OIL INSURANCE LIMITED
Leaders in Global Energy Insurance

The people who make OIL work

2013 ANNUAL REPORT

Contents

Franzetta Parker
Office Administrator

(L to R)
Ellen Little - Imaging Processor
Deborah Lewis - Imaging Processor

(L to R)
Deshante Ferguson - Network Analyst
Murray Brewer - Manager, Network Services
Greg Fitzgerald - Senior Network Analyst

Financial
HIGHLIGHTS

(Expressed in thousands of United States dollars)	**2013**	2012
Premiums Earned	**550,361**	672,485
Net Income (Loss)	**631,898**	646,103
Total Assets	**7,094,638**	6,450,657
Shareholders' Equity	**4,184,868**	3,611,771

(Ratios expressed as percentages)		
Loss Ratio	**90.0**	91.1
Expense Ratio	**4.1**	3.2
Combined Ratio	**94.1**	94.3

MESSAGE FROM THE

President

Welcome to OIL's Annual Report for the year ended December 31, 2013. It is my extreme pleasure to report to you on our organization's achievements and results from the past year.

The theme for this year's Report is "The people who make OIL work" – a fitting tribute to all of the people who work together to make OIL the unique, vibrant and responsive organization that it is.

As I reflect back over time, I am reminded of the team of individuals that we have in place and the vital role they play in achieving our goals and objectives year in and year out.

Joining OIL's management team in 2005 was a memorable year indeed. Having just installed a new management team, OIL experienced the largest losses in the history of the company courtesy of Hurricanes Katrina and Rita. We incurred two $1 billion losses back-to-back within a month as well as experiencing our first aggregation events for each loss. It was a truly cohesive and defining moment for the management team that we have in place today.

OIL's management is supported by a tremendous group of hardworking, dedicated staff members – the majority of whom have been with the organization for more than 10 years. It's in large part because of our people that we've had so much success as an organization and are able to continue setting and achieving goals, evolving with the energy industry and addressing our shareholders' needs.

Such was the case through 2013. At OIL, we operate from year to year with a number of major operational objectives, and are constantly monitoring claims and losses from various sectors and reviewing our policy language. In the past year, one of our primary goals was the development of the Experience Modification Program, a system to deal with the complex challenge of ensuring that our method of determining premiums remains fair for all shareholders. I am pleased to announce that as of the date of issuing this report, the shareholders voted to accept the Board's and Management's proposal for Experience Modification at the March 2014 AGM with 94% of the vote approving the proposal. This vote sends a clear message to the Energy Insurance Industry that the inclusion of Experience Modification in the Rating & Premium Plan greatly enhances OIL's overall value proposition for both current shareholders and potential prospects and that the 94% approval vote is an indicator of the strong commitment of our shareholders to OIL.

Another of our ongoing projects has been the rewriting of our Shareholders' Agreement together with revisions to our policy language – documents that date back to the origins of the company in 1971. The revised Shareholders' Agreement was completed in 2012 and was approved by the shareholders in March 2013. The next step is rewriting the policy language. We initiated the process over the past year and will be holding meetings with shareholders throughout 2014 to get their input and guidance on the proposed changes.

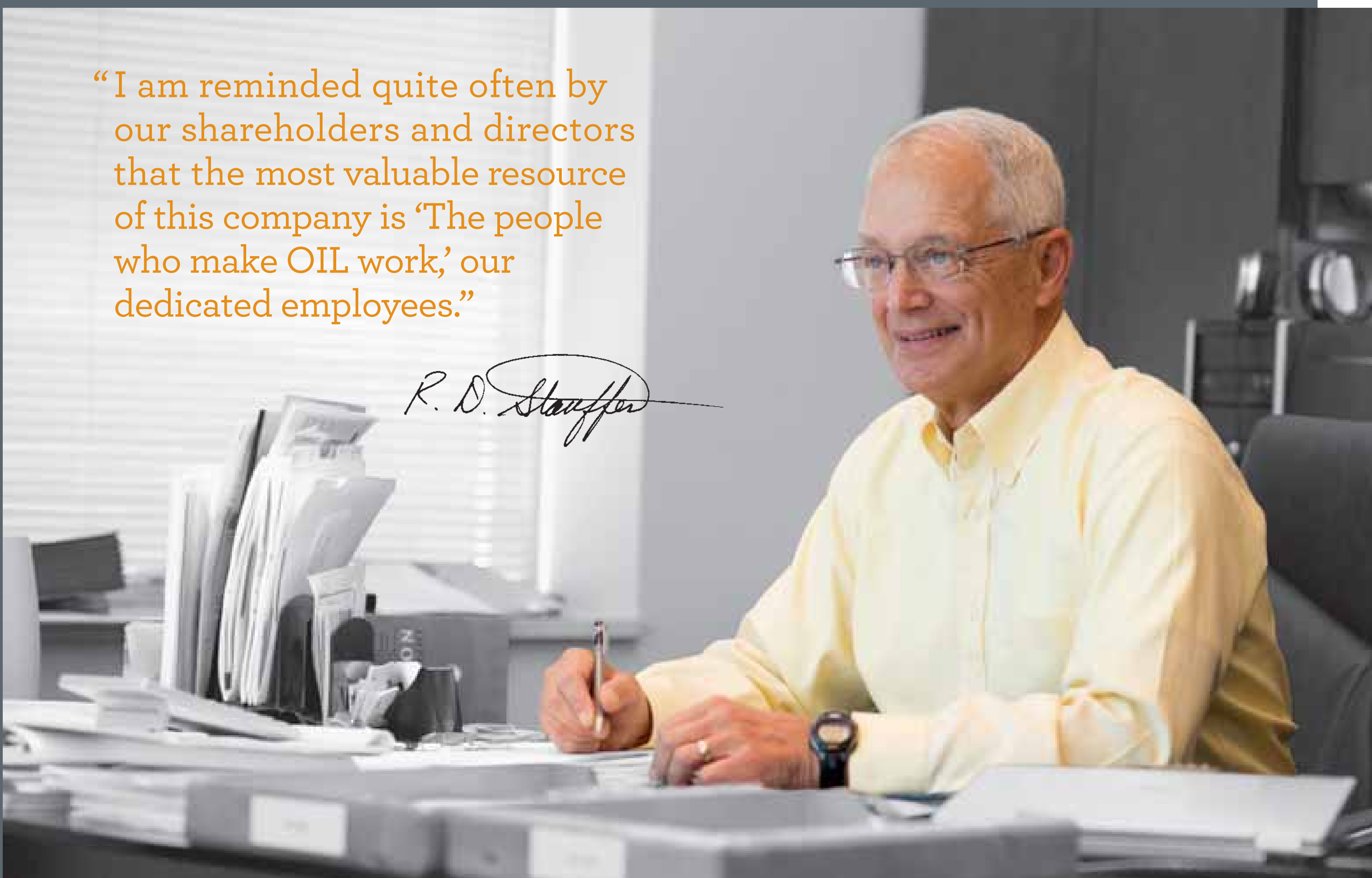
OIL continues to be committed to the expansion of the shareholder base. Over the past three years, we have worked diligently at positioning the company from a value perspective when interacting with both our shareholders and the brokerage community. The introduction of the OIL Technical Accreditation (OTA) in 2012 was a tremendous success and throughout 2013 we began to really see the fruits of our labor. This online training program allows shareholders, non-shareholders and the brokerage community to learn more about OIL, and specifically how our mutual works together with the value proposition that we represent. The feedback has been overwhelmingly positive and we are planning to release updates to the system in the year ahead.

From a financial perspective, 2013 was a very good year. Since OIL operates as a mutual, our main goal is to maintain a cost efficient program for our shareholders; we are not an underwriting profit generating organization. Our investment portfolio posted strong results in 2013 – thanks in large part to the hard work and careful oversight of our investment board and investment staff. In recognition of OIL's strong capital position, and our commitment to return value to OIL's shareholders, our Board agreed to provide a $100 million premium credit to our shareholders in 2013, which was followed by the declaration of a $300 million dividend to shareholders in March of 2014.

Our outlook for the year ahead is positive as OIL remains focused on responding to our shareholders' needs and growing our shareholder base. Our ongoing priority is to carry on providing one of the most cost-efficient, broad packages of energy insurance available. As the industry continues to evolve, particularly in the areas of onshore and offshore E&P, our shareholders' coverage requirements will undoubtedly evolve as well. Our shareholders' activities are becoming more complex, and more expensive, involving more sophisticated technology and higher risk exposures. As such, it is up to us to monitor our shareholders' needs carefully so that we can continue to ensure they have the coverage they require. Another priority is to expand our geographic footprint in order to capture more of the world's energy market that we haven't engaged with before. Although we have assets and risks all over the world, our goal is to expand our shareholder base in a slow and deliberate way with the goal of including companies that are headquartered in the Middle East, the Far East, Australia and South America.

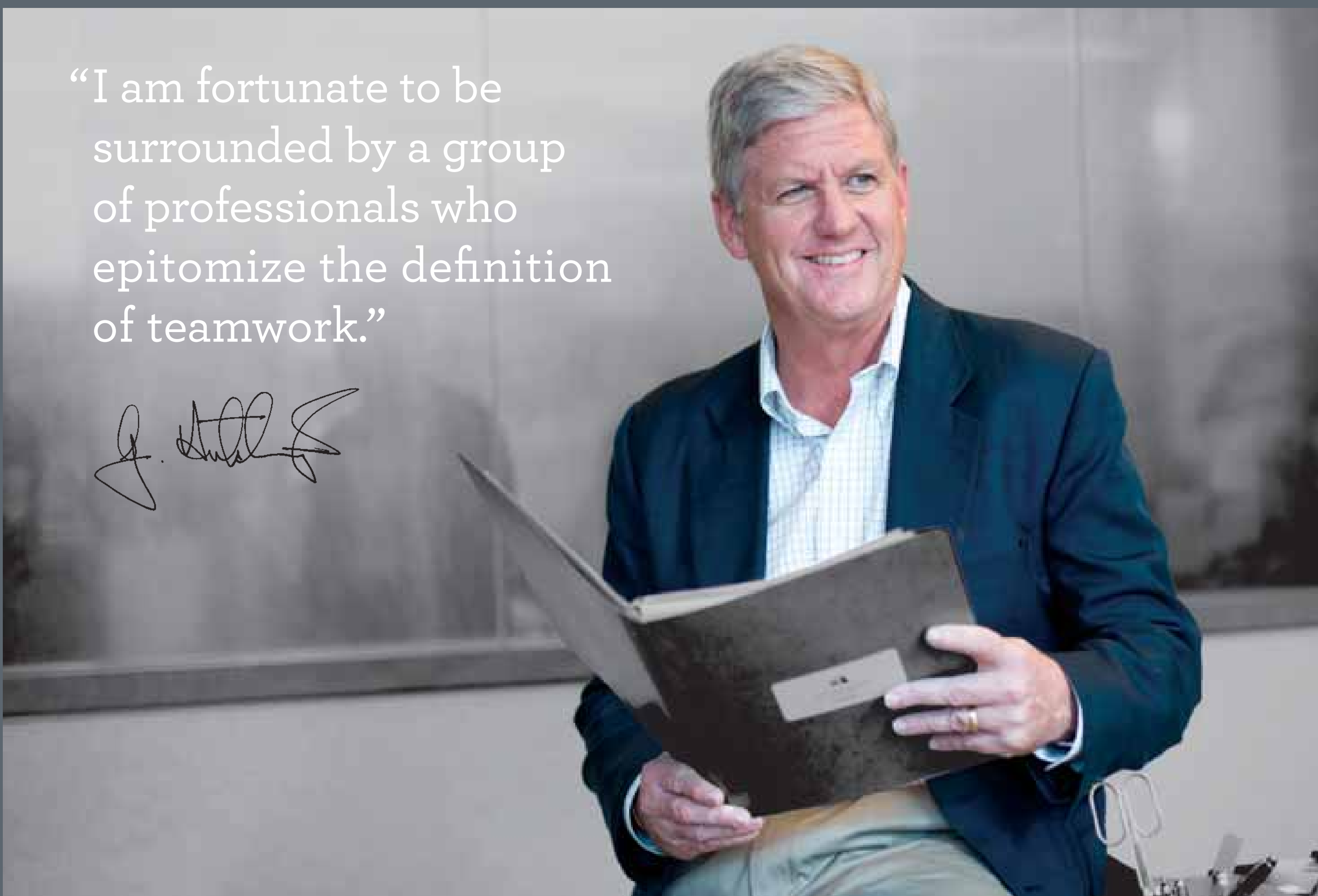
In closing, I would like to extend my sincere thanks and appreciation to everyone who has contributed to OIL's achievements over the past year – our shareholders, management team, Board of Directors, and in keeping with the theme of this year's report, the people – our employees who keep this organization operating every day for the benefit of our shareholders. Together, we have built a strong, stable and thriving organization. I look forward to many years of continued success.

