OIL INSURANCE LIMITED
Leaders in Global Energy Insurance

FOCUSED ON OUR FUTURE

2016 ANNUAL REPORT

Contents

Financial highlights

(Expressed in thousands of United States dollars)

	2016	2015
Premiums Earned	**427,731**	414,926
Total Assets	**6,898,671**	6,733,781
Net Income	**210,406**	30,925
Shareholders’ Equity	**4,026,302**	4,224,321

(Ratios expressed as percentages)

	2016	2015
Loss Ratio	**114.0**	86.1
Expense Ratio	**5.0**	4.9
Combined Ratio	**119.0**	91.0

Message from the President

It is my privilege to be writing this message after completing my first full year as President & Chief Executive Officer of OIL. For many of our insureds and shareholders, the challenges of 2015 continued to affect them through the past year. From political unrest and economic uncertainty, to the volatile commodities market and associated pricing climate, OIL's members had to contend with a myriad of issues last year. Though the pressures have not completely let up, they have eased, and I am pleased to report that all of OIL's shareholders have weathered the storm of 2016.

For our part, OIL also succeeded in dealing with the challenges of the past year. As always, our main goal is to provide value to our shareholders and throughout 2016 we remained steadfastly focused on this objective.

OIL delivered on that commitment in several ways. For example, to meet shareholders' requirements, we not only enhanced our pollution coverage, but also clarified the extensive terrorism coverage we provide – an offering that is particularly germane to companies in the energy industry. Our broad coverage, combined with OIL's substantial limits, $400 million in cornerstone capacity and competitive premiums, provide significant value to our membership.

OIL also provides value by returning excess capital to shareholders when appropriate. In 2016, we paid out $400 million in dividends thanks to the prudent management of our capital base. Over the past four years, OIL has returned over $1 billion of capital to our shareholders of record. This has been well received by members during difficult economic times.

In spite of the energy industry's weakening credit profile, OIL maintained its solid credit ratings from Moody's and S&P as well as the level of shareholders' equity at December 31, 2016 of just over $4 billion.

In my message last year, I referred to the company's plans to engage in a strategic planning process through 2016. This work was undertaken and finalized throughout the year and the result is a roadmap that positions OIL well for the future. In developing the plan, OIL's management and board worked together to strategically position the company for its direction and growth over the next five years. This plan consists of three major pillars – product offering, member services, and marketing and distribution. Specific objectives and initiatives have been set for each. This was an extensive yet valuable process, and I am pleased to report that in December 2016, OIL's Board of Directors authorized management to proceed with the implementation of the Strategic Plan. The plan was presented to the membership at the Annual General Meeting on March 22, 2017.

In executing the Strategic Plan, OIL will continue to focus on what lies ahead, to respond to the future needs of our membership, and to ensure that our value proposition evolves with both our shareholders and the industry at large.

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Part of this long-term view includes recognizing the shifting nature of the global energy industry. As the industry is transforming, companies are focusing on a range of energy sources from hydrocarbons to renewable energy. OIL remains in lock-step with the industry and is committed to ensuring our products and services keep pace. Evolving technologies are also having a significant impact on the insurance industry and OIL is committed to leverage technology to ensure our operations are as efficient as possible.

Maintaining strong relationships with our members will foster a deeper understanding of the value that OIL brings to the table and it will also reaffirm the benefits of entering into a long-term relationship with our organization. We are pleased that the support from the existing membership remains strong and that the interest in OIL is high across the energy industry sectors.

The make-up of OIL's Board of Directors changes from year to year, and I thank those Board members who are retiring this year for their valuable contributions to the organization and welcome our new members aboard. I would also like to recognize, in particular, the exemplary service of Ted Henke who was OIL's General Counsel and head of claims for 10 years and who retired from the company in 2016. I extend a warm welcome to Matthew Pifer who assumed the positions of General Counsel and head of claims in November and is now a part of the OIL team.

In closing, I would like to offer my gratitude to the staff and management at OIL for their ongoing dedication and hard work on behalf of our members. I am also grateful for the guidance of our Board of Directors throughout the year. Finally, to our shareholders: thank you for your continued loyalty and for entrusting OIL with your insurance needs.

Bertil C. Olsson
President & Chief Executive Officer

Operational review

The year ended December 31, 2016 was both operationally productive and financially sound for OIL as we successfully completed the mutual's five-year Strategic Plan while continuing to meet the membership's needs.

In my message in last year's Annual Report, I announced that one of our main goals for 2016 was to enter into a strategic planning process to take a closer look at our overall offering to determine where we can make improvements and how we can enhance our shareholders' experience. I am extremely pleased to report the results of that process and provide some insight into the initiatives we have and will be launching in the very near future.

While much of the year was devoted to developing the Plan, the bulk of the substantive work was completed during a strategy session in May. In July, we presented a draft outline of the Plan to the board and the finalized – but still adaptable – version of that framework was adopted at the board meeting in December. Throughout that time, we focused on uncovering the areas where we can provide additional value to our membership. As OIL's President & Chief Executive Officer Bertil Olsson mentioned in his message, in doing so, we paid particular attention to three areas of our operations – our product offering, member services, and marketing and distribution – and came up with the future direction for each. To elaborate:

- In examining our existing product offering, we will continue to search for ways to make OIL more attractive to both members and prospects by enhancing our products, including potentially providing more flexible limit options; establishing an advisory panel of shareholders, loss adjusters and brokers; and exploring possible partnerships with commercial markets and other energy mutuals.
- In plotting a course for OIL's member services, we will consider offering additional services that will further enhance our already-strong value proposition. Initiatives in this area will include periodically visiting every member, improving the AGM experience and leveraging OIL's extensive data as a competitive advantage (this is discussed in further detail below).
- OIL's marketing and distribution efforts will focus on increasing the number of members and improving our ability to raise awareness of our value proposition with prospects. To that end, the mutual intends to design specific marketing strategies to target other relevant sectors, beginning with the utility sector in the US. We are also planning to expand the scope of our relationship with our broker partners in combination with expanding our presence in London so we can more frequently meet with existing and prospective members.

Focused on
improving our
product offering

The strategic planning process was a valuable undertaking and these outcomes provide a very useful roadmap for the years ahead, with clear objectives and direction for meeting them. I look forward to the execution of the initiatives as they are sure to benefit the company and further our goals of engaging with our membership and enhancing our long-term relationship with shareholders.

Leveraging data

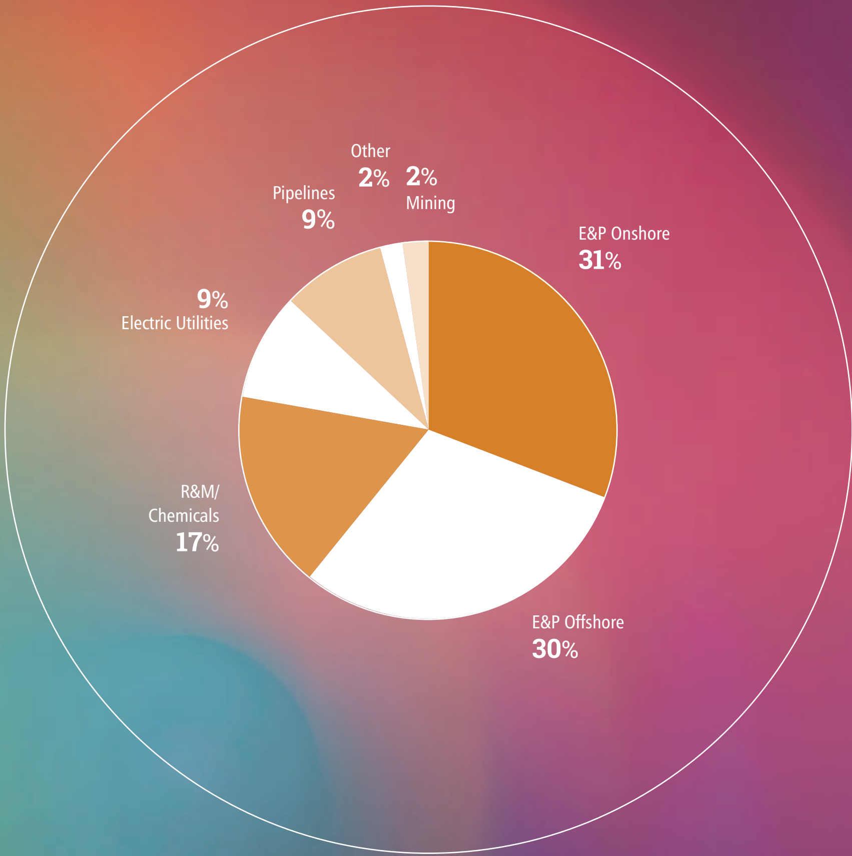
Another project designed to improve our relationship with members continued to progress through 2016. OIL is developing a business intelligence system so we can more easily access information related to our members and provide them with the answers they need quickly and efficiently. The infrastructure for this innovative system is fundamentally established and we are now working to determine the most effective way of presenting, accessing and delivering the relevant information, with the immediate goal of enabling our staff to be more responsive to members' requests. Ideally, we aim to have the data directly available to members sometime in 2018.

