,903	(2,252)
CNH	507	(1,006)	1,774	(2,254)
CNY	1,148	(2,624)	1,815	(2,413)
CZK	836	(115)	840	(463)
DKK	346	(4,571)	90	(2,876)
EUR	28,448	(75,653)	95,780	(152,378)
GBP	13,869	(16,712)	12,385	(24,287)
INR	3,664	(3,164)	1,981	(2,270)
JPY	9,976	(27,149)	4,067	(21,552)
KRW	1,116	(3,875)	2,233	(8,070)
MXN	2,052	(2,404)	1,924	(2,964)
NOK	3,079	(942)	2,509	(2,096)
NZD	1,765	(2,345)	3,038	(3,508)
PLN	2,051	(1,538)	1,330	(1,191)
RUB	2,616	(28)	2,580	(274)
SEK	3,052	(2,801)	3,985	(6,978)
SGD	1,102	(1,363)	339	(301)
TRY	771	(410)	389	(333)
TWD	2,529	(3,092)	1,223	(1,557)
USD	168,269	(88,819)	252,448	(142,645)
ZAR	779	(774)	341	(500)
Other	5,511	(6,228)	2,945	(3,774)
	$ 269,242	$ (269,005)	$ 417,367	$ (416,597)

At November 30, 2019, unrealized gains of $0.9 million (2018 - $2.9 million) and unrealized losses of $0.7 million (2018 - $2.1 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, 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, 2019 and 2018, the contractual values of financial futures contracts are:

	2019		2018	
	Long ($'000)	Short ($'000)	Long ($'000)	Short ($'000)
Interest rate future contracts	$ 142,826	$ (147,922)	$ 255,147	$ (325,354)

The Company had gross gains of $1.3 million and gross losses of $0.3 million on open futures contracts for the year ended November 30, 2019 (2018 – gross gains $0.7 million and gross losses $0.9 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, 2019 and 2018, the fair value of open interest rate swap contracts is:

	2019 ($'000)	2018 ($'000)
Interest rate swaps, net	$ 145	$ 820

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, 2019 and 2018 the fair value of open fixed income and currency option contracts is:

	2019 ($'000)	2018 ($'000)
Options purchased	$ 134	$ 29
Options written (liability)	(305)	(99)

Premiums received for open written options as of November 30, 2019, amounted to $0.4 million (2018 - $0.1 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 as determined by the investment manager is utilized. Commercial Paper must carry a rating of A2/P2 or better. Commercial paper rated below A1/P1 must not exceed 20% of the market value of the portfolio.

The Company's maximum permitted fixed income investment in any one institution 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. The maximum investment in any outstanding single issue shall not exceed 5% except for the issuers listed above. Commercial Paper shall be exempt from this 5% limit in any outstanding single issue, but still be subject to aggregate issuer limits. The aggregate maximum permitted fixed income investment in any obligations rated A-2, P-2, BBB- or Baa3 or below shall not exceed 5% of the market value of the global fixed income portfolio. The Company believes that there are no significant concentrations of credit risk associated with its investments in any issuer or market.

4. Commitments and contingencies (continued)

(c) Restricted assets

At November 30, 2019 and 2018, the fair values of the Company's restricted assets are as follows:

		2019 ($'000)		2018 ($'000)
Assets pledged under Insurance Trusts *(i)*	$	164,740	$	165,515
Funds at Lloyd's *(ii)*		51,854		45,479
Total Restricted Assets	$	216,594	$	210,994

(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 jurisdictions' 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, 2019 and 2018, and the level in the fair value hierarchy are as follows:

		2019 ($'000)	2019 Level		2018 ($'000)	2018 Level
Cash and Cash Equivalents	$	12,935	Level 1	$	1,450	Level 1
Short Term Investments - US Treasury		250	Level 1		42,064	Level 1
Short Term Investments - Corporate		63,560	Level 2		90,594	Level 2
<u>Fixed Maturities</u>						
Corporate Bonds		75,975	Level 2		30,708	Level 2
Asset-Backed Securities		11,100	Level 2		–	
Total Fixed Maturities		87,075			30,708	
Accrued Investment Income		920	Level 1		699	Level 1
Total Assets Pledged under Insurance Trusts	$	164,740		$	165,515	

The contractual maturities of restricted assets held as fixed maturities and short term investments as at November 30, 2019 and 2018 are as follows:

		2019 ($'000)		2018 ($'000)
Due in one year or less	$	63,810	$	132,658
Due after one year through five years		75,975		30,708
		139,785		163,366
Asset-Backed Securities		11,100		–
Total Fixed Maturities and short term investments	$	150,885	$	163,366