Robert D. Stauffer
President & Chief Executive Officer



Operational
REVIEW

Increasing awareness of the OIL value proposition. Revisiting and rewriting policies in response to evolving needs. Growing our shareholder base. These have been OIL's primary objectives for the past several years, and they remained so throughout 2013. These are long-term strategies geared at ensuring our ongoing success – strategies that we continue to refine and implement through the perseverance and insight of the hardworking "people who make OIL work".



Fine tuning the OIL experience

OIL President and CEO, Bob Stauffer, mentioned in his message on page 4 of this report, that working on the Experience Modification Program was one of our principal goals over the past year. The Program represents a slight departure from the way OIL has operated over the past 20 years, and it is extremely gratifying that our shareholders overwhelmingly supported the initiative when they passed it at the March 2014 AGM with 94% of the vote backing the proposal. Our team worked very hard to ensure the program was created in the simplest form possible in order to make it easy to both understand and implement.

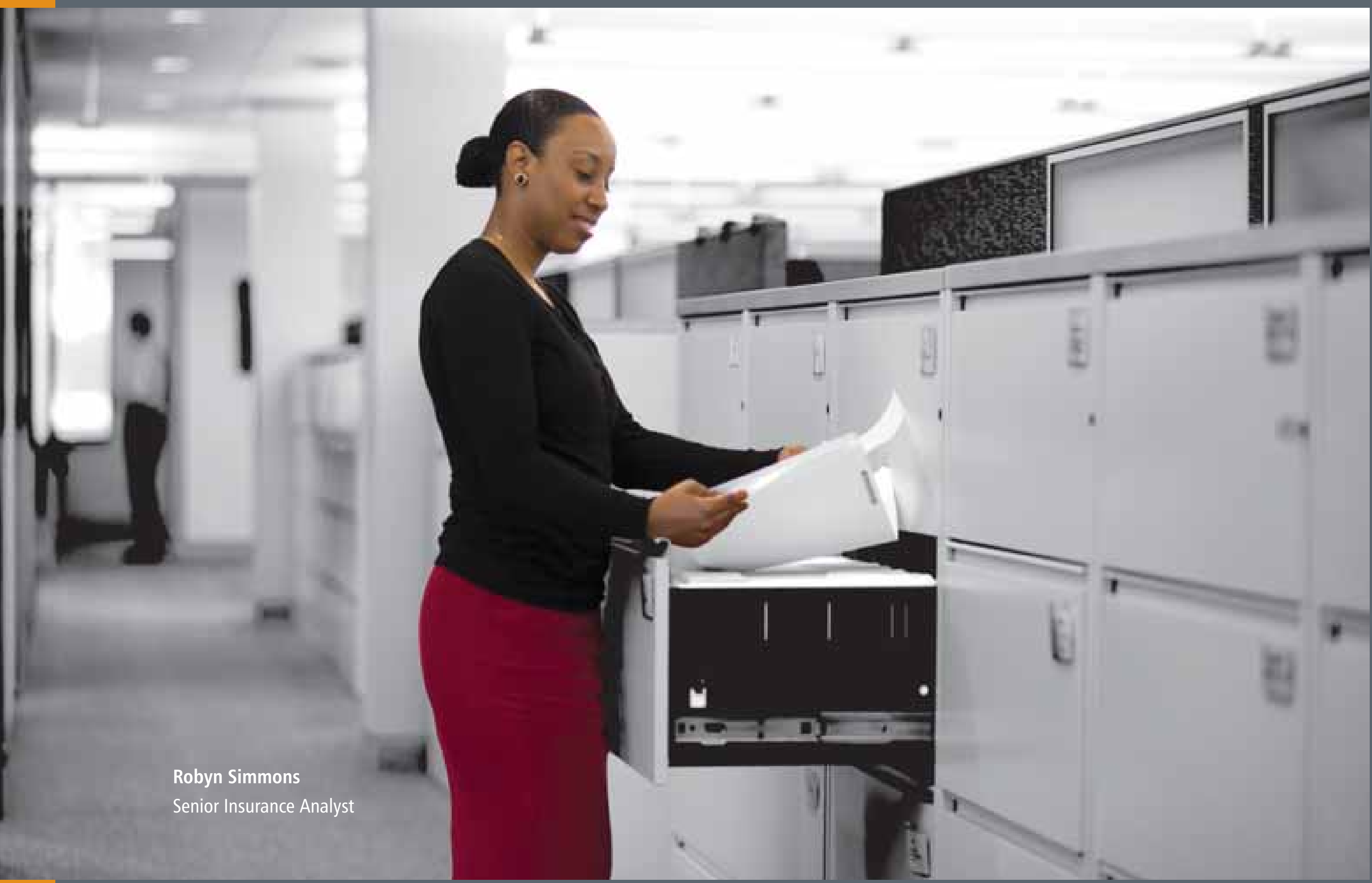
Another ongoing project that progressed closer to completion in 2013 was the rewriting of our Policy and Rating & Premium Plan (RPP). Our focus was to revise the Policy and RPP using simpler language to make it as understandable as possible for our shareholders. While this initiative has been a significant task that has required extensive time and consultation with our shareholders, we believe those efforts are important and the team looks forward to continuing the process through 2014.

We also had a very impressive year in 2013 increasing the knowledge and profile of OIL in the worldwide marketplace and brokerage community, thanks in large part to the OIL Technical Accreditation (OTA) which marked its first full year of operation. The program is an excellent tool for explaining what we do and how we do it, and its success is a true testament to the collaboration between OIL's marketing and underwriting teams – the people behind this innovative learning tool. Leveraging the OTA, we have elevated the knowledge level of OIL in the overall market, making it easier to identify those prospects that are interested in our value proposition: an insurance risk management program with a long-term perspective.

(L to R)
Karen Skinner - Executive Assistant
Ian Morrison - Claims Analyst
Joe Amaral - Manager, Claims

(L to R)
Daniel Gibson - Actuary
Robert Foskey - Senior Vice President & Chief Actuary
Elizabeth Southern - Executive Assistant to CEO, Meeting Planner and Group Corporate Administrator

"The mutual nature of OIL is integrated into the work environment. It is refreshing to be a part of a team that works well collectively and also encourages my professional growth and development."



Robyn Simmons
Senior Insurance Analyst

Those marketing and awareness-raising efforts bore fruit in 2013 as we welcomed four new shareholders to our mutual: Alon USA Energy, Inc.; Anadarko Petroleum Corporation; Arena Energy, LP; and Cenovus Energy Inc. Over the year, one of our shareholders became ineligible and withdrew from the organization, leaving us at a solid 55 shareholders as of January 1, 2014.

From a financial perspective, 2013 proved to be another very good year for OIL. On the underwriting side, it was a flat and thankfully uneventful year. As a result, our losses were lower than expected and we managed to meet our goal of near break-even. On the investment side, we have performed extremely well over the past 12 to 18 months, thanks to the thoughtful and thorough analysis and oversight of our investment team. The excellent returns generated led to an increase in OIL's capital base. It's important for our shareholders to understand that OIL is doing well and we highlighted that success by giving a $100 million premium credit back to our shareholders during 2013, followed by a $300 million dividend distribution that was approved at the March 2014 Board of Directors meeting. Ricky Lines, OIL's Senior Vice President & Chief Financial Officer, provides more details about our financial results on page 13 of this report.

Evolving with the times

The energy insurance industry is in a state of flux as the commercial market has more capacity than in the past and rates continue to soften, thus increasing competition between insurers. As commercial insurers are forced to lower their rates, their offerings may appeal more to prospects who are opportunistic and are inclined to make insurance decisions based on short-term conditions. At OIL, our method of premium calculation is formulaic and cannot be changed from year to year based on the vagaries of the market. Instead, we want to attract new

(L to R)
Sharon Simmons - Senior Insurance Analyst
Theresa Dunlop - Vice President, OIL

(L to R)
Paul Willmott - Director, Technical Support
Theodore Henke - Senior Vice President, General Counsel & Secretary

shareholders who believe in OIL's value proposition and are interested in making a commitment for the long term – the fact that we admitted four new shareholders into the company this year suggests that this is an approach that resonates.

Building on 2013, OIL's outlook moving forward remains positive. We will stay focused on increasing our value proposition to shareholders and will seek their input to determine how that can best be achieved – whether it's broadening coverage, increasing limits or issuing more dividends or premium credits or some combination thereof. Since 2005, we've seen a lot of changes at OIL, however the organization is at a point now where we can build on the foundation that was put in place in 2010 and operate for the long-term, stable perspective that our shareholders both require and expect from us. Internally, we will continue to update our technology platform and improve efficiencies so that OIL operates in the most effective way possible.

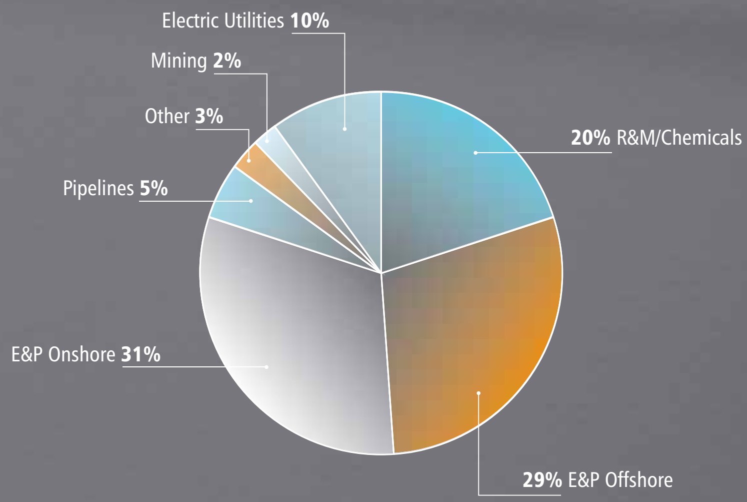
Finally, a word of thanks. Sometimes it's easy to lose sight of the fact that all of OIL's accomplishments over the past year could not have been achieved without the perseverance and diligent efforts of our talented and dedicated staff and management team. These men and women who make OIL work are a tremendous group of individuals who work hard all day, every day to help us realize our goals and meet our shareholders' needs. I am extremely grateful for their ongoing contributions to the overall success of our organization and offer them my deepest appreciation.