On a similar note – and with the goal of leveraging available technology – OIL is working closely with one of our broker partners to validate our information against their comprehensive set of data for property losses in the energy industry. We are going through this process with the intention to validate at least 20 years of data. This has proven to be a win-win exercise for both OIL and our broker partner as we are able to corroborate, supplement and enhance each other's data, ultimately providing a more complete picture of the industry as a whole and our membership in particular.

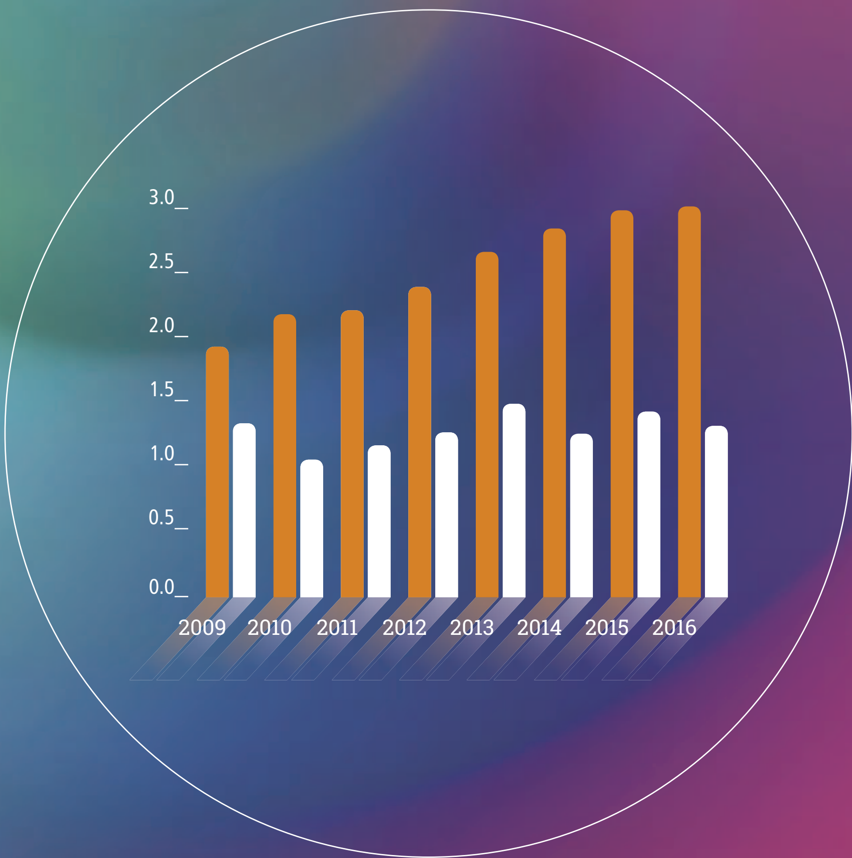
From a financial perspective, OIL's year was relatively successful. Our objectives stay the same from year to year – to make sure that all members are treated equitably on each and every claim. Ricky Lines, OIL's Chief Financial Officer, offers more detailed information and commentary about the company's financial and investment results in his message on page 12.

Over the past year, OIL was pleased to welcome two new members to the mutual: Plains All American Pipeline L.P. and TransCanada PipeLines Limited. Two members left the company for reasons unrelated to OIL or the way we operate. One was purchased by an energy company that isn't an OIL member and the other changed the focus of its operations and no longer fits the OIL risk profile.

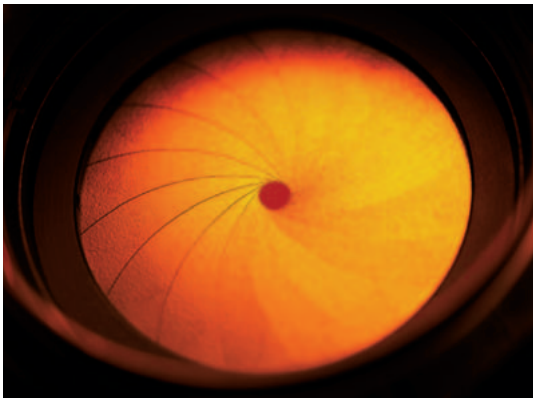
UNMODIFIED GROSS ASSETS
by Industry Sector
at December 31, 2016



GROSS ASSETS INSURED
(Expressed in trillions of United States dollars)



Operational review



OIL has accomplished a great deal through 2016; we look forward to continuing these efforts in the year ahead when our focus will be on implementing our Strategic Plan, including communicating and meeting with members more frequently so we can gain a deeper understanding of their needs and how we can best meet them. Oil prices have stabilized somewhat and members' operations are no longer in the same state of flux, but a certain amount of volatility and uncertainty remains. As a result, members are still under financial constraints. OIL is committed to providing our shareholders with the support they need in good times and bad, and will continue to find ways to remain relevant and strengthen our value proposition.

Thank you to the extraordinary team of men and women at OIL who make such a difference both to our membership and to the company's operations. To our employees, management team, Board of Directors and members: I feel very fortunate to have the benefit of your ongoing support and dedication. I look forward to working with you in 2017 and the years to come.

