Understanding OIL

Tools enabling the understanding of OIL Mutuality
OIL PROVIDES $400M OF BROAD AND STABLE COVERAGE THAT FORMS CORNERSTONE CAPACITY FOR ITS MEMBERS’ INSURANCE NEEDS.
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In the face of a dearth of available capacity from the commercial insurance markets for their ever-increasing risk transfer needs, 15 US oil companies founded OIL in 1970. OIL, headquartered in Hamilton, Bermuda, began operations on January 1, 1972 with 16 shareholders (15 based in the United States and 1 based in Europe) and a focus on selling its insurance product at cost.

Today, OIL provides property damage, control of well, removal of debris, restoration & redrill and sudden & accidental pollution insurance to over 50 members based in Australia, the Caribbean, Canada, Europe, Asia and the United States. The original concept of selling the product at cost remains, with OIL covering over $3 trillion worth of assets worldwide.

OIL currently enjoys an A- (Stable) rating from Standard & Poor’s and an A2 Insurance Financial Strength Rating from Moody’s.
QUALIFYING FOR MEMBERSHIP

TO QUALIFY AS A MEMBER OF OIL, A COMPANY MUST HAVE:

1. At least 50% of its gross assets or annual revenues derived from energy operations;

2. Balance sheet gross assets (property, plant and equipment before depreciation plus inventories) of at least $1 billion; and

3. A minimum credit rating of S&P BBB- or Moody’s Baa3
   • Companies with no credit rating are subject to a ratio test analysis by OIL staff and may be required to post security (must pass 4 out of 6 ratio tests)

Energy operations include oil and gas exploration and production, refining and marketing, petrochemicals, gas and electric utilities, power generators, pipeline operators, and mining operations among others. Drilling and service contractors are not eligible.

In addition to these criteria, the qualities that OIL looks for in a prospective new member include:

• Business operations that represent an appropriate spread of risk;

• An acceptable 10 year loss history;

• Demonstration of a strong risk management record and philosophy;

• A long-term view of managing risk; and

• A long-term commitment
PRODUCT OFFERING

COVERAGES
OIL provides full property damage, control of well, restoration & redrill and 3rd party pollution coverage on an “All risks” basis. Coverage also includes terrorism, cyber terrorism, construction, cargo and windstorm.

LIMITS
OIL’s $400 million limit is one of the largest single blocks of insurance capacity for global energy companies with no sub-limits or additional premium (with the exception of Designated Named Windstorm (DNWS)). The maximum limit for non-windstorm events is $400 million per occurrence, subject to an all members aggregation limit of $1.2 billion. The limit available for DNWS is $150 million part of $250 million, subject to an all members aggregation limit of $750 million. Furthermore, each DNWS insured is limited to an annual aggregate limit of $300 million.

DEDUCTIBLES
OIL’s minimum attachment point is currently $10 million, although it is possible to elect higher attachment points at a discount to the base premium.

In general, the deductible is a combined single deductible applicable to all coverages (property damage, control of well and pollution) whether onshore or offshore, other than in respect of DNWS losses where the insured bears a separate deductible for onshore and offshore losses.

OIL’s deductible is 100% scaling to interest, subject to a minimum of $1 million for interest, other than in respect of DNWS losses where it applies for interest.

RATING & PREMIUM PLAN

OIL’s aggregate base premium is calculated based upon a “post loss funding” mechanism such that incurred losses are paid back over a period of five years after loss events.

Each member’s premium is formulated from a base calculation at a deductible of $10 million and a limit of $400 million. Discounts off the base calculation are available for deductibles that are higher than $10 million and for limit profiles that are less than $400 million.

An individual member’s share of each pool is assessed on that member’s gross assets (as reported in the member’s latest report and accounts) that are modified – “weighted” up or down – by coverage profile and industry sector, based upon that sector’s prior loss history to OIL.

Other than this sector and coverage weighting, each member pays the same rate regardless of geographic location (i.e. there is no loading for catastrophe-exposed locations, whether quake, flood or wind, other than for Designated Named Windstorms).

OIL also includes Experience Modification (EM) into its rating model. The purpose of EM is to reward those members that have good loss records and surcharge those members with poorer loss records.

ENTRY OPTIONS
There are various limit/premium options when entering OIL. Every member must participate in Pool A (where 60% of all members’ losses are pooled) or they may join both Pool A and Pool B (where up to 100% of a member’s losses are pooled between Pools A and B). Participating in Pool A buys one 60% of the current $400 million limit while participating in Pools A & B buys between 70% - 100% of the current $400 million limit.