George F. Hutchings

Senior Vice President & Chief Operating Officer

Unmodified Gross Assets by Industry Sector

at December 31, 2013



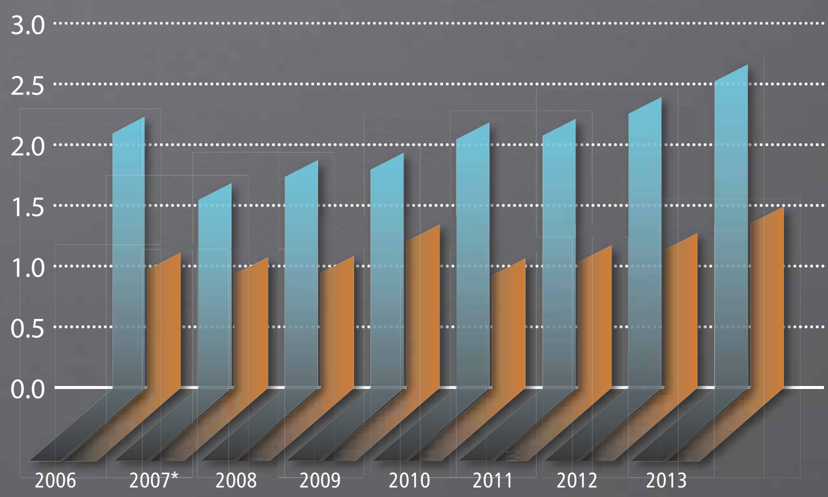
Gross Assets Insured

(Expressed in trillions of United States dollars)

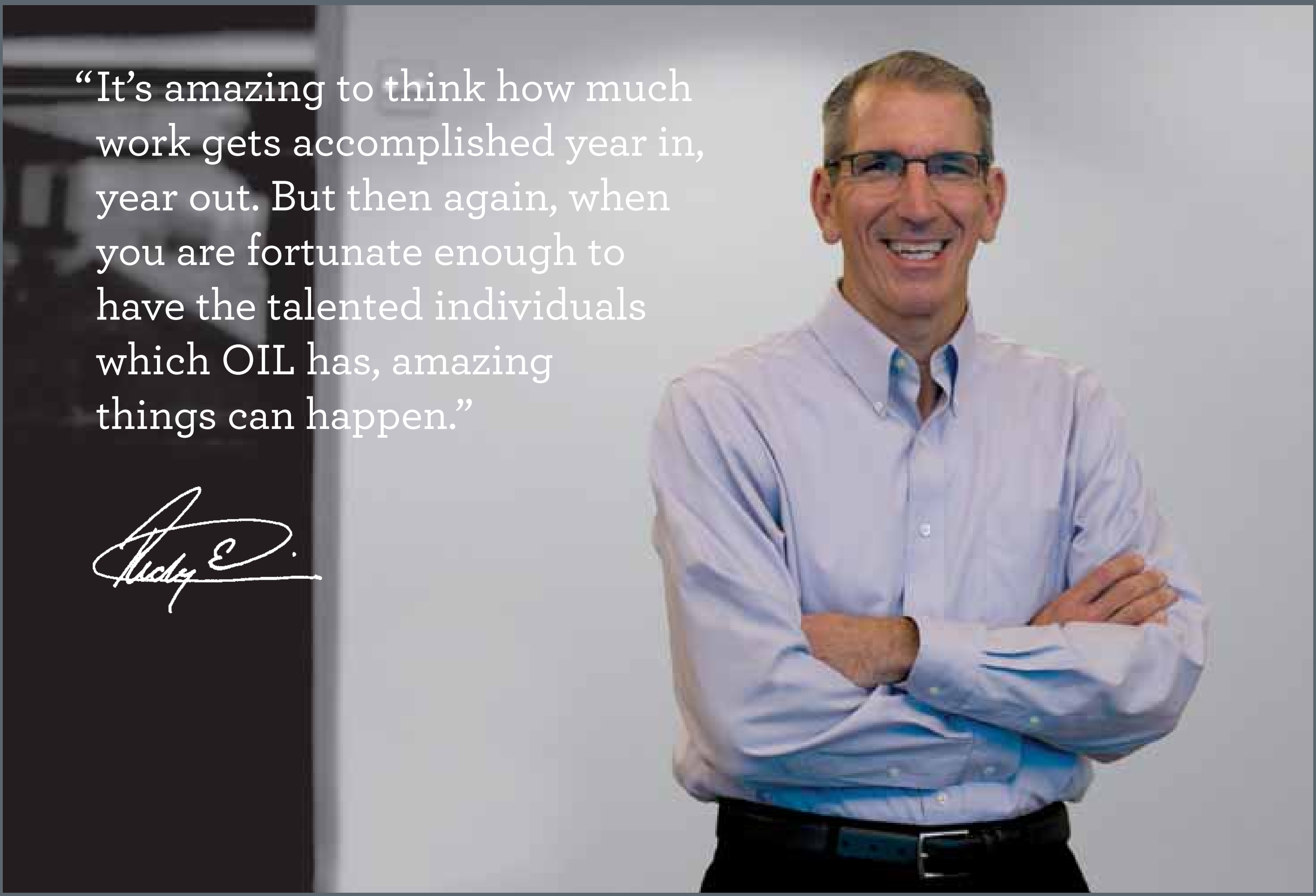
Unmodified Gross Assets

Weighted Gross Assets

* 2007 was a split policy year.



Financial & Investment
REVIEW



Regular readers of OIL's Annual Reports have likely noticed that our organization's investment goals have not wavered over the years; we've remained consistent in both our philosophy and our approach. Our objectives are to provide adequate liquidity to meet our obligations, and to endeavor to both preserve and enhance asset values. I am pleased to report that we have met these objectives once again in 2013: OIL had an extremely good year from a financial perspective, producing stellar results. All shareholders' claims were paid when due, and invested assets achieved returns that were significantly in excess of our targets.

Our organization's steadfast focus on the long term is really just part of the story behind OIL's strong performance over time. What's truly remarkable and worth noting is the dedication of OIL's people – the people who work hard at ensuring our goals are met, year after year.

Successfully managing an investment portfolio requires a great deal of diligent analysis and oversight. Though our overarching strategy remains constant, from time to time the market conditions present opportunities for implementation of tactical changes. Our finance and investment teams work tirelessly to continually evaluate the level of risk we're taking on, monitor the world financial markets and engage in discussions with our Investment Board to determine which adjustments to our portfolio are warranted, if any.

This process of deliberate consideration was particularly evident through 2013. Achieving company goals requires assuming an acceptable amount of risk in OIL's investment portfolio and generating maximum returns within those risk parameters.

(L to R)
Deborah Saunders - Senior Accounting Clerk
Marilyn Raynor - Senior Accounting Clerk

(L to R)
Craig Gardiner - Assistant Controller
Andrew Rossiter - Vice President, Director of Investments
Marlene Cechini - Controller & Assistant Secretary

Financial & Investment
REVIEW

The interest rate environment has had a significant impact on market conditions, making it important to determine the effect of potential shifts that rates could have on OIL's portfolio. Our team has been carefully assessing the situation for some time and following detailed analysis and discussion with the Investment Board, we acted to meaningfully reduce our interest rate risk by strategically shifting half of our global bond portfolio to short duration mandates by May 1, 2013. This proved to be a timely move as it protected OIL's portfolio from a subsequent significant rise in US interest rates. Our management team further enhanced returns through tactical asset allocation, by minimizing our permissible allocation to global bonds while maximizing our allocation to global equities and funds of hedge funds. These actions had a tremendous impact on the organization's returns as the broad bond market experienced losses in the year, while hedge funds and equities delivered strong returns.

Overall, our financial results were solid as well. At year-end, OIL had $7.1 billion in assets and $4.2 billion of shareholders' equity. For the year ended December 31, 2013, OIL reported net income of $631.9 million. Net investment income totaled $599.4 million while underwriting operations produced net income of $53.2 million. This income was offset by $20.7 in general and administrative expenses. In 2013, net premiums written and earned were $550.4 million, which incorporates the approved premium credit of $100 million that was applied in the fourth quarter of 2013. Loss and loss expenses for 2013 totaled $495.1 million. Total claim payments for the year amounted to $550.9 million, which includes loss expenses paid.

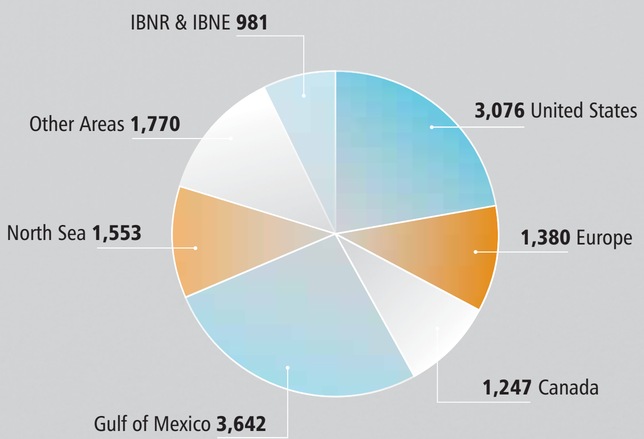
Karen Ratteray-Johnston
Manager, Investment Administration

"I have had such a rewarding experience working at OIL. To love what I do and feel that it matters — how could anything be more gratifying?"

(L to R)
Helen Guishard - Senior Accountant
Anlitea Joell - Senior Treasury Administrator

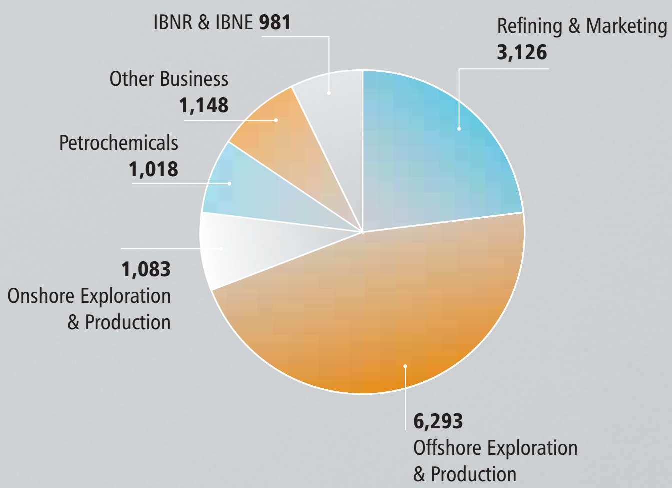
Net Incurred Losses by Geographic Region (1972 - 2013)

(Expressed in millions of United States dollars)



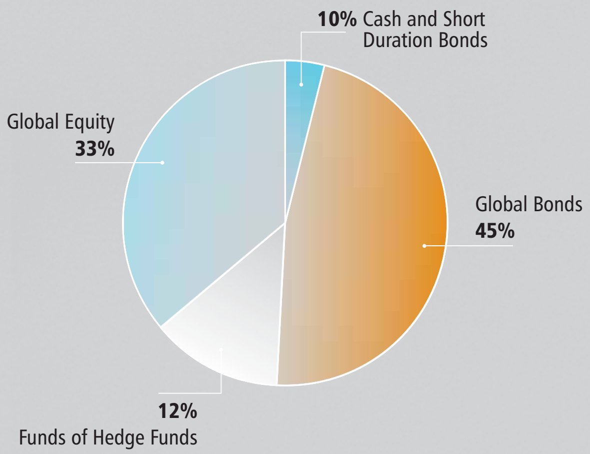
Net Incurred Losses by Industry Sector (1972 - 2013)

(Expressed in millions of United States dollars)



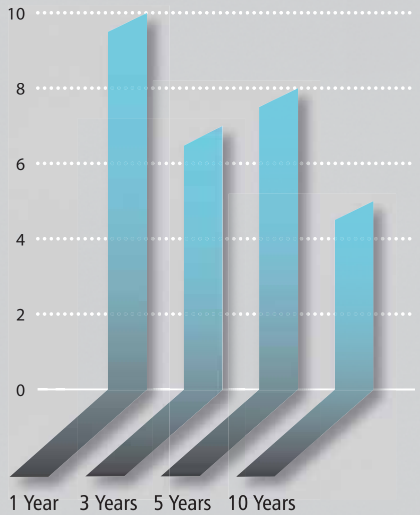
Asset Allocation

at December 31, 2013



OIL's Total Annualized Investment Returns

for the periods ending December 31, 2013
(Expressed in percentage returns)



Financial & Investment
REVIEW

The people that are OIL's finance and investment team will continue to play a vital role going forward. Risk management will still be at the forefront of the organization's priorities in 2014 and beyond, requiring ongoing analysis and vigilance to ensure we are on the right course. The investment and operating sides of OIL will work hand-in-hand to ensure that we maximize efficiencies and have the liquidity necessary to pay shareholders' claims as they arise.