George F. Hutchings
Senior Vice President & Chief Operating Officer

Staying on track with **member services**

Financial and investment review

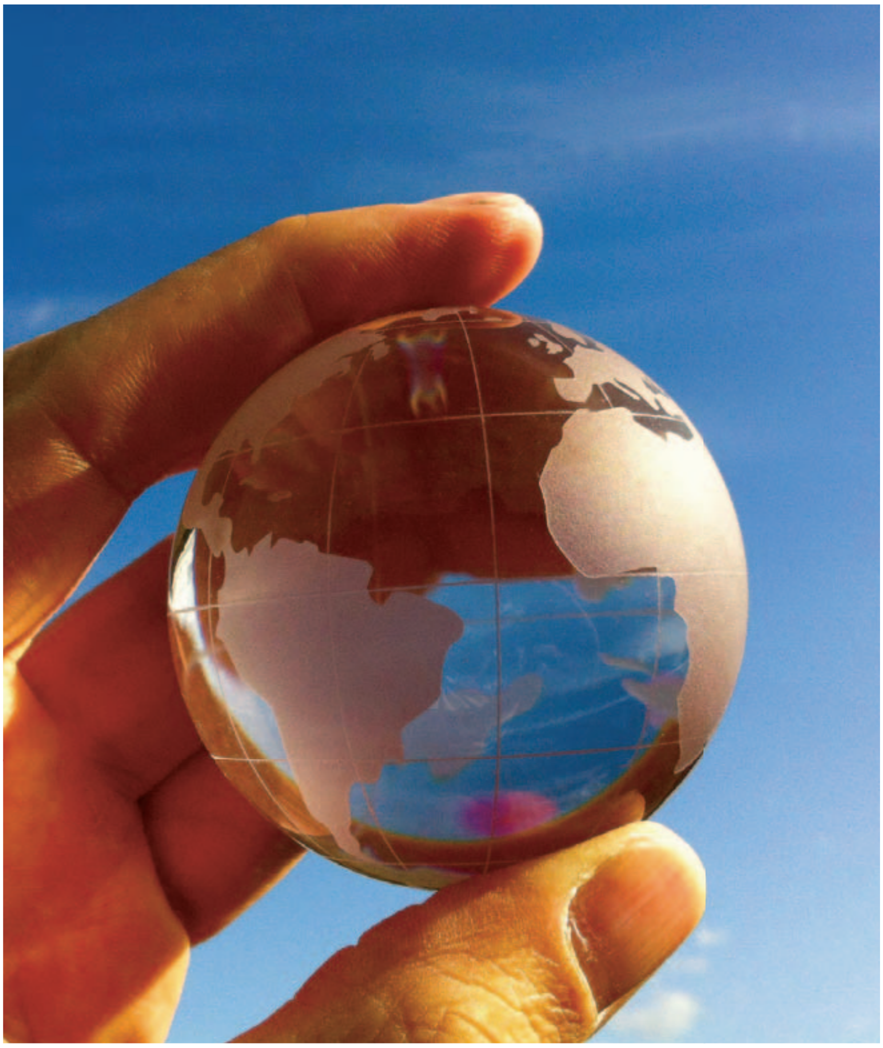
After a tumultuous 2016, the S&P 500 Index finished the year with nearly a 10% rise. Geopolitical events and economic uncertainty were prevalent throughout 2016 and with the price of oil falling to almost $26 a barrel in February, OIL's membership was not immune. We are pleased to report that OIL managed to endure through these turbulent times, maintaining its financial soundness and remaining well-positioned to meet the needs of our membership in the future.

Support through turmoil

2016 was marked by a number of events which had a meaningful impact on global financial markets. In addition to the decline in crude oil prices, economic data on China showed that its economy grew at 6.9% in 2015, the slowest rate since at least 1990, sparking speculation of more economic stimulus by the Chinese government. In a barrage of monetary stimulus to address lower GDP forecasts, the European Central Bank hiked its monthly asset purchases and said it will pay banks to borrow to boost lending. In the second quarter, the United Kingdom voted to leave the European Union, causing mass confusion about the future of European trade, the value of the British pound and Britain's financial institutions. British Prime Minister David Cameron tendered his resignation. In November, the populist trend continued with Donald Trump's surprise election victory, fueling an equity market rally as investors bid up stocks in anticipation of financial deregulation, lower taxes and infrastructure spending.

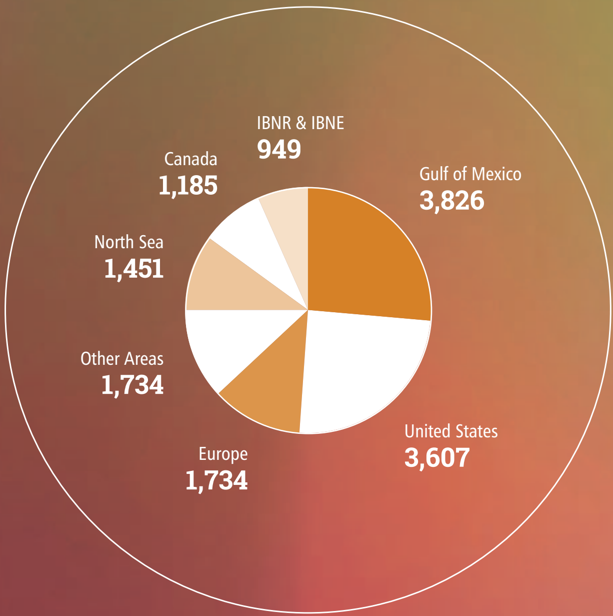
Given the events that transpired in 2016, this year's annual report theme of "focused on our future" is certainly applicable. After a rough start in 2016, which saw the S&P 500 Index being down almost 10% during the first two weeks, management was successful in "focusing" our investment strategy to achieve a 5% annualized return on OIL's invested assets. From a tactical standpoint, the portfolio was underweight global fixed income and slightly overweight global equities and fund of hedge funds for the majority of 2016. At December 31, 2016, OIL's investment allocation was comprised of 50% global bonds, 12% fund of hedge funds, 34% global equities and 4% cash.

As mentioned in previous annual reports, we spend considerable time and effort in reviewing our investment strategy and approach, to ensure we have an efficient portfolio that meets our investment objectives. During the year we assessed whether a potential new allocation to real assets should be considered as well as conducting a detailed review of the various strategies invested in within our fund of hedge funds allocation. In collaboration with our investment board, we decided not to make an allocation to real assets at this time but we did adjust our hedge fund strategy to enhance portfolio diversification and reduce correlation to global equity markets.

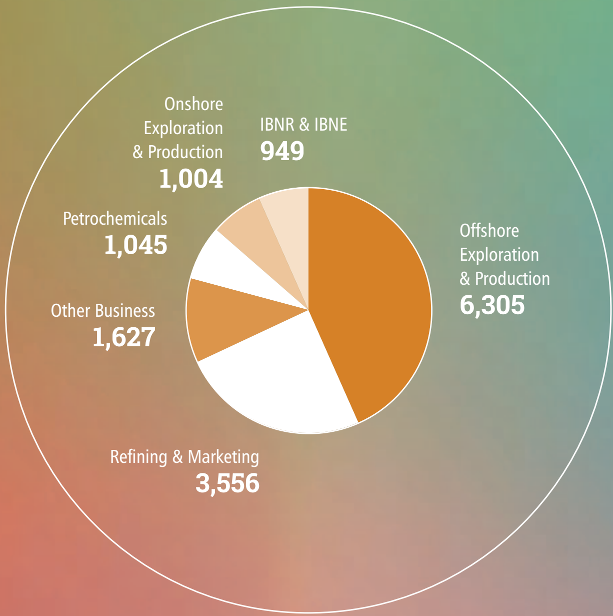


Looking at broadening our horizons with a focus on **marketing and distribution**

Financial and investment review

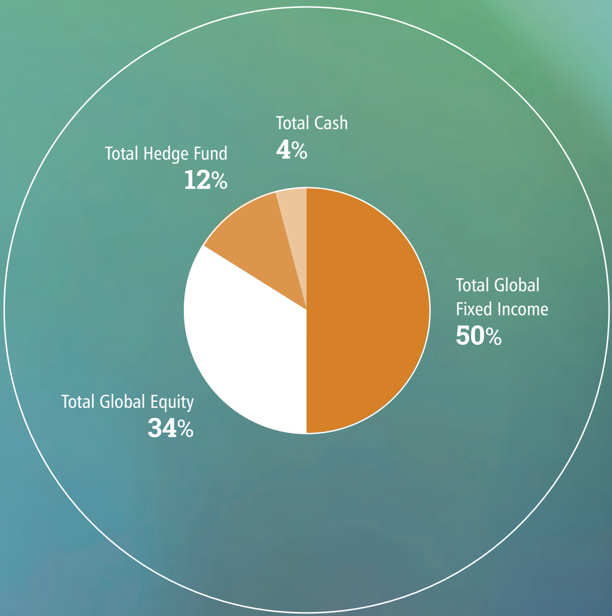


NET INCURRED LOSSES
by Geographic Region (1972 – 2016)
Expressed in United States dollars

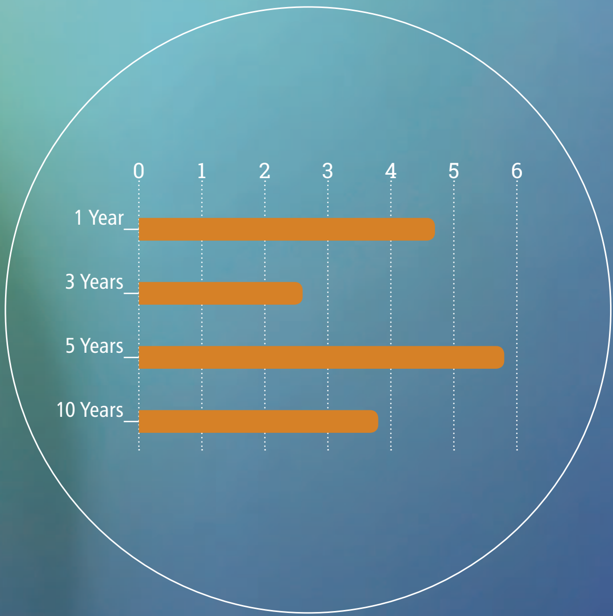


NET INCURRED LOSSES
by Industry Sector (1972 – 2016)
Expressed in United States dollars

In George Hutchings' operational review, he highlighted the work that has been accomplished on OIL's long term Strategic Plan, specifically the potential enhancement of OIL's product offering. As OIL's product offering is inextricably tied to the amount of capital that OIL has at any one time, OIL's invested assets and associated return are an integral part to the company's strategic planning process. Thus our investment objective of providing adequate liquidity to fund our obligations while simultaneously seeking to preserve capital and enhance the value of invested assets continues to support the company's goals.