A member who elects only to be in Pool A must self-insure the other 40% or insure it elsewhere. This is referred to as a standard premium only entry. Alternatively, the member may opt to have a Retro Entry for the remaining 40%. In that case, 40% of their own losses are paid back to OIL over a five-year period. Note that losses paid back under this scheme are not pooled with those of other members.

Finally, members can mix and match the self-insured, commercially insured, retro option and Pool B option for the remaining 40% in separate 10% increments.
FLEXIBLE LIMIT STRUCTURES

Members can use OIL’s capacity in a number of ways to complement its commercial market insurance program:

- Primary
- Excess
- External Quota Share (using OIL as a part of a larger limit)
- Internal Quota Share (using OIL for less than 100% of $400 million and introducing Commercial Market capacity within the $400 million limit)

These options are illustrated below:

**‘Primary’ Example**

- Commercial Market Excess (if required)
- OIL USD 400M
- OIL Deductible

**‘Excess’ Example**

- OIL USD 400M
- Commercial Market Placement
- Retention

**‘External’ Quota Share Example**

(USD 800M)

- OIL USD 400M
- Commercial Market USD 400M
- OIL Deductible

**‘Internal’ Quota Share Example**

- 60% of USD 400M OIL
- 40% Commercial Market
- OIL Deductible

OIL allows either 10%, 20%, 30% or 40% Internal Quota Share.
FLEXIBLE LIMIT STRUCTURES

Regardless of how members use OIL’s capacity, they can also apply the commercial market’s complementary capacity in a number of different ways:

- As wrap-around coverage, providing a deductible buy-down if applicable, plus excess and difference in conditions (DIC) coverage, if available
- As stand-alone complementary coverage

These options are illustrated below:

‘Wrap-Around’ Example

- Commercial Market Excess
- OIL USD 400M
- DIC
- Deductible Buy-Down
- Deductible
- BI Waiting Period

‘Stand-Alone’ Complementary Capacity Example

- Commercial Market Excess
- OIL USD 400M
- DIC
- Deductible
- BI Waiting Period

In both of these examples, OIL can be used as either Internal or External Quota Share.
OIL FEATURES

- Membership is exclusive to energy companies
- Members are all shareholders/policyholders and have vested interests
- "Mutualised" sharing of losses across entire membership with zero sum premium/loss formula (insurance 'at cost' – not for profit)
- Low expense ratio (3-5%)
- Premium predictability through the "Lock-In Plan"
- Easy annual renewal (no statement of insured values/no negotiation required)
- Fair and equitable claims process
- One policy form for all members per the OIL Shareholders’ Agreement
- OIL uses gross assets from audited balance sheets while the market uses insured values
- Shareholder input - influence product capability/evolution and developments
- Networking opportunities through shareholder meetings and board engagement

OIL BY THE NUMBERS

- 50+ members – 40% of members with OIL for over 20 years
- Over $3 trillion in assets insured globally
- Over $19 billion of collective capacity
- Standard & Poor’s A- (stable) rating
- Over $13 billion in claims paid over 40 years (strong record of keeping payment promises)
- Excess capital returned to shareholders ( $1.2 billion credit/dividends – 2013-2016)

OIL BENEFITS

Many attractive benefits make membership in OIL a unique value proposition, including:

- $400 million 'A' rated capacity in one block on consistent terms
- Sudden & Accidental pollution included within $400 million limit
- No sub-limits for Flood & Quake
- Stability (capacity and terms & conditions)
- Flexible limit structures for positioning in corporate insurance program
- One of the broadest policy forms available
- Covers all owned assets without specific declaration
- Construction projects automatically covered with no immediate premium impact
- Newly acquired properties and companies automatically covered
- No exclusion for Terrorism or Cyber Terrorism
- DNWS coverage now ring-fenced and included with no upfront premium
- Mutual aspect ensures fair and expedient claims handling
- Offshore Pollution Liability Association (OPOL) compliant capacity
MAKING THE RIGHT CHOICE

Membership in OIL is not for everyone. For instance, joining OIL may not be the right choice for insureds who regularly tender markets or who have a short-term opportunistic approach to insurance buying.