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, 2019 and 2018, are as follows:

		2019 ($'000)		2018 ($'000)
US Government and Agency	$	250	$	42,064
AAA		11,100		–
AA		30,150		40,208
A		81,219		65,744
BBB		28,166		15,350
Total fixed maturities and short term investments	$	150,885	$	163,366

(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 and certain assumed reinsurance treaties. The Company classifies 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 2019 and 2018 is as follows:

		2019 ($'000)		2018 ($'000)
Gross balance, beginning of year	$	732,351	$	622,240
Less: losses recoverable from reinsurers		(294,616)		(247,680)
Net balance, beginning of year		437,735		374,560
Loss and loss expenses incurred related to:				
Current year		177,209		160,983
Prior years		44,790		(23,123)
Total loss and loss expenses incurred		221,999		137,860
Paid loss and loss expenses related to:				
Current year		(21,149)		(10,859)
Prior years		(169,755)		(62,524)
Total paid loss and loss expenses	$	(190,904)	$	(73,383)

5. Outstanding losses and loss expenses (continued)

		2019 ($'000)		2018 ($'000)
Foreign exchange gain		(81)		(1,302)
Net balance, end of year		468,749		437,735
Plus: losses recoverable from reinsurers		247,004		294,616
Gross balance, end of year	$	715,753	$	732,351

The 2019 current year incurred losses of $177.2 million relate to: (i) the establishment of $28.7 million of IBNR on the Company's direct insurance book of business for the 2019 underwriting year; (ii) the establishment of IBNR totaling $70.4 million on the Company's assumed reinsurance book of business for the 2019 year; (iii) case reserves totaling $27.9 million on the Company's assumed reinsurance book of business for the 2019 year; (iv) case reserves totaling $30.1 million on the Company's direct insurance book of business for the 2019 underwriting year; (v) losses incurred of $18.7 million on the Lloyds corporate member business; and (vi) $1.4 million of loss expenses incurred over the Company's entire book of business.

During the year ended November 30, 2019, the incurred losses for prior year claims of $44.8 million primarily relate to: (i) incurred loss development of $44.9 million on the Company's assumed reinsurance book of business for prior years, (ii) favorable development on prior year claims of $(14.0) million on the Company's direct insurance book of business; offset by (iii) incurred loss development of $14.1 million on the Lloyds corporate member business, the majority of this relating to incurred losses on premiums earned in the current year; and (iv) $(0.2) million of loss expenses incurred over the Company's entire book of business.

The 2018 current year incurred losses of $161.0 million relate to: (i) the establishment of $38.2 million of IBNR on the Company's direct insurance book of business for the 2018 underwriting year; (ii) the establishment of IBNR totaling $54.2 million on the Company's assumed reinsurance book of business for the 2018 year; (iii) case reserves totaling $36.4 million on the Company's assumed reinsurance book of business for the 2018 year; (iv) case reserves totaling $18.1 million on the Company's direct insurance book of business for the 2018 underwriting year; (v) losses incurred of $12.8 million on the Lloyds corporate member business; and (vi) $1.3 million of loss expenses incurred over the Company's entire book of business.

During the year ended November 30, 2018, the incurred losses for prior year claims of $(23.1) million primarily relate to: (i) favorable development totaling $(20.6) million on the Company's assumed reinsurance book of business for prior years, (ii) favorable development on prior year claims of $(14.7) million on the Company's direct insurance book of business; offset by (iii) incurred loss development of $4.3 million on the Lloyds corporate member business; and (iv) $7.9 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

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 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, 2019. 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, 2019, of $28.4 million (2018: $15.4) 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 2010 through to 2019. 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, 2019	
Accident year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total of IBNR Reserves, net of reinsurance**	**Cumulative reported claims count**
2010	$ 51,759	$ 41,595	$ 34,747	$ 32,848	$ 31,560	$ 30,693	$ 30,585	$ 30,446	$ 30,000	$ 30,000	$ –	314
2011		26,829	55,817	48,350	43,847	42,179	40,958	40,522	40,464	40,007	622	309
2012			31,655	22,814	28,889	25,262	20,584	26,323	8,868	7,272	4,361	307
2013				31,040	38,320	10,895	4,542	4,722	21,711	23,925	1,425	260
2014					28,981	22,535	8,611	5,090	3,317	2,102	2,102	267
2015						48,088	72,592	87,330	89,025	89,299	8,499	314
2016							24,268	16,322	8,582	5,709	5,709	341
2017								24,685	25,039	17,764	7,764	370
2018									35,267	39,150	15,190	517
2019										17,116	17,116	370
Total										272,344		

Cumulative paid losses and loss expenses, net of reinsurance
($'000)