ASSET ALLOCATION
at December 31, 2016



OIL'S TOTAL ANNUALIZED INVESTMENT RETURNS
for the periods ending December 31, 2016
Expressed in percentage returns

Turning our attention to OIL's financial performance, the company ended the year with $4 billion in shareholders' equity, subsequent to the $400 million dividend paid during the year. For the year, OIL reported net income of $210.4 million, which included a net underwriting loss of $62.0 million; a net investment gain of $291.6 million; and general and administrative expenses of $19.2 million. Bearing in mind OIL's unique premium system, a $62.0 million underwriting loss is well within our acceptable range of underwriting outcomes.

Financial and investment review

As OIL's journey progresses through 2017 and beyond, management plans to maintain its disciplined, long-term and diligent investment focus. As with all long-term plans, it is imperative that we keep looking forward; anticipate potential changes in the geopolitical and economic environment; and more importantly, prepare OIL for the potential impact that these changes might bring. An example of this pertains to the current interest rate environment. Specifically in the US, 2016 might have witnessed the end of a 30-year US Treasury bull market, as the Federal Reserve raised interest rates in December. Two or three more hikes are expected in 2017. Our key focus will be to remain disciplined with oversight from the board of our investment subsidiary, OIL Investment Company Ltd. (OICL) to ensure the portfolio is well-positioned and sufficiently flexible to weather the anticipated interest rate outlook.

In closing, I would like to acknowledge the ongoing dedication of OIL's Operating Board and the OICL's Investment Board of Directors. Together with my team of talented colleagues within finance and investments, they provide vital guidance, support and leadership. As always, I thank you and am grateful for your invaluable contributions.

Ricky E. Lines, CFA
Chief Financial Officer

Financial section

Financial Statements

Ten-Year Summary

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Premiums earned	**427,731**	414,926	495,932	550,361	672,485	543,425	783,688	891,115	718,586	1,016,819
Net income (loss)	**210,406**	30,925	731,011	631,898	646,103	(104,636)	781,780	1,100,270	(1,359,879)	875,730
Financial condition										
Total assets	**6,898,671**	6,733,781	7,336,865	7,094,638	6,450,657	5,746,005	5,893,800	6,068,091	6,369,097	7,303,769
Shareholders' equity	**4,026,302**	4,224,321	4,606,088	4,184,868	3,611,771	3,033,147	3,200,635	2,481,884	1,471,395	2,876,662
Ratios										
Loss ratio	**114.0%**	86.1%	(11.3)%	90.0%	91.1%	110.2%	53.9%	58.2%	134.9%	52.9%
Expense ratio	**5.0%**	4.9%	4.1%	4.1%	3.2%	3.4%	2.0%	3.5%	3.7%	3.0%
Combined ratio	**119.0%**	91.0%	(7.2)%	94.1%	94.3%	113.6%	55.9%	61.7%	138.6%	55.9%

Summary of Total Liabilities & Shareholders' Equity

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

Consolidated Balance Sheets

December 31, 2016 and 2015
(Expressed in thousands of United States dollars)

	2016	2015
Assets		
Cash and cash equivalents (Notes 2(k) and 4(b))	**$ 791,980**	$ 856,421
Investments in marketable securities and derivatives (Notes 2(f), 2(g), 3 and 4)	**5,216,520**	5,007,213
Other investments (Notes 2(f) and 3)	**771,446**	791,430
Investment sales pending settlement	**62,482**	38,114
Accrued investment income	**19,057**	20,526
Amounts due from affiliates (Note 9(b))	**42**	39
Retrospective premiums receivable (Note 2(c))	**5,276**	18,022
Accounts receivable (Note 2(b))	**30,193**	65
Other assets	**1,675**	1,951
Total assets	**$ 6,898,671**	$ 6,733,781
Liabilities		
Outstanding losses and loss expenses (Note 5)	**$ 2,208,092**	$ 1,966,489
Retrospective premiums payable (Note 2(c))	**6,623**	10,100
Premiums received in advance	**—**	12,193
Securities sold short (Notes 2(j), 3 and 4)	**398,887**	392,636
Investment purchases pending settlement	**244,287**	109,144
Amounts due to affiliates (Note 9(b))	**4,782**	3,009
Accounts payable	**9,698**	15,889
Total liabilities	**2,872,369**	2,509,460
Shareholders' equity		
Preferred shares (Note 6)	**293,421**	293,421
Common shares (Note 8)	**560**	550
Retained earnings	**3,732,321**	3,930,350
Total shareholders' equity	**4,026,302**	4,224,321
Total liabilities and shareholders' equity	**$ 6,898,671**	$ 6,733,781

See accompanying notes to consolidated financial statements

Consolidated Statements of Operations

December 31, 2016 and 2015
(Expressed in thousands of United States dollars)

	2016	2015
Premiums written (Note 2(b))	**$ 434,531**	$ 423,632
Retrospective premiums (Note 2(c))	**(6,800)**	(8,706)
Premiums written and earned	**427,731**	414,926
Discount earned on retrospective premiums receivable (Note 2(c))	**71**	181
Losses and loss expenses incurred (Note 5)	**(487,693)**	(357,261)
Acquisition costs	**(2,100)**	(1,121)
Net underwriting (loss) income	**(61,991)**	56,725
Interest income	**77,957**	82,400
Net gains (losses) on investments (Note 3)	**218,106**	(65,020)
Dividend income	**27,410**	26,151
Investment advisory and custodian fees	**(31,098)**	(49,218)
Interest expense and financing costs	**(740)**	(727)
Net investment income (loss)	**291,635**	(6,414)
General and administrative expenses (Note 9(a))	**(19,238)**	(19,386)
Net income	**$ 210,406**	$ 30,925

See accompanying notes to consolidated financial statements

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2016 and 2015
(Expressed in thousands of United States dollars)

	Preferred shares	Common shares: Number of shares	Common shares	Retained earnings	Total
Balance at December 31, 2014	$ 293,421	56	$ 560	$ 4,312,107	$ 4,606,088
Shares issued in year	—	—	—	—	—
Shares redeemed in year	—	(1)	(10)	—	(10)
Net income	—	—	—	30,925	30,925
Dividend on common shares	—	—	—	(400,000)	(400,000)
Dividends on preferred shares	—	—	—	(12,682)	(12,682)
Balance at December 31, 2015	293,421	55	550	3,930,350	4,224,321
Shares issued in year	—	2	20	—	20
Shares redeemed in year	—	(1)	(10)	—	(10)
Net income	—	—	—	210,406	210,406
Dividend on common shares	—	—	—	(400,000)	(400,000)
Dividends on preferred shares	—	—	—	(8,435)	(8,435)
Balance at December 31, 2016	$ 293,421	56	$ 560	$ 3,732,321	$ 4,026,302

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015
(Expressed in thousands of United States dollars)