I would like to extend my gratitude and appreciation to our conscientious and talented employees, management team and the Operating and Investment Boards. Thank you all for your hard work and dedication throughout 2013.

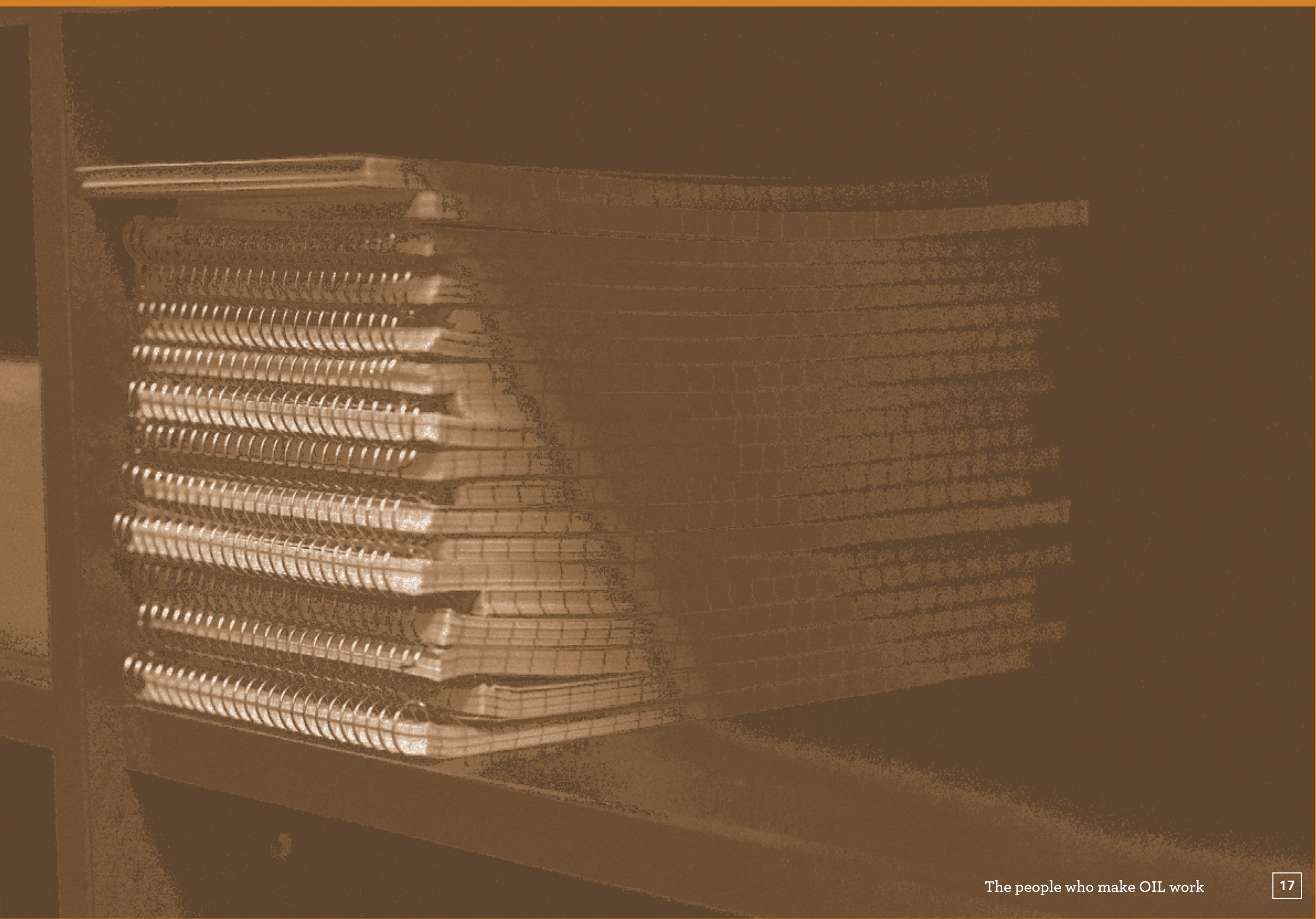
Ricky E. Lines

Senior Vice President & Chief Financial Officer

(L to R)
Judith Jeffrey - Manager, Information Systems
Denise Trott - Lead Developer
Gail Miller - Vice President,
Human Resources & Administration

Susan Starling - Receptionist

Financial
SECTION



Financial Statements

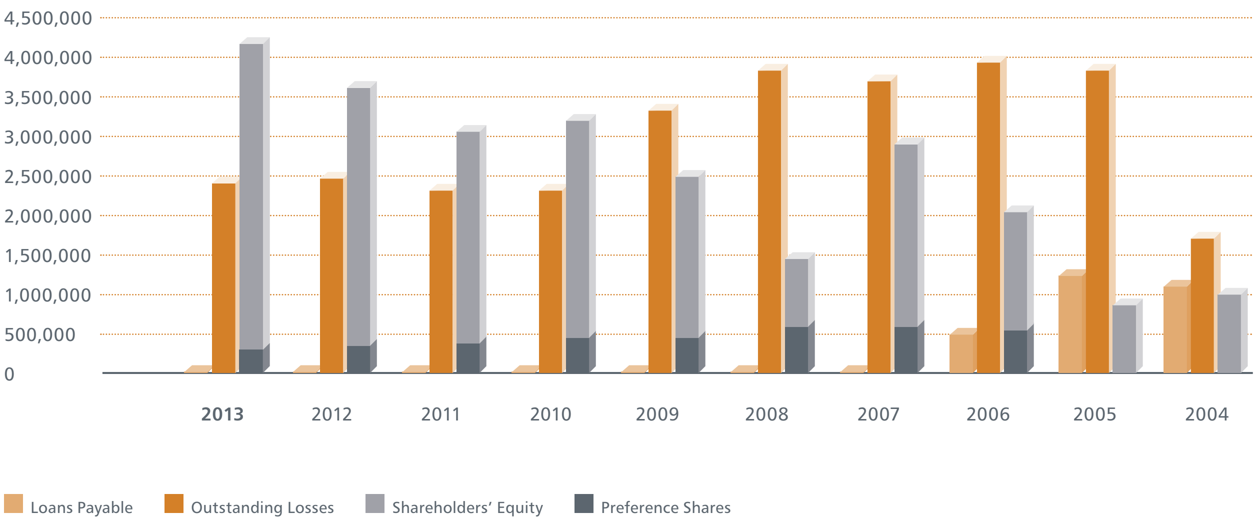
Ten-Year Summary

Years ended December 31 (Expressed in thousands of United States dollars)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Premiums earned	**550,361**	672,485	543,425	783,688	891,115	718,586	1,016,819	1,197,330	2,620,806	442,835
Net income (loss)	**631,898**	646,103	(104,636)	781,780	1,100,270	(1,359,879)	875,730	607,451	(118,478)	(548,410)
Financial Condition										
Total assets	**7,094,638**	6,450,657	5,746,005	5,893,800	6,068,091	6,369,097	7,303,769	7,877,741	6,607,069	4,425,410
Shareholders' equity	**4,184,868**	3,611,771	3,033,147	3,200,635	2,481,884	1,471,395	2,876,662	2,046,297	875,929	994,387
Ratios										
Loss ratio	**90.0%**	91.1%	110.2%	53.9%	58.2%	134.9%	52.9%	82.5%	106.6%	273.5%
Expense ratio	**4.1%**	3.2%	3.4%	2.0%	3.5%	3.7%	3.0%	2.6%	2.5%	5.2%
Combined ratio	**94.1%**	94.3%	113.6%	55.9%	61.7%	138.6%	55.9%	85.1%	109.1%	278.7%

Summary of Total Liabilities & Shareholders' Equity

Years ended December 31 (Expressed in thousands of United States dollars)



Consolidated Balance Sheets

December 31, 2013 and 2012 (Expressed in thousands of United States dollars)

	2013	2012
Assets		
Cash and cash equivalents (notes 2(k) and 4(b))	**$ 722,649**	$ 671,927
Investments in marketable securities and derivatives (notes 2(f), 3 and 4)	**5,365,403**	5,009,655
Other investments (notes 2(f) and 3)	**831,216**	593,816
Investment sales pending settlement	**78,846**	32,488
Accrued investment income	**23,890**	25,936
Amounts due from affiliates (note 9(b))	**73**	36
Retrospective premiums receivable (note 2(c))	**68,039**	102,115
Accounts receivable (note 2(b))	**2,982**	12,584
Other assets	**1,540**	2,100
Total assets	**$ 7,094,638**	$ 6,450,657
Liabilities		
Outstanding losses and loss expenses (note 5)	**$ 2,405,684**	$ 2,461,518
Retrospective premiums payable (note 2(c))	**6,026**	3,769
Premiums received in advance	**24,101**	25,587
Securities sold short (notes 2(j), 3 and 4)	**263,533**	224,842
Investment purchases pending settlement	**194,923**	109,235
Amounts due to affiliates (note 9(b))	**2,073**	2,823
Accounts payable	**13,430**	11,112
Total liabilities	**2,909,770**	2,838,886
Shareholders' Equity		
Preferred shares (note 6)	**293,421**	344,654
Common shares (note 8)	**560**	530
Retained earnings	**3,890,887**	3,266,587
Total shareholders' equity	**4,184,868**	3,611,771
Total liabilities and shareholders' equity	**$ 7,094,638**	$ 6,450,657

See accompanying notes to consolidated financial statements

Consolidated Statements of Operations

Years ended December 31, 2013 and 2012 (Expressed in thousands of United States dollars)

	2013	2012
Premiums written (note 2(b))	$ **552,612**	$ 633,963
Retrospective premiums (note 2(c))	**(2,251)**	38,522
Premiums written and earned	**550,361**	672,485
Discount earned on retrospective premiums receivable (note 2(c))	**230**	215
Losses and loss expenses incurred (note 5)	**(495,058)**	(612,540)
Acquisition costs	**(2,287)**	(526)
Net underwriting income	**53,246**	59,634
Interest income	**93,631**	102,052
Net gains on investments (note 3)	**515,264**	506,652
Dividend income	**29,401**	27,486
Investment advisory and custodian fees	**(38,211)**	(27,631)
Interest expense and financing costs	**(730)**	(705)
Net investment income	**599,355**	607,854
General and administrative expenses (note 9(a))	**(20,703)**	(21,385)
Net income	$ **631,898**	$ 646,103

See accompanying notes to consolidated financial statements

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2013 and 2012 (Expressed in thousands of United States dollars)

	Preferred shares	Common shares: Number of shares	Common shares: Amount	Retained earnings	Total
Balance at December 31, 2011	$ 402,458	52	$ 520	$ 2,630,169	$ 3,033,147
Shares issued in year	—	2	20	—	20
Shares redeemed in year	—	(1)	(10)	—	(10)
Net income	—	—	—	646,103	646,103
Preferred share repurchase	(57,804)	—	—	—	(57,804)
Gain on preferred share repurchase	—	—	—	3,002	3,002
Dividends paid on preferred shares	—	—	—	(12,687)	(12,687)
Balance at December 31, 2012	344,654	53	530	3,266,587	3,611,771
Shares issued in year	—	4	40	—	40
Shares redeemed in year	—	(1)	(10)	—	(10)
Net income	—	—	—	631,898	631,898
Preferred share repurchase	(51,233)	—	—	—	(51,233)
Gain on preferred share repurchase	—	—	—	2,616	2,616
Dividends paid on preferred shares	—	—	—	(10,214)	(10,214)
Balance at December 31, 2013	$ 293,421	56	$ 560	$ 3,890,887	$ 4,184,868