	Years ended November 30, unaudited									
Accident year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
2010	$ –	$ –	$ 12,500	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000
2011		–	–	16,960	39,385	39,385	39,385	39,385	39,385	39,385
2012			–	–	–	–	–	–	3,110	4,201
2013				–	–	–	–	3,070	3,409	15,067
2014					–	–	–	–	–	–
2015						–	15,000	57,500	56,358	84,185
2016							–	–	–	–
2017								–	–	–
2018									–	13,960
2019										–
Total										186,798
Reserves for outstanding losses and loss expenses, before 2010, net of reinsurance										11,685
Reserves for outstanding losses and loss expenses, net of reinsurance										97,231

5. Outstanding losses and loss expenses (continued)

Direct Property

The direct property loss development tables have been produced for accident years 2013 through to 2019. 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 ($'000)

	Years ended November 30,							November 30, 2019	
	Unaudited								
Accident Year	2013	2014	2015	2016	2017	2018	2019	Total of IBNR reserves, net of reinsurance	Cumulative reported claims count
2013	$ 834	$ 567	$ –	$ –	$ –	$ –	$ –	$ –	8
2014		2,268	654	193	186	183	181	1	9
2015			1,569	895	503	62	61	1	9
2016				1,365	2,120	1,431	1,628	65	23
2017					25,379	23,417	18,836	2,987	63
2018						20,134	27,384	6,957	34
2019							41,655	11,543	33
Total							$ 89,745		

Cumulative paid losses and loss expenses, net of reinsurance ($'000)

	Years ended November 30,						
	Unaudited						
Accident Year	2013	2014	2015	2016	2017	2018	2019
2013	$ –	$ –	$ –	$ –	$ –	$ –	$ –
2014		–	180	180	180	180	180
2015			40	60	60	60	60
2016				–	805	1,101	1,563
2017					(4,972)	2,131	10,408
2018						541	8,442
2019							2,289
Total							22,942
Reserves for outstanding losses and loss expenses, before 2013, net of reinsurance							–
Reserves for outstanding losses and loss expenses, net of reinsurance							$ 66,803

5. Outstanding losses and loss expenses (continued)

Assumed Reinsurance

The assumed reinsurance loss development tables have been produced for accident years 2010 through to 2019. 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, unaudited										November 30, 2019	
Accident year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total of IBNR reserves, net of reinsurance	Cumulative reported claims count
2010	$ 30,364	$ 29,313	$ 30,252	$ 29,057	$ 28,116	$ 27,672	$ 27,348	$ 27,832	$ 27,587	$ 26,886	$ 430	n/a
2011		11,419	29,674	41,715	51,315	45,287	35,653	22,468	25,520	30,421	704	n/a
2012			36,507	56,655	47,648	54,536	65,136	64,342	62,609	62,322	1,413	n/a
2013				25,859	59,314	55,810	51,748	48,910	49,574	48,182	1,883	n/a
2014					25,821	58,647	70,058	71,796	62,491	65,439	14,435	n/a
2015						12,301	32,539	27,414	25,377	25,778	2,221	n/a
2016							27,849	62,042	38,216	81,017	19,057	n/a
2017								51,030	85,889	112,464	24,596	n/a
2018									38,563	93,657	33,071	n/a
2019										42,851	34,045	n/a
Total										589,017		

Cumulative paid losses and loss expenses, net of reinsurance
($'000)

	Years ended November 30, unaudited									
Accident year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
2010	$ –	$ 26,955	$ 26,455	$ 26,455	$ 26,455	$ 26,455	$ 26,455	$ 26,455	$ 26,455	$ 26,455
2011		–	–	3,421	6,627	12,627	13,682	16,441	20,263	23,220
2012			–	16,368	26,215	39,057	42,174	57,890	60,395	60,641
2013				3,143	10,253	23,363	30,498	34,922	37,464	38,448
2014					337	4,158	13,478	22,615	32,276	36,790
2015						196	2,962	11,043	15,433	18,983
2016							99	7,822	21,376	34,229
2017								579	14,893	48,635
2018									924	34,981
2019										2,627
Total										325,009
Reserves for outstanding losses and loss expenses, before 2010, net of reinsurance										11
Reserves for outstanding losses and loss expenses, net of reinsurance										264,019

5. Outstanding losses and loss expenses (continued)

Assumed Reinsurance (continued)

The main difficulty in presenting accident year triangles for the Assumed Reinsurance segment relates to the allocation of loss information on proportional treaties to the appropriate accident years. As an example, many proportional treaty reinsurance contracts are submitted using quarterly bordereau reporting by underwriting year, with loss information at a summary level. Where known, large losses can be allocated to the corresponding accident years. However the remaining losses can generally only be allocated based on actuarial analysis. To the extent management's assumptions and allocation procedures differ from the actual loss development patterns, the actual loss development may differ materially from the loss development presented above.