	2016	2015
Cash flows from operating activities		
Net income	$ **210,406**	$ 30,925
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (gains) losses on investments	**(218,106)**	65,020
Proceeds from the sale of investments	**7,223,475**	8,506,141
Purchase of investments	**(7,052,706)**	(8,207,005)
Proceeds from the sale of securities sold short	**1,379,147**	1,648,269
Purchase of securities sold short	**(1,404,107)**	(1,698,252)
Changes in operating assets and liabilities:		
Accrued investment income	**1,469**	752
Amounts due from affiliates	**(3)**	4
Retrospective premiums receivable	**12,746**	21,438
Accounts receivable	**(30,128)**	(11)
Other assets	**276**	(531)
Outstanding losses and loss expenses	**241,603**	22,670
Retrospective premiums payable	**(3,477)**	(28,946)
Premiums received in advance	**(12,193)**	(1,215)
Amounts due to affiliates	**1,773**	509
Accounts payable	**(3,472)**	3,488
Net cash provided by operating activities	**346,703**	363,256
Cash flows from financing activities		
Issuance (redemption) of common shares, net	**10**	(10)
Dividends paid on common shares	**(400,000)**	(400,000)
Dividends paid on preferred shares	**(11,154)**	(9,963)
Net cash used by financing activities	**(411,144)**	(409,973)
Net decrease in cash and cash equivalents	**(64,441)**	(46,717)
Cash and cash equivalents at beginning of year	**856,421**	903,138
Cash and cash equivalents at end of year	$ **791,980**	$ 856,421

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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, 2016. 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, 2015, coverage provided to each insured is limited to $400 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 $1.2 billion. From January 1, 2013 to January 1, 2015, coverage provided to each insured was limited to $300 million per occurrence for non-Atlantic Named Windstorm events. There was no annual aggregate limit for each insured, however, there was an aggregation limit in place for multiple claims arising from a single occurrence of $900 million. Prior to January 1, 2013, 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 resulted in 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 subsidiaries, Oil Investment Corporation Ltd. ("OICL") and Oil Management Services Ltd. ("OMSL"). OICL was established to hold the Company's investment portfolios and OMSL was established to provide administrative support services to the Company. 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.

Under the terms of the Rating and Premium Plan, all members are charged a withdrawal premium upon their withdrawal from the Company. In 2016, the Company recorded withdrawal premiums totaling $30.0 million (2015 – $nil) which is recorded within accounts receivable in the Consolidated Balance Sheets.

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, 2016 this rate is approximately 1.47% (2015 – 1.31%). Discount accreted on the retrospective premium receivable is recorded in the Consolidated Statement of Operations.

2. Summary of Significant Accounting Policies (continued)

(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.

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, 2016, amounted to $34.4 million (2015 – $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 ("NAV") as reported by their investment managers or third party administrators. The use of net asset value as an estimate of the fair value for investments in certain entities that calculate the net asset value is a permitted practical expedient. The change in the fair value of hedge fund investments is included in the Consolidated Statement of Operations.

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:

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

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

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

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 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, 2016, cash in the amount of $305.2 million (2015 – $480.2 million) was on deposit with counterparties as collateral for securities sold short and positions held in derivative financial instruments (Note 4).

(l) Recently adopted accounting pronouncements

During the year ended December 31, 2015, the Company elected to early adopt the guidance issued in ASU No. 2015-7, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)", which removed the requirement to categorize within the fair value hierarchy all investments measured using the net asset value per share practical expedient in all periods presented. The adoption of this accounting guidance did not have a material impact on the Company's financial statements.

3. Investments

The fair values of investments as at December 31, 2016 and 2015 are as follows:

	2016 ($'000)	2015 ($'000)
Short-term investments	$ 688,967	$ 514,370
Derivatives	38,341	(16,631)
Equity securities	2,055,245	1,960,205
Fixed maturities		
US Treasury and Government Agency	648,428	617,764
State and Municipal bonds	58,624	76,056
Non-US Government bonds	391,933	512,777
Supranationals	4,508	43,651
Corporate bonds	751,124	792,866
Asset-backed securities	254,851	178,964
Mortgage-backed securities	324,499	327,191
Total fixed maturities	2,433,967	2,549,269
Total investments in marketable securities and derivatives	$ 5,216,520	$ 5,007,213
Other investments	$ 771,446	$ 791,430

In the table above mortgage-backed securities issued by US government agencies are combined with other mortgage-backed securities held and are included in the category "Mortgage-Backed Securities". At December 31, 2016, approximately 66% (2015 – 47%) of the total mortgage-backed holdings are represented by investments in GNMA, FNMA and FHLMC securities. The remainder of the mortgage exposure consists of collateralized mortgage obligations and non-government issued securities, the majority of which have investment grade credit ratings.

The credit quality of fixed maturities and short term investments as at December 31, 2016 and 2015, are as follows:

	2016 ($'000)	2015 ($'000)
US Government and Agency	$ 950,511	$ 774,226
AAA	512,842	453,916
AA	342,540	412,467
A	536,571	505,402
BBB	460,928	598,809
Below BBB	319,542	318,819
Total fixed maturities and short-term investments	$ 3,122,934	$ 3,063,639

The Company's methodology for assigning credit ratings to fixed maturities and short-term investments, uses the lower rating as determined by Standard & Poor's and Moody's Investors Services. Securities with a credit rating below investment grade as at December 31, 2016, had an unrealized loss of $8.4 million (2015 – $26.7 million loss) at the same date, which has been recorded in the Consolidated Statement of Operations.

At December 31, 2016, $1.6 billion (2015 – $1.5 billion) of investments are held in joint custody accounts with Oil Casualty Investment Corporation Ltd., a company affiliated through common shareholders. Under the terms of the joint custody agreement the Company owns 95.8% (2015 – 94.2%) 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, 2016 and 2015, are as follows:

	2016 ($'000)	2015 ($'000)
Due in one year or less	$ 688,967	$ 514,370
Due after one year through five years	764,985	872,785
Due after five years through ten years	561,246	667,284
Due after ten years	528,386	503,045
	2,543,584	2,557,484
Asset-backed securities	254,851	178,964
Mortgage-backed securities	324,499	327,191
Total fixed maturities and short-term investments	$ 3,122,934	$ 3,063,639

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, 2016 and 2015 are as follows:

	2016 ($'000)	2015 ($'000)
Gross realized gains on investments	$ 696,307	$ 776,904
Gross realized losses on investments	(706,283)	(746,444)
Gross realized gains on derivative instruments	297,703	389,687
Gross realized losses on derivative instruments	(292,912)	(279,159)
Gross realized gains on other investments	17	51,290
Gross realized losses on other investments	(355)	(2,974)
Change in net unrealized gains and losses during the year on investments	162,685	(205,133)
Change in net unrealized gains and losses during the year on other investments	5,972	(33,241)
Change in net unrealized gains and losses during the year on derivative instruments	54,972	(15,950)
Net gains (losses) on investments	$ 218,106	$ (65,020)

During the year ended December 31, 2016, 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 $102.2 million gain (2015 – $40.8 million loss) and fixed maturities and short-term investments of a $60.5 million gain (2015 – $164.3 million loss).

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.

3. Investments (continued)

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

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

Level 3 includes financial instruments whose value is based on valuation techniques that use significant inputs which are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. In making the assessment, the Company considers factors specific to the asset or liability and such an assessment will involve significant management judgment. Because of the inherent uncertainty in the valuation of these Level 3 investments, fair values of such investments may differ from the values that would have been used had a ready market for these investments existed, and the differences could be material.

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 and 2) and unobservable (Level 3).

Fair value prices for all securities in the fixed maturities portfolio are independently provided by the investment custodian and the investment managers, which each utilize internationally recognized independent pricing services. The Company records the unadjusted price provided by the investment custodian or the investment accounting service provider and validates this price through a process that includes, but is not limited to: (i) comparison to the price provided by the investment manager, with significant differences investigated; (ii) quantitative analysis (e.g. comparing the quarterly return for each managed portfolio to its target benchmark, with significant differences identified and investigated); (iii) evaluation of methodologies used by external pricing sources to calculate fair value; and (iv) comparing the price to the Company's knowledge of the current investment market.