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

Years ended December 31, 2013 and 2012 (Expressed in thousands of United States dollars)

	2013	2012
Cash flows from operating activities		
Net income	$ 631,898	$ 646,103
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gains on investments	(515,264)	(506,652)
Accrued investment income	2,046	4,284
Amounts due from affiliates	(37)	23
Retrospective premiums receivable	34,076	(10,374)
Accounts receivable	9,602	(12,562)
Other assets	560	625
Outstanding losses and loss expenses	(55,834)	181,240
Retrospective premiums payable	2,257	2,456
Premiums received in advance	(1,486)	2,921
Amounts due to affiliates	(750)	1,300
Accounts payable	2,318	5,490
Proceeds from the sale of investments	8,488,967	12,413,276
Purchase of investments	(8,454,044)	(12,370,486)
Proceeds from the sale of securities sold short	774,347	710,292
Purchase of securities sold short	(809,133)	(610,971)
Net cash provided by operating activities	109,523	456,965
Cash flows from financing activities		
Repurchase of preferred shares, net of issuance costs	(48,617)	(54,802)
Issuance of common shares, net	30	10
Dividends paid on preferred shares	(10,214)	(12,687)
Net cash used by financing activities	(58,801)	(67,479)
Net increase in cash and cash equivalents	50,722	389,486
Cash and cash equivalents at beginning of year	671,927	282,441
Cash and cash equivalents at end of year	$ 722,649	$ 671,927

See accompanying notes to consolidated financial statements

1. NATURE OF THE BUSINESS

Oil Insurance Limited (the "Company") was incorporated under the laws of Bermuda on December 14, 1971 and carries on business as an insurance and reinsurance company insuring specific property, pollution liability, control of well and other similar risks of its members, of which there were 56 companies (as at December 31, 2013). The members comprise companies in the energy industry. The Company holds a Class 2 license under The Insurance Act 1978 of Bermuda and related regulations.

Effective January 1, 2012, coverage provided to each insured is limited to $300 million per occurrence for non-Atlantic Named Windstorm events. There is no annual aggregate limit for each insured, however, there is an aggregation limit in place for multiple claims arising from a single occurrence of $900 million. Prior to January 1, 2012, the Company's per occurrence and aggregation limits for non-Atlantic Named Windstorm events were $250 million and $750 million, respectively.

During 2009, the shareholders approved an amendment to the windstorm coverage due to increased tropical windstorm claims incurred in recent years, to take effect from January 1, 2010. The revised coverage has resulted in newly designated onshore and offshore windstorm pools. The amendment resulted in a reduction to the per occurrence limit from $250 million to $150 million for Atlantic Named Windstorm ("ANWS") losses and only the ANWS losses up to an aggregate annual retention of $300 million are mutualized among all members with any ANWS losses above that amount being mutualized among the ANWS pool members only.

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 ("US 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 subsidiary, Oil Investment Corporation Ltd. ("OICL") which was established to hold the Company's investment portfolios. All intercompany transactions are eliminated on consolidation.

(b) Premiums and acquisition costs

Premiums are recorded on an accruals basis. All premiums written are earned at the balance sheet date.

In 2013, the Company recorded withdrawal premiums totaling $2.9 million (2012 - $12.5 million) due from a member who elected to withdraw and redeem their shares in the Company. Under the terms of the Rating and Premium Plan, all members are charged a withdrawal premium upon their withdrawal from the Company.

Acquisition costs, consisting primarily of commissions, are charged to income on a pro rata basis over the term of each policy. As policies generally have the same coverage period as the Company's fiscal period, there are no deferred acquisition costs at the balance sheet date.

(c) Retrospective premiums

Certain of the Company's insurance policies provide for the receipt of retrospective premiums relating to losses incurred by its insureds, with such payments being receivable over a five year period. Retrospective premiums are recognized as premiums written and earned in the Consolidated Statement of Operations in the year in which the loss is incurred and are adjusted periodically in accordance with changes in the estimates of underlying losses. Retrospective premiums receivable are non-interest bearing and, accordingly, are discounted at prevailing interest rates and this discount is accreted over the collection period. For the year ended December 31, 2013 this rate is approximately 0.78% (2012 - 0.36%). Discount accreted on the retrospective premium receivable is recorded in the Consolidated Statement of Operations.

(d) Outstanding losses and loss expenses

The reserve for outstanding losses and loss expenses represents current estimates of reported losses and loss expenses based upon the judgment of the Company's claims personnel and reports received from independent loss adjusters and legal counsel plus a provision for losses incurred but not reported ("IBNR") based on the recommendations of an independent actuary using the past loss experience of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Outstanding losses and loss expenses (continued)

Management is of the opinion that the recorded reserves are adequate to cover the ultimate cost of losses incurred to date, but the provisions are necessarily estimates based upon information currently known and may ultimately be settled for a significantly greater or lesser amount. It is at least reasonably possible that management will revise these estimates significantly in the near term. Any subsequent differences are recorded in the period in which they are determined.

The establishment of the provision for outstanding losses and loss adjustment expenses is based upon known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. In establishing a provision for unpaid claims and claims expenses related to environmental exposure and clean-up, management considers facts currently known, the current state of laws and litigation and current estimates of reported losses and loss expenses. 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. In addition, a provision for adverse development for reported notifications and incurred but not reported claims is recorded based on the recommendations of an independent actuary using the past loss history of the Company and industry data.

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

(e) Subrogation recoveries

In the normal course of business the Company pursues recovery of certain losses through subrogation claims. Subrogation proceeds are recorded as a reduction of losses incurred in the year in which agreement of the recovery is determined. Subrogation recoveries for the year ended December 31, 2013, amounted to $1.0 million (2012 - $Nil).

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

Investments are classified as trading and are carried in the Consolidated Balance Sheet at fair value. Realized and unrealized gains and losses are included in the Consolidated Statement of Operations. Security transactions are accounted for on a trade date basis with investment purchases and sales pending settlement accrued in the Consolidated Balance Sheet. Other investments consist of investments in hedge funds and fund of funds and are carried at fair value. The units of account that are valued by the Company are its interest in the funds and not the underlying holdings of such funds. Thus, the inputs used by the Company to value its investments in each of the funds may differ from the inputs used to value the underlying holdings of such funds. These funds are stated at fair value, which ordinarily will be the most recently reported net asset value as reported by their investment managers or third party administrators. The use of net asset value as an estimate of the fair value for investments in certain entities that calculate the net asset value is a permitted practical expedient. The change in the fair value of hedge fund investments is included in the Consolidated Statement of Operations.

Investment gains and losses are computed using the average costs 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.

(g) 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).

(h) 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 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.

(i) Fair value of financial instruments

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

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

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

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

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

Other assets and liabilities: The fair values of investment purchases and sales pending settlement, amounts due from/to affiliates, premiums received in advance and accounts payable approximate their carrying value due to the immediate or short-term maturity of these financial instruments. Retrospective premiums receivable and payable are carried at the discounted present value of future cash flows which approximates their fair value.

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 deferred acquisition costs, other assets and financial instruments related to insurance contracts such as outstanding losses and loss expenses are excluded from fair value disclosure. Thus the total fair value amounts cannot be aggregated to determine the underlying economic value of the Company.

(j) Short selling

The Company may sell a security it does not own in anticipation of a decline in the fair value of that security. The Company must borrow the security or enter into an arrangement to borrow the security before the Company sells a security short. The Company is required to maintain collateral with the broker-dealer from which the security was borrowed. A gain, limited to the price at which the Company sold the security short, or a loss, unlimited in size, will be recognized upon the termination of a short sale. The Company is also subject to the risk that it may be unable to reacquire a security to close a short position except at a price substantially in excess of the last quoted price. Realized and unrealized gains and losses arising from short sales are recorded within net gains on investments in the Consolidated Statement of Operations. Securities sold short are recorded as liabilities in the Consolidated Balance Sheet at fair value.

(k) 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 December 31, 2013, cash in the amount of $183.2 million (2012 - $142.3 million) was on deposit with counterparties as collateral for securities sold short and positions held in derivative financial instruments (note 4).

3. INVESTMENTS

The fair values of investments as at December 31, 2013 and 2012 are as follows:

	2013 ($'000)	2012 ($'000)
Short term investments	$ **568,124**	$ 403,040
Derivatives	**15,039**	14,188
Equity securities	**2,257,366**	1,813,859
Fixed maturities		
US Treasury and Government Agency	**264,247**	162,744
State and Municipal bonds	**108,283**	29,532
Non-US Government bonds	**639,864**	733,850
Supranationals	**69,893**	78,541
Corporate bonds	**815,700**	1,148,682
Asset-backed securities	**206,487**	250,858
Mortgage-backed securities	**420,400**	374,361
Total fixed maturities	**2,524,874**	2,778,568
Total investments in marketable securities and derivatives	$ **5,365,403**	$ 5,009,655
Other investments	$ **831,216**	$ 593,816

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". Approximately 49% (2012 - 41%) of the total mortgage-backed holdings at December 31, 2013, 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 December 31, 2013 and 2012, are as follows:

	2013 ($'000)	2012 ($'000)
US Government and Agency	$ **636,051**	$ 268,114
AAA	**443,510**	655,376
AA	**663,400**	730,684
A	**354,177**	402,180
BBB	**647,853**	800,062
Below BBB	**348,007**	325,192
Total fixed maturities and short term investments	$ **3,092,998**	$ 3,181,608

The Company's methodology for assigning credit ratings to our 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 December 31, 2013, had an unrealized gain of $20.9 million (2012 - $22.7 million gain) at the same date, which has been recorded in the Consolidated Statement of Operations.

At December 31, 2013, $2.8 billion (2012 - $2.2 billion) of investments are held in joint custody accounts with Oil Casualty Investment Corporation Ltd., a company affiliated through common ownership. Under the terms of the joint custody agreement the Company owns 93.7% (2012 - 93.0%) of each security held in these joint custody accounts. The Company records its proportionate share of the investment assets, liabilities, income, net realized and unrealized gains and losses within these Consolidated Financial Statements.

The contractual maturities of investments in fixed maturities and short term investments as at December 31, 2013 and 2012, are as follows:

	2013 ($'000)	2012 ($'000)
Due in one year or less	$ 568,124	$ 403,040
Due after one year through five years	956,550	1,020,062
Due after five years through ten years	510,479	594,838
Due after ten years	430,958	538,449
	2,466,111	2,556,389
Asset-backed securities	206,487	250,858
Mortgage-backed securities	420,400	374,361
Total fixed maturities and short term investments	$ 3,092,998	$ 3,181,608

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

The gross realized gains and gross realized losses on investments and the change in unrealized gains and losses for the years ended December 31, 2013 and 2012 are as follows:

	2013 ($'000)	2012 ($'000)
Gross realized gains on investments	$ 836,084	$ 1,444,719
Gross realized losses on investments	(625,150)	(1,346,670)
Gross realized gains on derivative instruments	468,431	362,147
Gross realized losses on derivative instruments	(380,682)	(303,234)
Gross realized gains on other investments	84,580	—
Gross realized losses on other investments	(46,217)	—
Change in net unrealized gains and losses during the year on investments	120,979	305,952
Change in net unrealized gains and losses during the year on other investments	56,388	52,802
Change in net unrealized gains and losses during the year on derivative instruments	851	(9,064)
Net gains on investments	$ 515,264	$ 506,652

During the year ended December 31, 2013, the change in net unrealized gains and losses on investments was attributable to movements in the fair value of the Company's equity securities of a $239.9 million gain (2012 - $194.8 million gain) and fixed maturities and short term investments of a $118.9 million loss (2012 - $111.2 million gain).

Under US 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 instruments include cash and certain cash instruments such as money market funds, short term investments, US treasury securities and exchanged traded equities.