In addition, keep in mind the following characteristics of OIL when determining the suitability of membership:

- No low deductible option, although deductible buy-downs are generally available in the commercial market
- No business interruption coverage
- No ability to name third party additional insureds (though OIL will issue certificates, waive subrogation and name loss payees)
- Cannot respond as reinsurance of local independent “fronting” companies (unless reinsured via a member’s captive)
- Limit potentially eroded by other members’ losses from the same insured event (however this would require more than three members suffering from the same event, and all with full limit losses)
- Premium directly affected by other members’ losses and mutualisation (though premiums in commercial market also react to losses to the overall market)
The De-Risking and Elimination of Premium Assessments at OIL

Since 2005, OIL has focused on managing any future “surprises” from windstorms and other significant loss events to prevent unwanted premium assessments. Several financial and risk management changes were successfully implemented over the last few years to avoid a repeat of that situation. In particular, the Company has deleveraged its windstorm exposure and has virtually eliminated the risk of having premium assessments. The latter point was achieved by gaining capital credit for our future 5 year premium receivable.

1. Deleveraging of OIL’s Windstorm exposure:
In response to member’s concerns, OIL made changes to its windstorm coverage. The limit for Designated Named Windstorms (DNWS) was reduced, annual aggregates were implemented and windstorm excess pools were introduced consisting solely of members with DNWS exposures. These changes, together with higher member deductibles have dramatically reduced OIL’s windstorm loss exposures by over 90%. If the likes of Katrina, Rita and Ike were to re-occur, OIL would only incur a total of $258.6 million in losses as compared to $2.75 billion that occurred in total for 2005 and 2008.

2. Capital Credit from rating/regulatory agencies:
OIL’s losses in 2005 triggered a statutory capital deficiency as defined by the Bermuda Monetary Authority (BMA) which resulted in the need to make premium assessments after other capital alternatives were determined to be either too expensive or inappropriate. Since then, the Company has secured statutory capital credit from both Standard & Poor’s and the Bermuda Monetary Authority for the future uncollected premium receivable (also known as Theoretical Withdrawal Premium or TWP). This means the likelihood of the company falling into technical default of its statutory capital requirements and needing to raise capital by making additional premium assessments in the future is considered remote.

OIL is a very different company than the one in 2005 and those challenges are now behind us. We continue to evolve our risk management and capital systems and as we move forward, our focus is to enhance the value proposition for our members.
TECHNICAL TOOLS

The following Technical Tools provide an explanation of the various calculations in OIL.

OIL also offers the OTA (OIL Technical Accreditation), which is an e-learning training course for both members and brokers.

Both the Technical Tools and OTA are available on the OIL website.
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<td>i.e. Calculation repeated for previous five loss years to determine premium total contribution</td>
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# OIL Annual Premium Allocation Calculator (Windstorm)

(How assets are adjusted / modified to determine premiums)

<table>
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<td>Member’s Undepreciated Total $$$ Value of Global Assets</td>
<td>Onshore Excess Pool (within 50 miles of the coastline)</td>
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EXPERIENCE MODIFICATION (EM) CALCULATOR:

1. Calculate the reserve ratio for each shareholder over a rolling 3 year period for pool A & B:

   Reserve Ratio = Shareholder Specific Reserve Movements + LAE
   Shareholder’s share of OIL Total Reserve Moments + LAE

2. Reserve ratio determines an experience modification factor which is applied against next year’s premium (pool A & B) for each shareholder.

   EM factors range from 1.0 to 1.25 based upon reserve ratios ranging from 150% to 350% as illustrated below.

3. Add up total debit premiums from the application of EM (the sum of all these debits = “EM premium credit”).

4. Proportionately spread the “EM premium credit” back to all shareholders based on their % of total premium before EM.

5. The experience modification factor calculated for the current year is applied against that portion of the current year’s spot TWP for premium payable over the next 3 years.
 REPAYMENT SCHEDULE FOR LOSSES INCURRED (WINDSTORM AND NON-WINDSTORM)

The 8 business sector premiums + windstorm premium = Total annual premium contribution
Roughly 80% of member’s next year premium is “locked down” as loss history and allocation already determined

PREMIUM ALLOCATION

- Shareholder annual premium = sum of the premium components of previous five years from the applicable pools
- Premium components = ~20% of annual losses X pool % for each of the applicable policy years
- Future premiums are managed by managing pool percentage
  - Pool Percentage is managed by lowering weighted gross assets via coverage and deductible elections
$150M $100M

Deductible

$300M per shareholder annual aggregate limit

$750M per event aggregation limit

Onshore Excess Pool

Offshore Excess Pool

$300M ws pools’ annual aggregate retention
(8 business sectors & standard pool only)

Multiple events are added together at year’s end before allocation to the WS Pools’ Annual Aggregate Retention and Excess Pools.
LIMIT ALLOCATION OPTIONS
8 BUSINESS SECTORS (NON-WINDSTORM)

MUTUALISATION OF 60% OF ALL POLICY LOSSES

DESCRIPTION
60% of all losses are shared among the entire membership; it is mandatory that all members participate in the Standard Pool

PARTICIPATION
Mandatory

# OF MEMBERS
56 (as of December 31, 2016)

STANDARD PREMIUM ONLY PLAN

DESCRIPTION
No losses are covered by OIL. Members retain such losses.