The independent pricing services used by the investment custodian, investment accounting service provider and investment managers obtain actual transaction prices for securities that have quoted prices in active markets. Each pricing service has its own proprietary method for determining the fair value of securities that are not actively traded. In general, these methods involve the use of "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker/dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value. In addition, pricing services use valuation models to develop prepayment and interest rate scenarios.

The fair values of short-term investments are determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades and broker-dealer quotes.

For all assets classified as Level 2, the market approach is utilized. The significant inputs used to determine the fair value of those assets classified as Level 2 are as follows:

- US government agency securities fair values were based on observable inputs that may include the spread above the risk-free yield curve, reported trades and broker/dealer quotes. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.
- Non-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 include the spread above the risk-free yield curve, reported trades, benchmark yields, broker/dealer quotes, prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.
- Residential and commercial mortgage-backed securities include both agency and non-agency originated securities. Agency originated securities include securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other US government agencies. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker/dealer quotes, prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.

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

The Company invests in hedge "fund of funds" which invest in a number of underlying funds, following different investment strategies. As of December 31, 2016, 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 requests to be executed in a timely manner to reduce the possibility of adversely affecting the remaining investors in the fund of fund. Typically, the imposition of a gate delays a portion of the requested redemption, with the remaining portion settled in cash sometime after the redemption date. Certain fund of funds may be allowed to invest a portion of their assets in illiquid securities, such as private equity or convertible debt. In such cases, a common mechanism used is a side-pocket, whereby the illiquid security is assigned to a separate memorandum capital account or designated account. Typically the investor loses its redemption rights in the designated account. Only when the illiquid security is sold, or otherwise deemed liquid by the fund of fund, may investors redeem their interest in the side-pocket. As of December 31, 2016, the fair value of hedge funds held in lock ups, side-pockets or gates was $54.3 million (2015 – $62.4 million).

The Company has ongoing due diligence processes with respect to funds in which it invests and their managers. These processes are designed to assist the Company in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however the Company obtains the audited financial statements for the fund of fund managers annually, and regularly reviews and discusses the fund performance with the fund managers to corroborate the reasonableness of the reported net asset values. While reported net asset value is the primary input to the review, when the net asset value is deemed not to be indicative of fair value, the Company may incorporate adjustments to the reported net asset value and not use the permitted practical expedient on an investment by investment basis. These adjustments may involve significant management judgment. The Company has not made any such adjustments for the year ended December 31, 2016 or 2015. Hedge fund investments measured at net asset value are not required to be disclosed within the fair value hierarchy following the Company's early adoption of ASU 2015-07.

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, 2016 and 2015, in determining the classification of investment assets and liabilities held at fair value:

December 31, 2016 **Assets**	**Level 1 ($'000)**	**Level 2 ($'000)**	**Level 3 ($'000)**	**NAV[1] ($'000)**	**Total ($'000)**
Short-term investments	$ 302,606	$ 385,991	$ 370	$ —	$ 688,967
Derivatives, net	—	38,341	—	—	38,341
Equity securities	1,816,642	—	—	238,603	2,055,245
US Treasury and Government Agency	647,905	523	—	—	648,428
State and Municipal bonds	—	58,624	—	—	58,624
Non-US Government bonds	—	383,881	—	8,052	391,933
Supranationals	—	4,508	—	—	4,508
Corporate bonds	—	690,471	—	60,653	751,124
Asset-backed securities	—	254,764	87	—	254,851
Mortgage-backed securities	—	324,499	—	—	324,499
Total investments in marketable securities and derivatives	$ 2,767,153	$ 2,141,602	$ 457	$ 307,308	$ 5,216,520
Other investments measured at net asset value [1]					$ 771,446

December 31, 2016 **Liabilities**	**Level 1 ($'000)**	**Level 2 ($'000)**	**Level 3 ($'000)**	**NAV[1] ($'000)**	**Total ($'000)**
Equity securities sold short	$ (398,887)	$ —	$ —	$ —	$ (398,887)

December 31, 2015 **Assets**	**Level 1 ($'000)**	**Level 2 ($'000)**	**Level 3 ($'000)**	**NAV[1] ($'000)**	**Total ($'000)**
Short term investments	$ 156,462	$ 357,415	$ 493	$ —	$ 514,370
Derivatives, net	—	(16,631)	—	—	(16,631)
Equity securities	1,769,250	—	—	190,955	1,960,205
US Treasury and Government Agency	615,347	2,417	—	—	617,764
State and Municipal bonds	—	76,056	—	—	76,056
Non-US Government bonds	—	505,447	—	7,330	512,777
Supranationals	—	43,651	—	—	43,651
Corporate bonds	—	739,655	—	53,211	792,866
Asset-backed securities	—	178,865	99	—	178,964
Mortgage-backed securities	—	327,191	—	—	327,191
Total investments in marketable securities and derivatives	$ 2,541,059	$ 2,214,066	$ 592	$ 251,496	$ 5,007,213
Other investments measured at net asset value [1]					$ 791,430

December 31, 2015 **Liabilities**	**Level 1 ($'000)**	**Level 2 ($'000)**	**Level 3 ($'000)**	**NAV[1] ($'000)**	**Total ($'000)**
Equity securities sold short	$ (392,636)	$ —	$ —	$ —	$ (392,636)

[1] Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy following the Company's adoption of ASU 2015-07. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The following tables present the reconciliation of the beginning and ending fair value measurements of the Company's Level 3 assets, measured at fair value using significant unobservable inputs for the year ended December 31, 2016 and 2015:

	Short-Term Investments ($'000)	Asset-Backed Securities ($'000)	Total ($'000)
Beginning balance at January 1, 2016	$ 493	$ 99	$ 592
Purchases and issuances	—	—	—
Sales and settlements	(217)	(11)	(228)
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Realized and unrealized gains included in net income for the year	94	(1)	93
Ending balance at December 31, 2016	$ 370	$ 87	$ 457

	Short-Term Investments ($'000)	Asset-Backed Securities ($'000)	Total ($'000)
Beginning balance at January 1, 2015	$ 1,045	$ 113	$ 1,158
Purchases and issuances	—	—	—
Sales and settlements	(360)	(10)	(370)
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Realized and unrealized gains included in net income for the year	(192)	(4)	(196)
Ending balance at December 31, 2015	$ 493	$ 99	$ 592

The fair value measurements of the Company's Level 3 short-term and asset-backed securities were based on unadjusted third party pricing sources.

During the year ended December 31, 2016, there were no transfers in or out of Levels 1, 2 or 3.

During the year ended December 31, 2015, there were no transfers in or out of Levels 1, 2 or 3.