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

3. INVESTMENTS (continued)

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.

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-US government securities consist of bonds issued by non-US 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, 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 US domiciled state and municipality entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker/dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.
- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. The significant inputs used to determine the fair value of these securities includes 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 US government agencies. The significant inputs used to determine the fair value of these securities includes 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 December 31, 2013, the "fund of funds" portfolio was invested in a variety of strategies, with the common strategies being long/short equity, global macro, event driven, fundamental equity and commodities. In general, the fund of funds in which the Company is invested require at least 91 days' notice of redemption, and may be redeemed on a quarterly or semi-annual basis, depending on the fund of fund. Certain fund of funds have a lock-up period. A lock-up period refers to the initial amount of time an investor is contractually required to invest before having the ability to redeem.

Fund of funds that do provide for periodic redemptions may, depending on the fund of funds' governing documents, have the ability to deny or delay a redemption request, called a "gate". The fund of fund may implement this restriction because the aggregate amount of redemption requests as of a particular date exceeds a specified level, generally ranging from 20% to 35% of the fund of fund's net assets. The gate is a method for executing an orderly redemption process that allows for redemption request to be executed in a timely manner to reduce the possibility of adversely affecting the remaining investors in the fund of fund. Typically, the imposition of a gate delays a portion of the requested redemption, with the remaining portion settled in cash sometime after the redemption date. Certain fund of funds may be allowed to invest a portion of their assets in illiquid securities, such as private equity or convertible debt. In such cases, a common mechanism used is a side-pocket, whereby the illiquid security is assigned to a separate memorandum capital account or designated account. Typically the investor loses its redemption rights in the designated account. Only when the illiquid security is sold, or otherwise deemed liquid by the fund of fund, may investors redeem their interest in the side-pocket. As of December 31, 2013, the fair value of hedge funds held in lock ups, side-pockets or gates was $83.0 million (2012 - $21.0 million).

Certain hedge fund investments have a redemption notice period and frequency that is not considered to be in the near term; these investments are classified as Level 3 in the hierarchy. As of December 31, 2013, the remaining hedge fund portfolio investments are classified as Level 2 in the fair value hierarchy; the Company can reasonably estimate when it will be able to redeem its investments at the net asset value, and the redemption period is considered to be in the near term.

The Company has ongoing due diligence processes with respect to funds in which it invests and their managers. These processes are designed to assist the Company in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however, the Company obtains the audited financial statements for the fund of fund managers annually, and regularly reviews and discusses the fund performance with the fund managers to corroborate the reasonableness of the reported net asset values. While reported net asset value is the primary input to the review, when the net asset value is deemed not to be indicative of fair value, the Company may incorporate adjustments to the reported net asset value and not use the permitted practical expedient on an investment by investment basis. These adjustments may involve significant management judgment. The Company has not made any such adjustments for the year ended December 31, 2013 or 2012.

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 transaction or observable market inputs, are classified as Level 2.

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

3. INVESTMENTS (continued)

The following tables summarize the levels of inputs used as of December 31, 2013 and 2012, in determining the classification of investment assets and liabilities held at fair value:

December 31, 2013 **Assets**	**Level 1 ($'000)**	**Level 2 ($'000)**	**Level 3 ($'000)**	**Total ($'000)**
Short term investments	$ 371,804	$ 196,026	$ 294	$ 568,124
Derivatives, net	—	15,039	—	15,039
Equity securities	2,257,366	—	—	2,257,366
US Treasury and Government Agency	241,544	22,703	—	264,247
State and Municipal bonds	—	108,283	—	108,283
Non-US Government bonds	—	639,864	—	639,864
Supranationals	—	69,893	—	69,893
Corporate bonds	—	815,700	—	815,700
Asset-backed securities	—	206,348	139	206,487
Mortgage-backed securities	—	420,400	—	420,400
Other investments	—	413,437	417,779	831,216
Total	$ 2,870,714	$ 2,907,693	$ 418,212	$ 6,196,619

December 31, 2013 **Liabilities**	**Level 1 ($'000)**	**Level 2 ($'000)**	**Level 3 ($'000)**	**Total ($'000)**
Equity securities sold short	263,533	—	—	263,533
Total	$ 263,533	$ —	$ —	$ 263,533

December 31, 2012 **Assets**	**Level 1 ($'000)**	**Level 2 ($'000)**	**Level 3 ($'000)**	**Total ($'000)**
Short term investments	$ 105,369	$ 297,473	$ 198	$ 403,040
Derivatives, net	—	14,188	—	14,188
Equity securities	1,813,859	—	—	1,813,859
US Treasury and Government Agency	162,744	—	—	162,744
State and Municipal bonds	—	29,532	—	29,532
Non-US Government bonds	—	733,850	—	733,850
Supranationals	—	78,541	—	78,541
Corporate bonds	—	1,138,369	10,313	1,148,682
Asset-backed securities	—	250,153	705	250,858
Mortgage-backed securities	—	372,530	1,831	374,361
Other investments	—	379,461	214,355	593,816
Total	$ 2,081,972	$ 3,294,097	$ 227,402	$ 5,603,471

December 31, 2012 **Liabilities**	**Level 1 ($'000)**	**Level 2 ($'000)**	**Level 3 ($'000)**	**Total ($'000)**
Equity securities sold short	224,842	—	—	224,842
Total	$ 224,842	$ —	$ —	$ 224,842

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 years ended December 31, 2013 and 2012:

	Short Term Investments ($'000)	Other Investments ($'000)	Corporate Bonds ($'000)	Asset -Backed Securities ($'000)	Mortgage -Backed Securities ($'000)	Total ($'000)
Beginning balance at January 1, 2013	$ 198	$ 214,355	$ 10,313	$ 705	$ 1,831	$ 227,402
Purchases and issuances	—	216,858	—	—	—	216,858
Sales and settlements	—	(22,642)	(5,070)	(13)	—	(27,725)
Transfers into Level 3	—	12,187	—	129	—	12,316
Transfers out of Level 3	—	—	(5,304)	(720)	(1,818)	(7,842)
Reclassification	104	—	(104)	—	—	—
Realized and unrealized gains included in net income for the year	(8)	(2,979)	165	38	(13)	(2,797)
Ending balance at December 31, 2013	$ 294	$ 417,779	$ —	$ 139	$ —	$ 418,212

	Short Term Investments ($'000)	Other Investments ($'000)	Corporate Bonds ($'000)	Asset -Backed Securities ($'000)	Mortgage -Backed Securities ($'000)	Total ($'000)
Beginning balance at January 1, 2012	$ 5,001	$ 200,554	$ 4,932	$ 1,003	$ —	$ 211,490
Purchases and issuances	—	—	4,376	—	1,818	6,194
Sales and settlements	(4,761)	—	—	(363)	—	(5,124)
Transfers into Level 3	—	—	487	—	—	487
Transfers out of Level 3	—	—	—	—	—	—
Realized and unrealized gains included in net income for the year	(42)	13,801	518	65	13	14,355
Ending balance at December 31, 2012	$ 198	$ 214,355	$ 10,313	$ 705	$ 1,831	$ 227,402

The fair value measurements of the Company's Level 3 short term and asset backed securities were based on unadjusted third party pricing sources. Other investments are valued using the net asset values obtained from the investment managers or administrators of the respective investment funds. Certain hedge fund investments have a redemption notice period and frequency that is not considered to be in the near term; these investments are classified as Level 3 in the hierarchy.

During the year ended December 31, 2013, the transfer into other investments Level 3 was due to the liquidation of an investment in a hedge fund. Certain corporate bonds, asset and mortgage backed securities were transferred out of Level 3 where market pricing was available at December 31, 2013, and one asset backed security was transferred into Level 3 based on its fair value measurement not meeting Level 2 classification criteria at the balance sheet date. Certain Level 3 corporate bonds were reclassified as short term investments due to the proximity to maturity at the balance sheet date. There were no other transfers in or out of Levels 1, 2 or 3 during the year ended December 31, 2013.

During the year ended December 31, 2012, the transfer into Level 3 Corporate Bonds of $0.5 million is due to a reclassification from Level 2 based on their fair value measurement not meeting Level 2 classification criteria at the balance sheet date. There were no other transfers in or out of Levels 1, 2 or 3 during the year ended December 31, 2012.

4. COMMITMENTS AND CONTINGENCIES

(a) Derivative Instruments

The Company's investment guidelines permit, subject to specific approval, investment in derivative instrument such as futures and option contracts, interest rate swaps and forward foreign currency contracts. Their use is regularly monitored and they are used for yield enhancement, duration management, interest rate and foreign currency exposure management or to obtain an exposure to a particular financial market. The Company's use of derivative instruments with embedded leverage such as futures, swaps and options contracts may increase the Company's investment risk. Credit risk arises from the potential inability of counterparties to perform under the terms of the contract.

The tables below show the fair value of the Company's derivative instruments recorded in Investments in Marketable Securities and Derivatives in the Consolidated Balance Sheet as of December 31, 2013 and 2012:

	Derivative Assets	Derivative Liabilities
	2013	2013
	Fair Value ($'000)	Fair Value ($'000)
Interest rate swaps	$ 12,920	$ 12,381
Credit default swaps	—	139
Equity swaps	585	407
Fixed income and currency options	3,441	1,788
Forward foreign currency contracts	16,663	20,859
Equity futures	10,271	—
Interest rate futures	11,062	4,329
Total	$ 54,942	$ 39,903

	Derivative Assets	Derivative Liabilities
	2012	2012
	Fair Value ($'000)	Fair Value ($'000)
Interest rate swaps	$ 2,246	$ 1,911
Credit default swaps	27	116
Equity swaps	7,419	1,267
Fixed income and currency options	2,092	2,472
Forward foreign currency contracts	18,652	16,727
Equity futures	2,938	—
Interest rate futures	5,454	2,147
Total	$ 38,828	$ 24,640

The tables below show the net realized gains and losses on the Company's derivative instruments recorded in the net gains on investments in the Consolidated Statement of Operations during the year ended December 31, 2013 and 2012:

	2013		
	Net realized gains and (losses)	Change in unrealized gains and (losses)	Net gains and (losses)
	($'000)	($'000)	($'000)
Interest rate swaps	$ 5,808	$ 204	$ 6,012
Credit default swaps	(26)	(50)	(76)
Equity swaps	4,518	(5,974)	(1,456)
Fixed income and currency options	2,527	2,033	4,560
Forward foreign currency contracts	28,671	(6,121)	22,550
Equity futures	41,935	7,333	49,268
Interest rate futures	4,316	3,426	7,742
Total	$ 87,749	$ 851	$ 88,600

	2012		
	Net realized gains and (losses)	Change in unrealized gains and (losses)	Net gains and (losses)
Interest rate swaps	$ (3,259)	$ 3,811	$ 552
Credit default swaps	1,164	(1,470)	(306)
Equity swaps	(4,905)	4,905	—
Fixed income and currency options	731	(1,085)	(354)
Forward foreign currency contracts	38,328	(16,109)	22,219
Equity futures	13,545	2,688	16,233
Interest rate futures	13,309	(1,804)	11,505
Total	$ 58,913	$ (9,064)	$ 49,849

(i) Foreign currency exposure management

A forward foreign currency contract is a commitment to purchase or sell a foreign currency at a future date, at a negotiated rate. The unrealized gain or loss on open forward contracts represents the Company's net equity therein and is calculated as the difference between the contract date rate and the applicable forward rate at the reporting date as reported in published sources, applied to the face amount of the contract. The unrealized gain or loss at the reporting date is included in investments in marketable securities and derivatives in the Consolidated Balance Sheet. The Company utilizes forward foreign currency contracts to manage the impact of fluctuations in foreign currencies on the value of its foreign currency denominated investments.