PARTICIPATION
Optional

# OF MEMBERS
5

40% OF REMAINING POLICY LOSSES

DESCRIPTION
Of the remaining 40% of losses, members can elect to participate in the Flat Premium Plan to cover 10% to 40% of the remaining losses; losses allocated only shared among those members participating in the Flat Premium Plan.

PARTICIPATION
Optional

# OF MEMBERS
44

NO ADDITIONAL COVERAGE

DESCRIPTION
Of the remaining 40% of losses, members can elect to participate in the Retrospective Premium plan; OIL will advance payment on these 40% of losses to such member and only that member is responsible for repaying such loss.

PARTICIPATION
Optional

# OF MEMBERS
7

FLAT PREMIUM PLAN

DESCRIPTION
Of the remaining 40% of losses, members can elect to participate in the Retrospective Premium plan; OIL will advance payment on these 40% of losses to such member and only that member is responsible for repaying such loss.

PARTICIPATION
Optional

# OF MEMBERS
7

RETROSPECTIVE PLAN
ENERGY ASSET COVERAGE

Automatic Coverage

OIL provides automatic coverage for the following:

- Worldwide Coverage for an Energy Company and its Consolidated Subsidiaries/Affiliates (except due to sanctions)
- A member’s interest in a joint venture or other non-consolidated affiliate and partially consolidated subsidiaries (if interest equates to less than 1% of gross assets)
- Coverage for non-owned assets where a member has a contractual obligation to repair/replace or are in the care, custody or control of the Assured

OIL provides coverage for the following, subject to guidelines:

- A member’s interest in a joint venture or other non-consolidated affiliate and partially consolidated subsidiaries (if interest equates to greater than 1% of gross assets), subject to a declaration of the assets and written approval by OIL
- Coverage may be extended to 3rd parties (e.g. joint venture partners) subject to OIL guidelines

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(1) Please refer to OIL’s guidelines to extend OIL coverage to 3rd parties, on the following page.
Guidelines for Coverage of JV Affiliates/3rd Parties that are Non-OIL Members

In an effort to streamline the approval process for coverage of JV affiliates/3rd parties that are non-OIL members, the Board of Directors on December 11, 2013 has authorised Management to develop operating guidelines for coverage of JV affiliates/3rd parties that are non-OIL members.

**THOSE GUIDELINES ARE AS FOLLOWS:**

1. Requesting shareholder may be either an operator, hold a controlling interest or be a non-operating JV participant. However, a non-operating JV participant must have a business reason satisfactory to Management, as determined in its sole discretion, for the addition of a 3rd Party interest to the Shareholder’s coverage.

2. Affiliate/3rd party coverage will be part of the OIL member’s $400 million limit ($150 million part of $250 million for DNWS events) and will not act to increase the per occurrence limits.

3. Affiliate/3rd party or any assets which are owned or controlled by the JV cannot be the subject of recognised international economic sanctions.

4. The specific JV must be engaged in Energy Operations.

5. The addition of an affiliate/3rd party will not create additional aggregation exposure with existing OIL members. If it does, permission to include the affiliate/3rd party from the other JV OIL members is mandatory.

6. If the requesting shareholder subsequently divests or loses its interest in the JV, the JV affiliate/3rd party automatically loses coverage at that time without any further action or notice from OIL.

7. JV asset values of the affiliate/3rd party must be declared prior to inception of coverage.

8. Affiliates/3rd parties that had coverage prior to 1/1/2011 will be grandfathered.

9. The Shareholder will be required to provide an indemnification agreement acceptable to OIL providing for indemnification against any and all claims brought by a third party, including defense costs and expenses, the existence of coverage under this agreement.

NOTE: Coverage is subject to the terms, conditions and exclusions of the OIL policy. The above statements are general in nature and should not be relied upon in determining coverage.
For more information, OIL offers additional technical “tools” on its website as well as the OTA (OIL Technical Accreditation), which is an e-learning training course for both members and brokers.

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