4. Commitments and Contingencies

(a) Derivative instruments

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

The tables below show the fair value of the Company's derivative instruments recorded in Investments in Marketable Securities and Derivatives in the Consolidated Balance Sheet as of December 31, 2016 and 2015:

	Derivative Assets	Derivative Liabilities
	2016	2016
	Fair Value ($'000)	Fair Value ($'000)
Interest rate swaps	$ 5,580	$ 11,574
Credit default swaps	557	1,783
Equity swaps	10,409	2,808
Fixed income and currency options	1,231	1,309
Forward foreign currency contracts	45,120	5,705
Equity futures	34	1,290
Interest rate futures	4,572	4,693
Total	$ 67,503	$ 29,162

	Derivative Assets	Derivative Liabilities
	2015	2015
	Fair Value ($'000)	Fair Value ($'000)
Interest rate swaps	$ 7,270	$ 17,015
Credit default swaps	49	210
Equity swaps	585	9,993
Fixed income and currency options	699	1,327
Forward foreign currency contracts	15,708	10,814
Equity futures	47	387
Interest rate futures	3,613	4,856
Total	$ 27,971	$ 44,602

The tables below show the net gains and losses on the Company's derivative instruments recorded in the net gains (losses) on investments in the Consolidated Statement of Operations during the year ended December 31, 2016 and 2015:

	2016		
	Net realized gains and (losses)	Change in unrealized gains and (losses)	Net gains and (losses)
	($'000)	($'000)	($'000)
Interest rate swaps	$ 810	$ 3,751	$ 4,561
Credit default swaps	—	(1,065)	(1,065)
Equity swaps	(725)	17,009	16,284
Fixed income and currency options	5,102	550	5,652
Forward foreign currency contracts	(10,310)	34,521	24,211
Equity futures	19,095	(916)	18,179
Interest rate futures	(9,181)	1,122	(8,059)
Total	$ 4,791	$ 54,972	$ 59,763

	2015		
	Net realized gains and (losses)	Change in unrealized gains and (losses)	Net gains and (losses)
Interest rate swaps	$ (215)	$ 7,540	$ 7,325
Credit default swaps	—	(128)	(128)
Equity swaps	876	(2,890)	(2,014)
Fixed income and currency options	9,793	651	10,444
Forward foreign currency contracts	102,084	(20,590)	81,494
Equity futures	726	(4,199)	(3,473)
Interest rate futures	(2,736)	3,666	930
Total	$ 110,528	$ (15,950)	$ 94,578

(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)

(a) Derivative instruments (continued)

(i) Foreign currency exposure management (continued)

At December 31, 2016 and 2015, the Company had the following open forward foreign currency contracts:

	2016		2015	
Currency	**Notional receivable ($'000)**	**Notional payable ($'000)**	Notional receivable ($'000)	Notional payable ($'000)
AED	**—**	**—**	—	(4,499)
AUD	**18,034**	**(53,339)**	32,920	(70,053)
BRL	**20,411**	**(41,644)**	32,612	(50,592)
CAD	**45,923**	**(97,559)**	55,901	(123,689)
CNH	**1,751**	**(2,753)**	4,147	(8,452)
CNY	**1,003**	**(31,576)**	9,000	(22,245)
CZK	**3,960**	**(789)**	—	—
DKK	**22,642**	**(121,128)**	20,287	(70,149)
EUR	**125,207**	**(332,035)**	215,147	(607,998)
GBP	**69,244**	**(168,162)**	81,462	(192,085)
IDR	**1,657**	**(1,439)**	523	(6,410)
INR	**19,002**	**(5,179)**	28,748	(10,518)
JPY	**83,061**	**(230,962)**	39,364	(194,472)
KRW	**3,850**	**(27,211)**	24,076	(44,610)
MXN	**23,553**	**(74,043)**	7,404	(54,259)
MYR	**575**	**(616)**	6,440	(10,827)
NOK	**3,777**	**(1,381)**	1,308	—
NZD	**4,558**	**(6,243)**	15,572	(29,163)
PLN	**4,648**	**(22,958)**	2,885	(4,644)
RUB	**10,715**	**(2,877)**	6,013	(3,154)
SEK	**21,494**	**(7,604)**	19,079	(7,562)
SGD	**20,500**	**(38,376)**	13	(5,408)
TRY	**815**	**(1,566)**	310	(3,503)
TWD	**5,090**	**(17,224)**	301	(7,379)
USD	**1,291,432**	**(477,177)**	1,516,386	(582,502)
Other	**8,712**	**(8,358)**	4,277	(5,107)
	$ 1,811,614	**$ (1,772,199)**	$ 2,124,175	$ (2,119,280)

At December 31, 2016, unrealized gains of $45.1 million (2015 – $15.7 million) and unrealized losses of $5.7 million (2015 – $10.8 million) on forward foreign currency contracts are included in investments in marketable securities and derivatives in the Consolidated Balance Sheet.

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

Futures

A portion of the Company's portfolio is invested in bond, note, money market, equity index and interest rate futures contracts. Such futures provide the Company with participation in market movements, determined by the underlying instrument or index on which the futures contract is based, without holding the instrument itself or 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 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 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, 2016 and 2015 the contractual values of financial futures contracts are:

	2016		2015	
	Long ($'000)	**Short ($'000)**	Long ($'000)	Short ($'000)
Equity index futures contracts	**$ 131,066**	**$ —**	$ 119,768	$ —
Bond and note futures contracts	**1,269,346**	**(1,088,198)**	767,861	(918,100)

The Company had gross gains of $4.6 million and gross losses of $6.0 million on open futures contracts for the year ended December 31, 2016 (2015 – gross gains of $3.7 million and gross losses of $5.2 million). These gains and losses are included in the Consolidated Statement of Operations. The Company holds a margin account with its futures broker for the purposes of paying and receiving cash in connection with its futures transactions. Gains and losses are settled daily in cash in this margin account.

4. Commitments and Contingencies (continued)

(a) Derivative instruments (continued)

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

Swaps and options

In order to manage interest rate exposure, portfolio duration or capitalize on anticipated changes in interest rate volatility, the Company may engage in interest rate swap transactions, buy and sell, call and put options and write call and put options if the options are secured by holdings in the underlying securities or by other means which would permit immediate satisfaction of the Company's obligation as a writer of the option contracts.

Swaps and option contracts are marked to market daily with unrealized gains and losses recorded in the Consolidated Statement of Operations.

At December 31, 2016 and 2015 the fair value of open interest rate swap contracts is:

	2016 ($'000)	2015 ($'000)
Interest rate swaps, net	**$ (5,994)**	$ (9,745)

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, 2016 and 2015 the fair value of open fixed income and currency option contracts is:

	2016 ($'000)	2015 ($'000)
Options purchased	**$ 1,231**	$ 699
Options written (liability)	**(1,309)**	(1,327)

Premiums received for open written options as of December 31, 2016, amounted to $2.2 million (2015 – $1.7 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 Company's maximum permitted fixed income investment in any one institution rated BBB-/Baa3 or higher is 10% of the market value of the global fixed income portfolio with the exception of securities which are rated AA-/Aa3 or higher and issued or guaranteed by the US Treasury, US government agencies, or the Government of Canada, Japan, Australia, the United Kingdom or EMU countries of the European Union. The maximum permitted fixed income investment in any one institution rated below BBB-/Baa3 is 5% of the market value of the global fixed income portfolio. The maximum permitted equity investment in any one company, at the time of purchase, should not exceed the greater of 5% of the market value of the global equity portfolio or 150% of its weighting in the global equity benchmark index, with the latter subject to a maximum limitation of 10% of the market value of the global equity portfolio. The Company believes that there are no significant concentrations of credit risk associated with its investments in any issuer or market.

(c) Prime brokers

One large investment bank (the "Prime Broker") has been appointed as the Company's Prime Broker. Under the Customer Prime Broker Account Agreements, $456.0 million (2015 – $451.3 million) of the assets of the Company are held by the Prime Broker and each of the Prime Broker's affiliated companies are subject to a general lien and a continuing first priority perfected security interest in favor of the Prime Broker and therefore constitute collateral security for the Company's obligations and liabilities to the Prime Broker. The Prime Broker has a long term credit rating of A as issued by Standard and Poor's.

(d) Use of short selling

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

(e) 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 2016 and 2015 is as follows:

	2016 ($'000)	2015 ($'000)
Balance at January 1	**$ 1,966,489**	$ 1,943,819
Incurred losses related to:		
Current year	**524,456**	787,831
Prior years	**(36,763)**	(430,570)
Total incurred	**487,693**	357,261
Paid losses related to:		
Current year	**(1,327)**	(50,511)
Prior years	**(244,763)**	(284,080)
Total paid	**(246,090)**	(334,591)
Balance at December 31	**$ 2,208,092**	$ 1,966,489

The 2016 current year incurred losses of approximately $524.5 million primarily relate to: (i) case reserves recorded totaling $317.0 million relating to 7 specific property and pollution incidents incurred during the year; (ii) the establishment of IBNR totaling $200.9 million for the 2016 underwriting year; and (iii) loss expenses incurred totaling $6.6 million.