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

4. COMMITMENTS AND CONTINGENCIES (continued)

At December 31, 2013 and 2012, the Company had the following open forward foreign currency contracts:

	2013		2012	
Currency	**Notional receivable ($'000)**	**Notional payable ($'000)**	Notional receivable ($'000)	Notional payable ($'000)
AUD	**$ 81,636**	**$ (140,079)**	$ 2,546	$ (54,096)
BRL	**23,938**	**(20,214)**	22,190	(13,445)
CAD	**1,588**	**(59,373)**	11,877	(27,129)
CHF	**502**	**(9,906)**	—	(11,262)
CNY	**7,729**	**—**	17,168	(10,319)
DKK	**1,410**	**(26,176)**	1,225	(2,363)
EUR	**266,016**	**(733,191)**	127,591	(599,768)
GBP	**88,786**	**(220,470)**	20,132	(194,469)
INR	**7,333**	**—**	12,835	(3,531)
JPY	**79,832**	**(202,771)**	23,374	(233,843)
MXN	**22,664**	**(52,388)**	53,694	(49,820)
MYR	**8,219**	**—**	11,024	(2,483)
NOK	**21,484**	**(86)**	1,618	(6,059)
NZD	**40,881**	**(82,468)**	2,459	(38,983)
PLN	**652**	**(10,971)**	20,465	(20,002)
RUB	**93**	**(6,367)**	15,245	(14,059)
SEK	**—**	**(15,283)**	2,415	(6,716)
TRY	**4,313**	**(9,398)**	3,019	(3,019)
USD	**1,595,626**	**(653,514)**	1,283,595	(365,824)
ZAR	**—**	**(13,831)**	367	(3,437)
Other	**10,134**	**(10,546)**	36,939	(7,226)
	$ 2,262,836	**$ (2,267,032)**	$ 1,669,778	$ (1,667,853)

At December 31, 2013, unrealized gains of $16.7 million (2012 - $18.7 million) and unrealized losses of $20.9 million (2012 - $16.7 million) on forward foreign exchange contracts are included in investments in marketable securities and derivatives in the Consolidated Balance Sheet.

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

Futures

A portion of the Company's portfolio is invested in bond, note, money market, equity index and interest rate futures contracts. Such futures provide the Company with participation in market movements, determined by the underlying instrument or index on which the futures contract is based, without holding the instrument itself or the 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 on 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 December 31, 2013 and 2012 the contractual values of financial futures contracts are:

	2013		2012	
	Long ($'000)	**Short ($'000)**	Long ($'000)	Short ($'000)
Equity index futures contracts	**$ 234,593**	**$ —**	$ 158,786	$ —
Bond and note futures contracts	**1,567,306**	**(1,113,735)**	902,004	(668,191)

The Company had gross gains of $21.3 million and gross losses of $4.3 million on open futures contracts for the year ended December 31, 2013 (2012 – gross gains $8.4 million and gross losses $2.1 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)

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 December 31, 2013 and 2012 the fair value of open interest rate swap contracts is:

	2013 ($'000)	2012 ($'000)
Interest rate swaps, net	$ **539**	$ 335

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 December 31, 2013 and 2012 the fair value of open fixed income and currency option contracts is:

	2013 ($'000)	2012 ($'000)
Options purchased	$ **3,441**	$ 2,092
Options written (liability)	**(1,788)**	(2,472)

Premiums received for open written options as of December 31, 2013, amounted to $1.6 million (2012 - $2.4 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.

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

(b) Concentrations of credit risk

The investment portfolio is managed following prudent standards of diversification across counterparties, issuers, asset classes and geographical regions. Investments are allocated over three broad asset classes which are global equity, global fixed income and hedge funds. Investment guidelines are designed to limit the holdings of a single issue and issuer, control non-US dollar currency exposure and minimize sovereign risk. Fixed maturity securities held with maturities of longer than one year generally have a minimum investment rating of B3/B- or better and at least 85% (at fair value) generally have a minimum rating of Baa3/BBB- or better with average quality for the total portfolio of A2/A. The Company utilizes the lower rating as determined by Standard & Poor's and Moody's Investors Services. If a security is not rated by Standard & Poor's or Moody's Investors Services, the equivalent implied rating is utilized. Cash equivalents must carry a rating of A1/P1.

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

(c) Prime brokers

One large investment bank (the "Prime Broker") has been appointed as the Company's Prime Broker. Under the Customer Prime Broker Account Agreements, $299.8 million (2012 - $265.0 million) of the assets of the Company are held by the Prime Broker and each of the Prime Broker's affiliated companies are subject to a general lien and a continuing first priority perfected security interest in favor of the Prime Broker and therefore constitute collateral security for the Company's obligations and liabilities to the Prime Broker. The Prime Broker has a long term credit rating of A as issued by Standard & Poor's.

(d) Use of short selling

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

(e) Outstanding litigation

From time to time the Company is party to lawsuits and arbitration proceedings arising in the normal course of business. The Company believes the resolution of these proceedings will not have a material adverse effect on its financial condition.

5. OUTSTANDING LOSSES AND LOSS EXPENSES

The Company's reserve for outstanding losses and loss expenses represents the estimated amount necessary to settle all outstanding claims, including claims which have been incurred but not reported, as of the balance sheet date. The reserve is provided on the basis of current estimates made by the Company's claims personnel, independent actuarial consultants, independent loss adjusters and legal counsel. The reserve is based on a detailed analysis of the facts in each case and historical claims development patterns including claim payment patterns, pending levels of unpaid claims and the regulatory and legal environment.

Due to the nature of the risks insured and the levels of coverage provided by the Company, significant delays can be experienced in the settlement of claims. Accordingly, a substantial degree of judgment is involved in assessing the ultimate cost of losses incurred.

A summary of changes in outstanding losses and loss expenses for 2013 and 2012 is as follows:

	2013 ($'000)	2012 ($'000)
Balance at January 1	**$ 2,461,518**	$ 2,280,278
Incurred losses related to:		
Current year	**688,755**	733,788
Prior years	**(193,697)**	(121,248)
Total incurred	**495,058**	612,540
Paid losses related to:		
Current year	**(47,741)**	(141,835)
Prior years	**(503,151)**	(289,465)
Total paid	**(550,892)**	(431,300)
Balance at December 31	**$ 2,405,684**	$ 2,461,518

The 2013 current year incurred losses of approximately $689 million primarily relate to: (i) case reserves recorded totaling $387 million relating to 14 specific property and pollution incidents incurred during the year; (ii) the establishment of IBNR totaling $300 million for the 2013 underwriting year; and (iii) loss expenses incurred totaling $2 million.

The 2013 reduction in incurred losses for prior years claims of approximately $194 million primarily relates to: (i) a reduction in IBNR relating to prior years of $161 million due to favorable adjustments in ultimate loss ratios; and (ii) net favorable development totaling $33 million relating to specific property and pollution incidents incurred during prior years due to updated information received from insureds and loss adjusters regarding outstanding claims notifications.

The 2012 current year incurred losses of approximately $734 million primarily relate to: (i) case reserves established on four claims totaling $294 million relating to a 2012 loss event in the North Sea; (ii) case reserves recorded totaling $189 million relating to 13 specific property and pollution incidents incurred during the year; (iii) the establishment of IBNR totaling $242 million for the 2012 underwriting year; and (iv) loss expenses incurred totaling $9 million.

The 2012 reduction in incurred losses for prior years claims of approximately $121 million primarily relates to: (i) a reduction in IBNR relating to prior years of $239 million due to favorable adjustments in ultimate loss ratios; (ii) unfavorable development totaling $116 million relating to specific property and pollution incidents incurred during prior years due to updated information received from insureds and loss adjusters regarding outstanding claims notifications; and (iii) loss expenses incurred totaling $2 million.

For catastrophic events there is a high degree of uncertainty and subjectivity underlying the assumptions and associated estimated reserves for losses and loss adjustment expenses. Reserves are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Due to the nature and levels of the coverage provided by the Company these adjustments can be material. Additionally, the complexity resulting from matters such as policy coverage issues, multiple events affecting one geographic area and the resulting impact on the quantification of claims (including the allocation of claims to specific events and the effect of demand surge on the cost of building materials and labor) can cause delays in the timing of claim notifications and changes to loss estimates.

The Company insures its policyholders against certain pollution liabilities caused by occurrences which commenced at or after the inception of a member's first policy, which for initial policyholders was January 1, 1972. The Company's pollution exposure typically involves potential liabilities for the mitigation or remediation of environmental contamination, personal injury or property damage caused by the release of hazardous substances into the land, air or water. The Company is exposed to claims arising from its members' use and storage of Methyl Tertiary Butyl Ether ("MTBE") as a gasoline additive and its potential environmental impact through alleged seepage into groundwater. Additional claims related to the use of MTBE may be filed in the future. There are many uncertainties regarding both the magnitude of exposures of the Company's insureds to the claimants and how the coverage under policies issued by the Company would apply to liabilities of its policyholders.

The Company's reserve for losses incurred but not reported 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) the uncertainty regarding the extent of the underlying and/or other insurance coverages, which may respond before the Company's coverage, and (v) the future outcome of litigation that is currently in process and the potential that exists for punitive and compensatory awards. To assist in determining this reserve, management has obtained the advice of independent claims consultants and actuaries who annually establish an estimate of the Company's ultimate pollution liabilities based on actuarial modeling techniques. Because of the variability and uncertainty inherent in the pollution claim evaluation, reserving and settlement processes, the reserves established by the Company represents management's best estimate at the balance sheet date based on current information but, such claims may ultimately settle for a significantly greater or lesser amount. Such adjustments to reserves could be material to the Company.

6. PREFERRED SHARES

The Company has authorized preference share capital of $1,000,000 consisting of 1,000,000 shares with a par value of $1 each. In June 2006, the Company issued 600,000 Series A perpetual preferred shares ("Series A preference shares") and received proceeds from the issuance, net of direct issuance costs, of approximately $586.8 million. Upon dissolution of the Company, the holders of the Series A preference shares are entitled to receive a liquidation preference of $1,000 per share, plus accrued unpaid dividends.

Dividends on the Series A preference shares from the date of original issuance through June 30, 2011 are payable semi-annually in arrears in cash, when and if declared by the Board of Directors, out of funds legally available for the payment of dividends under Bermuda law. Such dividends are payable on June 30 and December 30 of each year, at the annual rate of 7.558% per $1,000 liquidation preference, until June 30, 2011.

After June 30, 2011, dividends accrue at an annual rate of 3-month LIBOR plus a margin equal to 298.2 basis points per $1,000 liquidation preference, payable quarterly in arrears. The Company may redeem the Series A preference shares on or after June 30, 2011, at a redemption price of $1,000 per share. As of December 31, 2013, the Company has not called the preference shares.

During 2013, the Company repurchased and retired 52,382 (2012 - 59,100) of the Series A preference shares with a par value of $1,000 per share. As of December 31, 2013, the Company had 300,000 (2012 - 352,382) of series A preference shares outstanding with a par value of $1,000 per share.

7. CREDIT FACILITY

Effective February 10, 2011, the Company entered into a Revolving Credit Facility ("Credit Facility") with The Bank of New York Mellon ("BNY Mellon"). Under the terms of the agreement, the Company may borrow up to $150 million from BNY Mellon. The Credit Facility was scheduled to mature on February 10, 2014. The Company renewed the credit facility on February 10, 2014. The amended termination date for the Credit Facility is February 10, 2017. At the option of the Company, any borrowings under the agreement bear interest at a rate per annum equal to either: (1) the greater of BNY Mellon's prime commercial lending rate or 0.50% plus the federal funds rate (as published by the Federal Reserve Bank of New York); or (2) 1.25% plus LIBOR for interest periods of 1, 2 or 3 months. Under the terms of the agreement, the Company must secure the payment and performance of its obligations to BNY Mellon by pledging a portion of the investments held in OICL's fixed maturities investment portfolio. At December 31, 2013, the facility has not been utilized and the fair value of the investments pledged to collateralize the Company's obligation totaled $Nil (2012 - $Nil).