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, 2019:

		November 30, 2019 ($'000)
Outstanding losses and loss expenses, net of reinsurance		
Direct Liability	$	97,231
Direct Property		66,803
Assumed Reinsurance		264,019
Total outstanding losses and loss expenses, net of reinsurance		428,053
Loss reserves recoverable		
Direct Liability		212,672
Direct Property		7,878
Assumed Reinsurance		12,567
Total loss reserves recoverable		233,117
Outstanding loss and loss expenses - other		38,450
Unallocated loss adjustment expenses		16,133
Total outstanding losses and loss expenses	$	715,753

The following table presents supplementary information about average historical claims duration as of November 30, 2019 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**	**6**	**7**	**8**	**9**	**10**
Direct Liability	0.0%	5.8%	16.5%	16.2%	7.3%	0.3%	22.9%	5.0%	0.0%	0.0%
Direct Property	6.7%	41.4%	12.4%	7.1%	0.0%	0.0%	0.0%	n/a	n/a	n/a
Assumed Reinsurance	1.6%	24.1%	18.1%	13.3%	10.4%	8.2%	3.8%	4.3%	4.9%	0.0%

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, 2019, the Company repurchased and retired a portion of the Deferrable Subordinated Debentures with a par value of $nil million (2018: $3.0 million). As at November 30, 2019, the Company had repurchased and retired Deferrable Subordinated Debentures with an aggregate par value of $61.6 million. At November 30, 2019, the Deferrable Subordinated Debentures outstanding total was $138.4 million (2018: $138.4 million) which is included in loans payable on the Consolidated Balance Sheets.

(b) Letter of Credit facility

Effective May 15, 2018, the Company entered into a one year Standby Letter of Credit Agreement ("LOC Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"). Under the terms of the agreement, the Company could request that Wells Fargo issue Letters of Credit up to an aggregate principal amount not to exceed $75 million outstanding at any time. Under the terms of the LOC Agreement, OCICL has agreed to act as Guarantor and has pledged a portion of the investments held in the OCICL investment portfolio as security for the Letters of Credit issued.

Effective May 9, 2019, OCIL amended the LOC Agreement with Wells Fargo Bank to extend the termination date to September 30, 2019 and to increase the aggregate principal amount to $100.0 million. Effective August 23, 2019, OCIL entered into an Amended and Restated Credit Agreement with Wells Fargo Bank to increase the aggregate principal amount to $125.0 million and to incorporate a Credit Facility of up to $50 million into the agreement. The agreement expires on August 23, 2021.

As at November 30, 2019, an aggregate amount of $84.9 million (2018 - $40.0 million) of Letters of Credit were issued by Wells Fargo.

Effective April 25, 2018, the Company entered into a one year Standby Letter of Credit Agreement with Royal Bank of Canada ("RBC"). This Standby Letter of Credit is deemed automatically extended without amendment for one year, from the expiry date, or any further expiration date, unless notification given within ninety days of any expiration date. Under the terms of the agreement, the Company could request that RBC issue Letters of Credit up to an aggregate principal amount not to exceed $2.5 million outstanding at any time. As at November 30, 2019, an aggregate amount of $2.5 million (2018: $2.5 million) of Letters of Credit were issued by RBC. Cash and cash equivalents with a fair value of $2.5 million have been pledged as security for these Letters of Credit.

(c) Debt issuance costs

At November 30, 2019, the Company recognized deferred debt issuance costs of $1.8 million (2018: $1.9 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 (2018: $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, 2019, 55 (2018: 50) 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, 2019 and 2018, 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, 2019 and 2018.

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, 2019 and 2018:

	2019 ($'000)	2018 ($'000)
U.S. GAAP Shareholders' Equity	$ 506,206	$ 506,727
Plus: Loan Payable	138,400	138,400
Less: Non-admitted assets	(2,256)	(2,257)
Statutory Capital and Surplus	$ 642,350	$ 642,870
Minimum required statutory capital and Surplus	$ 66,058	$ 63,346

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

11. **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, 2019 and 2018, the Company met the minimum liquidity ratio.

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, 2019, the Company met the capital requirements of the BSCR.

12. **Comparative information**

Certain balances in the 2018 financial statements have been reclassified to conform to the 2019 consolidated financial statement presentation.

13. **Subsequent Events**

Subsequent events have been evaluated through February 21, 2020, which is the date the financial statements were issued.

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