The 2016 reduction in incurred losses for prior years claims of approximately $36.8 million primarily relates to: (i) a reduction in IBNR relating to prior years of $240.2 million which is largely due to an increase in case incurred along with favorable adjustments in ultimate loss ratios; offset by (ii) case reserve development totaling $202.2 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 $1.2 million.

The 2015 current year incurred losses of approximately $787.8 million primarily relate to: (i) case reserves recorded totaling $537.6 million relating to 13 specific property and pollution incidents incurred during the year; (ii) the establishment of IBNR totaling $241.4 million for the 2015 underwriting year; and (iii) loss expenses incurred totaling $8.8 million.

The 2015 reduction in incurred losses for prior years claims of approximately $430.6 million primarily relates to: (i) a reduction in IBNR relating to prior years of $122.5 million due to favorable adjustments in ultimate loss ratios; (ii) net favorable development totaling $304.7 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 $(3.4) 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 were 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 were 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, 2016, the Company has not called the preference shares.

During 2016, the Company repurchased and retired nil (2015 – nil) of the Series A preference shares with a par value of $1,000 per share. As of December 31, 2016, the Company had 300,000 (2015 – 300,000) 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 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 was 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, 2015, the facility has not been utilized and the fair value of the investments pledged to collateralize the Company's obligation totaled $nil. The Credit facility was not utilized during 2016 and was terminated effective December 14, 2016.

8. Common Shares

	2016	2015
Authorized		
200 Class A shares of par value $10,000 each	**$2,000,000**	$ 2,000,000
Issued and fully paid		
56 (2015 – 55) Class A shares	**$ 560,000**	$ 550,000

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. During the year ended December 31, 2016, the Company declared and paid dividends totaling $400.0 million (2015 – $400.0 million) to its common shareholders.

9. Related Party Transactions

(a) General and administrative expenses represent direct expenditures incurred by the Company and expenses which have been allocated from OMSL.

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

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, 2016 and 2015, 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, 2016 and 2015.

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 table presents 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, 2016 and 2015:

	2016 ($'000)	2015 ($'000)
US GAAP shareholders' equity	**$4,026,302**	$ 4,224,321
Plus: Theoretical withdrawal premium	**789,237**	674,565
Less: Non-admitted assets	**(1,645)**	(1,921)
Statutory capital and surplus	**$4,813,894**	$ 4,896,965
Minimum required statutory capital and surplus	**$ 220,809**	$ 196,649

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, 2016, 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 $0.8 billion (2015 – $0.7 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, 2016 the Company is required to maintain relevant assets of at least $1.7 billion. At that date relevant assets are approximately $7.0 billion and the minimum liquidity ratio is therefore met.

12. Comparative Information

Certain balances in the 2015 financial statements have been reclassified to conform to the 2016 consolidated financial statement presentation.

13. Subsequent Events

Subsequent events have been evaluated through February 23, 2017, which is the date the financial statements were issued.

Independent Auditor's Report to the Shareholders

KPMG

The Board of Directors
Oil Insurance Limited

We have audited the accompanying consolidated financial statements of Oil Insurance Limited and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Oil Insurance Limited and its subsidiaries as of December 31, 2016 and 2015, 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

Chartered Professional Accountants
Hamilton, Bermuda

February 23, 2017

Management Responsibility for Financial Statements

December 31, 2016 and 2015

We, Bertil C. Olsson, 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.

Bertil C. Olsson

President & Chief Executive Officer

Ricky E. Lines CFA

Senior Vice President & Chief Financial Officer

February 23, 2017

As always, our main goal is to provide value to our shareholders and throughout 2016 we remained steadfastly focused on this objective.

Executive staff

Bertil C. Olsson
President & Chief Executive Officer

Theodore R. Henke
Senior Vice President
General Counsel & Secretary
(Retired December 31, 2016)

George F. Hutchings
Senior Vice President &
Chief Operating Officer

Matthew Pifer
Senior Vice President
General Counsel & Secretary

Ricky E. Lines, CFA
Senior Vice President &
Chief Financial Officer

Marlene J. Cechini
Controller & Assistant Secretary

Theresa Dunlop
Vice President, OIL

Robert Foskey, FCAS, MAAA
Senior Vice President &
Chief Actuary

Committees of the board 2016

EXECUTIVE
Roberto Benzan
Theodore Guidry, II
Bertil C. Olsson

AUDIT
James D. Lyness – *Chairman*
Stephen Foster
Pamela Mihovil
Jean-Louis Thebault

COMPENSATION
Roberto Benzan – *Chairman*
Theodore Guidry, II
Stephen Foster
Lars Østebø

GOVERNANCE
Roberto Benzan – *Chairman*
Gary Maddock
Pamela Mihovil

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U.S.A.

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

Board of directors

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

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

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

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

Andre Levey
Group Insurance Manager
Santos Ltd.

Gary Maddock
Director, Risk & Insurance
Noble Energy, Inc.

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

Pamela Mihovil
Insurance and Risk Manager
Marathon Oil Corporation

Bertil C. Olsson
President & Chief Executive Officer
Oil Insurance Limited

Lars G. Østebø
Vice President – Head of Insurance
Statoil ASA

John Talarico
Director, Corporate Insurance
Hess Corporation

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

John Weisner
Manager, Corporate Insurance
ConocoPhillips Company

Robert Wondolleck
Director, Risk Management & Claims
Chevron Corporation

Subsidiary companies

OIL MANAGEMENT SERVICES LTD.

DIRECTORS

Roberto Benzan

Theodore Guidry, II

Theodore R. Henke
(Retired December 31, 2016)

Andre Levey

Ricky E. Lines, CFA

Fabrizio Mastrantonio

Bertil C. Olsson

Matthew Pifer

OIL MANAGEMENT SERVICES LTD.

OFFICERS

Bertil C. Olsson
President & Chief Executive Officer

Ricky E. Lines, CFA
Senior Vice President
& Chief Financial Officer

Theodore R. Henke
Senior Vice President,
General Counsel & Secretary
(Retired December 31, 2016)

Matthew Pifer
Senior Vice President,
General Counsel & Secretary

George F. Hutchings
Senior Vice President,
Oil Insurance Limited

Robert Foskey
Chief Actuary

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

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

Marlene J. Cechini
Controller & Assistant Secretary

OIL INVESTMENT CORPORATION LTD.

DIRECTORS

Ralph J. Egizi – Chairman
Director Benefits,
Finance & Investments
Eastman Chemical Company
(Retired)

Morris R. Clark
Vice President & Treasurer
Marathon Oil Corporation

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

James D. Lyness
Assistant Treasurer
Chevron Corporation
(Retired)

OIL INVESTMENT CORPORATION LTD.

OFFICERS

Ricky E. Lines, CFA
President & Treasurer

Theodore R. Henke
General Counsel & Secretary
(Retired December 31, 2016)

Matthew Pifer
Senior Vice President,
General Counsel & Secretary

Marlene J. Cechini
Controller & Assistant Secretary

Andrew Rossiter
Vice President

Shareholders

ASIA

CNOOC Limited
(ICM Assurance Ltd.)

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)

Cenovus Energy Inc.

Husky Energy Inc.

NOVA Chemicals Corporation
(Novalta Insurance Ltd.)

Paramount Resources Ltd.

Suncor Energy Inc.

TransCanada PipeLines 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

ITALY

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

LATIN AMERICA / CARIBBEAN

Puerto Rico Electric Power Authority
(PREPA)

NORWAY

Statoil ASA
(Statoil Forsikring A.S.)

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.
(Gaviota Re, S.A.)

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 Corporation

Chevron Phillips Chemical
Company LLC

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)

HollyFrontier Corporation

LOOP LLC

Marathon Oil Corporation

Marathon Petroleum Corporation

Murphy Oil Corporation

Noble Energy, Inc.

Occidental Petroleum Corporation
(Opcal Insurance, Inc.)

Phillips 66 Company

Plains All American Pipeline, L.P.

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, 2016.

OIL INSURANCE LIMITED
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