8. COMMON SHARES

	2013	2012
Authorized		
200 Class A shares of par value $10,000 each	**$ 2,000,000**	$ 2,000,000
Issued and fully paid		
56 (2012 - 53) Class A shares	**$ 560,000**	$ 530,000

Each shareholder has one vote for each paid up Class A share together with an additional vote for each $10,000 of cumulative premium as defined in the shareholders' agreement, subject to a maximum of 9.5% of total voting rights. The shareholders' agreement provides for 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. Commencing January 1, 1987, the shareholders' agreement restricts the amount available for the payment of dividends to the Company's cumulative net income less any paid dividends after that date.

9. 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 wholly-owned subsidiary, which provides administrative support services to the Company.

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

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 December 31, 2013 and 2012, the Company did not record any unrecognized tax benefits or expenses. The Company has not recorded any interest or penalties during the years ended December 31, 2013 and 2012.

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.

The following tables present the reconciliation of the Company's US GAAP shareholders' equity to statutory capital and surplus, and the corresponding minimum capital adequacy levels as at December 31, 2013 and 2012:

	2013 ($'000)	2012 ($'000)
US GAAP shareholders' equity	**$ 4,184,868**	$ 3,611,771
Plus: Theoretical withdrawal premium	**1,093,929**	1,257,411
Less: Non-admitted assets	**(1,520)**	(2,073)
Statutory capital and surplus	**$ 5,277,277**	$ 4,867,109
Minimum required statutory capital and surplus	**$ 240,568**	$ 246,152

Non-admitted assets for statutory purposes include fixed and prepaid assets.

Under the terms of the Rating and Premium Plan, all members are charged a withdrawal premium upon their withdrawal from the Company. The Company has received permission from the Bermuda Monetary Authority to record the estimated amount of the theoretical withdrawal premium ("TWP") due from existing members who have not elected to withdraw or redeem their shares in the Company as statutory capital and surplus. As of December 31, 2013, the Company has included the discounted value of the TWP from current shareholders that are rated "BBB- or higher by Standard and Poor's, totaling $1.1 billion, in the calculation of statutory capital and surplus.

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 December 31, 2013, the Company is required to maintain relevant assets of at least $1.8 billion. At that date relevant assets are approximately $7.7 billion and the minimum liquidity ratio is therefore met.

12. COMPARATIVE INFORMATION

Certain balances in the 2012 financial statements have been reclassified to conform to the 2013 consolidated financial statement presentation.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 3, 2014, which is the date the financial statements were issued.

Independent Auditors' Report to the Shareholders

The Board of Directors
Oil Insurance Limited

We have audited the accompanying consolidated financial statements of Oil Insurance Limited and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, 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 US 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.

Auditors' 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 auditors' 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 Insurance Limited and its subsidiary as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with US generally accepted accounting principles.

KPMG Audit Limited

KPMG Audit Limited
Chartered Accountants
Hamilton, Bermuda
March 3, 2014

Management Responsibility for Financial Statements

December 31, 2013 and 2012

We, Robert D. Stauffer, President & Chief Executive Officer, and Ricky E. Lines, Senior Vice President & Chief Financial Officer, of Oil Insurance Limited (the "Company"), certify that we have reviewed this annual report of Oil Insurance Limited and based on our knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact. Based on our knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report. We are responsible for establishing and maintaining disclosure controls and procedures and we have designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within the Company; evaluated the effectiveness of the Company's disclosure controls and procedures; and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation. We have disclosed, based on our most recent evaluation, to our auditors and the audit committee of our Board of Directors that there are no significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have confirmed to our auditors that there are no material weaknesses in internal controls; or any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls. We also confirm that there were no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation.

R. D. Stauffer

Robert D. Stauffer
President & Chief Executive Officer

Ricky E.

Ricky E. Lines
Senior Vice President & Chief Financial Officer

March 3, 2014

Company Information

Senior Staff

– OIL INSURANCE LIMITED

Robert D. Stauffer
President
& Chief Executive Officer

George F. Hutchings
Senior Vice President
& Chief Operating Officer

Ricky E. Lines
Senior Vice President
& Chief Financial Officer

Theodore R. Henke
Senior Vice President
General Counsel & Secretary

Marlene J. Cechini
Controller
& Assistant Secretary

Robert Foskey, FCAS, MAAA
Chief Actuary

Theresa Dunlop
Vice President, OIL

COMMITTEES OF THE BOARD 2013

EXECUTIVE

Mark F. Wilson – *Chairman*
Gerard E. Modecki – *Deputy Chairman*
Trygve Imsland
Gerard Naisse
Robert D. Stauffer
Roberto Benzan

AUDIT

James D. Lyness – *Chairman*
Theodore Guidry, II
Fabrizio Mastrantonio
Gerard E. Modecki

COMPENSATION

Gerard E. Modecki – *Chairman*
Trygve Imsland
Gregory J. LaSalle
Mark F. Wilson

GOVERNANCE

Roberto Benzan – *Chairman*
John W. Dumas
Andre Levey

LEGAL COUNSEL

Conyers, Dill & Pearman
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Sutherland Asbill & Brennan LLP
The Grace Building
1114 Avenue of the Americas
New York NY 10036-7703
U.S.A.

AUDITORS

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

Board of Directors

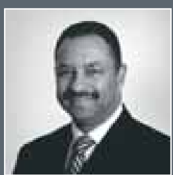
Mark F. Wilson
Chairman
Assistant Treasurer, Risk Management & Insurance
LyondellBasell Industries

Gerard E. Modecki
Deputy Chairman
Assistant Treasurer & Insurance Director
Marathon Oil Corporation

Trygve Imsland
Vice President, Head of Insurance
Statoil ASA

Roberto Benzan
Manager, Corporate Risk Management Insurance, Enterprise Risk, Loss Control Engineering
Husky Energy Inc.

John W. Dumas
Director, Corporate Insurance
Murphy Oil Corporation



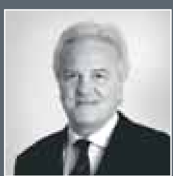
Theodore Guidry, II
Senior Vice President, Business Risk Management
Valero Energy Corporation

James F. Hughes, III
Corporate Insurance Manager
ConocoPhillips Company

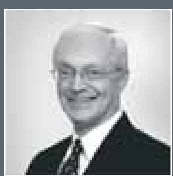
Andre Levey
Group Insurance Manager
Santos Ltd.

Gregory J. LaSalle
Director, Property Insurance
Occidental Petroleum Corporation

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



Gerard Naisse
Senior Vice President, Risk Management & Insurance
TOTAL S.A.



Robert D. Stauffer
President & Chief Executive Officer
Oil Insurance Limited

Jean-Louis Thebault
Head of Corporate Insurance Division
Électricité de France, S.A.

Robert Gordan
Assistant Treasurer – Insurance Division
Chevron Corporation

Subsidiary Companies

OIL MANAGEMENT SERVICES LTD.

DIRECTORS

Theodore R. Henke

James F. Hughes, III

Ricky E. Lines

Robert D. Stauffer

Mark F. Wilson

Theodore Guidry, II

OIL MANAGEMENT SERVICES LTD.

OFFICERS

Robert D. Stauffer
President & Chief Executive Officer

Ricky E. Lines
Senior Vice President
& Chief Financial Officer

Theodore R. Henke
Senior Vice President,
General Counsel & Secretary

George F. Hutchings
Senior Vice President,
Oil Insurance Limited

Robert Foskey
Senior Vice President
& Chief Actuary

Gail E.M. Miller, JP
Vice President, Human
Resources & Administration

Jerry B. Rivers
Senior Vice President,
Oil Casualty Insurance Limited

Marlene J. Cechini
Controller & Assistant Secretary

OIL INVESTMENT CORPORATION LTD.

DIRECTORS

R. Hartwell Gardner – Chairman
Treasurer (retired)
Mobil Corporation

Cynthia Akagi
Manager, Trust Investments
ConocoPhillips Company

Ralph J. Egizi
Director, Benefits (retired)
Eastman Chemical Company

Ricky E. Lines
Senior Vice President & Chief
Financial Officer & Treasurer
Oil Insurance Limited

James D. Lyness (retired)
Former Assistant Treasurer
Chevron Corporation

Paul C. Reinbolt
Vice President & Treasurer (retired)
Marathon Oil Corporation

Robert D. Stauffer
President & Chief Executive Officer
Oil Insurance Limited

Tron Vormeland
Vice President, Corporate Financing
Statoil ASA

OIL INVESTMENT CORPORATION LTD.

OFFICERS

Ricky E. Lines
President & Treasurer

Theodore R. Henke
Secretary

Marlene J. Cechini
Controller & Assistant Secretary

Andrew Rossiter
Vice President

Shareholders*

AUSTRALIA

BHP Billiton Petroleum (Americas) Inc.

Santos Ltd. (Sanro Insurance Pte Ltd.)

Woodside Petroleum Ltd. (WelCap Insurance Pte Ltd.)

AUSTRIA

OMV AG

CANADA

Canadian Natural Resources Ltd. (Highwood Limited)

Canadian Oil Sands Limited

Cenovus Energy Inc.

Husky Energy Inc.

Nexen Energy ULC (ICM Assurance Ltd.)

NOVA Chemicals Corporation (Novalta Insurance Ltd.)

Paramount Resources Ltd.

Suncor Energy Inc.

Talisman Energy Inc. (Oleum Insurance Company Limited)

DENMARK

DONG Energy A/S

FRANCE

Arkema

Électricité de France S.A.

TOTAL S.A. (Omnium Reinsurance Company SA)

GERMANY

BASF SE

HUNGARY

MOL Hungarian Oil and Gas Public Limited Company (MOL Reinsurance Company Limited)

ITALY

Eni S.p.A. (Eni Insurance Limited)

LATIN AMERICA / CARIBBEAN

Hovensa L.L.C.

Puerto Rico Electric Power Authority (PREPA)

NORWAY

Statoil ASA (Statoil Forsikring AS)

Yara International ASA

PORTUGAL

Galp Energia, SGPS, S.A. (Tagus Re S.A.)

SPAIN

Compañía Española de Petróleos (CEPSA), S.A. (Teide Re, S.A.)

Repsol, S.A. (Greenstone Assurance Ltd.)

THE NETHERLANDS

LyondellBasell Industries N.V. (Lyondell Chemical Company)

Royal Vopak N.V.

UNITED KINGDOM

BG Group plc (BG Insurance Company (Singapore) Pte Limited)

UNITED STATES

Alon USA Energy, Inc.

Anadarko Petroleum Corporation

Apache Corporation

Arena Energy, LP

Buckeye Partners, L.P.

Chevron Phillips Chemical Company LLC

Chevron Corporation

CITGO Petroleum Corporation (Trimark Insurance Co., Ltd.)

ConocoPhillips Company (Sooner Insurance Company)

Drummond Company, Inc.

DTE Energy Company

Energy Transfer Partners LP (Energy Transfer Equity LP)

Hess Corporation (Jamestown Insurance Company Limited)

LOOP LLC

Marathon Oil Corporation

Marathon Petroleum Corporation

Murphy Oil Corporation

Noble Energy, Inc.

Occidental Petroleum Corporation (Opcal Insurance, Inc.)

Phillips 66 Company

Sempra Energy

Tesoro Corporation

The Sinclair Companies

The Williams Companies, Inc.

Valero Energy Corporation (Colonnade Vermont Insurance Company)

Westlake Chemical Corporation

* These Energy Companies or their insurance or other affiliates (indicated in brackets) were Shareholders at December 31, 2013.

OIL INSURANCE LIMITED
Leaders in Global Energy Insurance

P.O. Box HM 1751
Hamilton HMGX

3 Bermudiana Road
Hamilton HM08

T (441) 295 0905
F (441) 295 0351

www.oil.bm