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Independent Auditor's Report

The Board of Directors
Old Mutual (Bermuda) Re Ltd.

We have audited the accompanying condensed financial statements of Old Mutual (Bermuda) Re Ltd., which comprise the condensed balance sheet as of December 31, 2017, and the related condensed statement of income and condensed statement of capital and surplus for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Condensed Financial Statements

Management is responsible for the preparation and fair presentation of the condensed financial statements based on the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to Condensed General Purpose Financial Statements (the "Legislation"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these condensed financial statements based on our audit. We conducted our audit 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 condensed financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the condensed financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's preparation and fair presentation of the condensed 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 Company'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 condensed financial statements.

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

KPMG

Basis for Adverse Opinion on U.S. generally accepted accounting principles

As described in Note 3 to the condensed financial statements, the condensed financial statements are prepared by the Company on the basis of the financial reporting provisions of the Legislation, which is a basis of accounting other than U.S. generally accepted accounting principles.

The effects on the condensed financial statements of the variances between the basis of accounting described in Note 3 and U.S. generally accepted accounting principles are material.

Adverse Opinion on U.S. generally accepted accounting principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. generally accepted accounting principles" paragraph, the condensed financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of the Company as of December 31, 2017, or the results of operations for the year then ended.

Opinion on Condensed Financial Statements

In our opinion, the condensed financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations for the year then ended, in accordance with the financial reporting provisions of the Legislation described in Note 3.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
March 2, 2018

CONDENSED UNCONSOLIDATED BALANCE SHEETS

Old Mutual (Bermuda) Re Ltd.
As at December 31, 2017
expressed in ['000s] United States Dollars

ASSETS

Line No.		2017	2016
1.	**CASH AND CASH EQUIVALENTS**	$90,125	$13,326
2.	**QUOTED INVESTMENTS:**		
(a)	Bonds and Debentures		
	(i) Held to maturity	-	-
	(ii) Other	65,366	64,832
(b)	Total Bonds and Debentures	65,366	64,832
(c)	Equities	-	-
(d)	Total equities	-	-
(e)	Other quoted investments	-	-
(f)	Total quoted investments	65,366	64,832
3.	**UNQUOTED INVESTMENTS:**	-	-
4.	**INVESTMENTS IN AND ADVANCES TO AFFILIATES**		
(a)	Unregulated entities that conduct ancillary services	-	-
(b)	Unregulated non-financial operating entities	-	-
(c)	Unregulated financial operating entities	-	-
(d)	Regulated non-insurance financial operating entities	-	92,811
(e)	Regulated insurance financial operating entities	-	-
(f)	Total investments in affiliates	-	92,811
(g)	Advances in affiliates	0	71,297
(h)	Total investments in and advances to affiliates	0	164,108
5.	**INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE**	-	-
6.	**POLICY LOANS**	-	-
7.	**REAL ESTATE**	-	-
8.	**COLLATERAL LOANS**	-	-
9.	**INVESTMENT INCOME DUE AND ACCRUED**	-	32
10.	**ACCOUNTS AND PREMIUMS RECEIVABLE**		
(a)	In course of collection	1,746	2,717
(b)	Deferred - not yet due	-	-
(c)	Receivables from retrocessional contracts	-	-
(d)	Total accounts and premiums receivable	1,746	2,717
11.	**REINSURANCE BALANCES RECEIVABLE**	-	-
12.	**FUNDS HELD BY CEDING REINSURERS**	-	-
13.	**SUNDRY ASSETS:**		
(a)	Derivative instruments	2,367	32,986
(b)	Segregated accounts - Long-Term business - variable annuities	-	-
(c)	Segregated accounts - Long-Term business - other	-	-
(d)	Segregated accounts - General business	-	-
(e)	Deposit assets	-	-
(f)	Deferred acquisition costs	-	-
(g)	Net receivables for investments sold	(0)	(0)
(h)	Other sundry assets - Prepaid expenses	28	6
(i)	Total sundry assets	2,395	32,992
14.	**LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS**	-	-
15.	**TOTAL**	**$159,631**	**$278,008**

CONDENSED UNCONSOLIDATED BALANCE SHEETS

Old Mutual (Bermuda) Re Ltd.
As at December 31, 2017
expressed in ['000s] United States Dollars

TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND CAPITAL AND SURPLUS

Line No.		2016	2015
	LONG-TERM BUSINESS INSURANCE RESERVES		
20.	RESERVE FOR REPORTED CLAIMS	-	-
21.	RESERVE FOR UNREPORTED CLAIMS	-	-
22.	POLICY RESERVES - LIFE	-	-
23.	POLICY RESERVES - ACCIDENT AND HEALTH	-	-
24.	POLICYHOLDERS' FUNDS ON DEPOSIT	-	-
25.	LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS	-	-
26.	OTHER LONG-TERM BUSINESS INSURANCE RESERVES	15,385	103,717
27.	TOTAL LONG-TERM BUSINESS INSURANCE RESERVES	15,385	103,717
	OTHER LIABILITIES		
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	2,615	-
29.	COMMISSIONS, EXPENSES, FEES AND TAXAES PAYABLE	-	-
30.	LOANS AND NOTES PAYABLE	-	-
31.	(a) INCOME TAXES PAYABLE	-	-
	(b) DEFERRED INCOME TAXES	-	-
32.	AMOUNTS DUE TO AFFILIATES	1,029	4,554
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	229	288
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS	-	-
35.	DIVIDENDS PAYABLE	-	-
36.	SUNDRY LIABILITIES:		
(a)	Derivative instruments	-	-
(b)	Segregated accounts companies	-	-
(c)	Deposit liabilities	-	-
(d)	Net payable for investments purchased	-	-
(e)	Other sundry liabilities	16,053	-
(f)	Total sundry liabilities	16,053	-
37.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS	-	-
38.	TOTAL OTHER LIABILITIES	19,926	4,842
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	35,310	108,559
	CAPITAL AND SURPLUS	124,321	169,449
40.	TOTAL CAPITAL AND SURPLUS	124,321	169,449
41.	TOTAL	$159,631	$278,008

CONDENSED UNCONSOLIDATED STATEMENT OF INCOME

Old Mutual (Bermuda) Re Ltd.
As at December 31, 2017
expressed in ['000s] United States Dollars

TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND CAPITAL AND SURPLUS

Line No.		2016	2015
	LONG-TERM BUSINESS INCOME		
12.	GROSS PREMIUMS AND OTHER CONSIDERATIONS		
(a)	Direct gross premiums and other considerations	-	-
(b)	Assumed gross premiums and other considerations	10,860	12,123
(c)	Total gross premiums and other considerations	10,860	12,123
13.	PREMIUMS CEDED	-	-
14.	NET PREMIUMS AND OTHER CONSIDERATIONS		
(a)	Life	-	-
(b)	Annuities	10,860	12,123
(c)	Accident and Health	-	-
(d)	Total net premiums and other considerations	10,860	12,123
15.	OTHER INSURANCE INCOME	-	-
16.	TOTAL LONG-TERM BUSINESS INCOME	10,860	12,123
	LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES		
17.	CLAIMS	-	-
18.	POLICYHOLDER DIVIDENDS	-	-
19.	SURRENDERS	-	-
20.	MATURITIES	12,599	657
21.	ANNUITIES	-	-
22.	ACCIDENT AND HEALTH BENEFITS	-	-
23.	COMMISSIONS	-	-
24.	OTHER - EXPENSE PROVISION	3,828	-
25.	TOTAL LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES	16,427	657
26.	INCREASE (DECREASE) IN POLICY RESERVES (ACTUARIAL LIABILITIES)		
(a)	Life	-	-
(b)	Annuities	(92,160)	(20,849)
(c)	Accident and Health	-	-
(d)	Total increases (decreases) in policy reserves	(92,160)	(20,849)
27.	LONG-TERM BUSINESS EXPENSES	(75,733)	(20,192)
28.	**NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS**	86,593	32,315
29.	**NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS**	$86,593	$32,315
	UNDERNOTED ITEMS		
30.	**OPERATING EXPENSE**		
(a)	General and administration	11,780	12,655
(b)	Personnel cost	-	-
(c)	Other	16,053	-
(d)	Total operating expenses	27,834	12,655
31.	INVESTMENT (LOSS) INCOME - NET	(27,539)	14,494
32.	OTHER INCOME (DEDUCTIONS)	-	-
33.	INCOME BEFORE TAXES	31,220	34,154
34.	INCOME TAXES (IF APPLICABLE):	-	-
35.	INCOME BEFORE REALIZED GAINS (LOSSES)	31,220	34,154
36.	REALIZED GAINS (LOSSES)	-	-
37.	INTEREST CHARGES	-	-
38.	NET INCOME	$31,220	$34,154

CONDENSED UNCONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS

Old Mutual (Bermuda) Re Ltd.
As at December 31, 2017
expressed in ['000s] United States Dollars

Line No.		2016	2015
1.	**CAPITAL:**		
(a)	Capital stock		
	(i) Common shares: Authorized shares of par value each issued and fully paid shares	250	250
	(ii) (A) Preferred shares: Authorized shares of par value each issued and fully paid shares	-	-
	(ii) (B) Preferred shares issued by a subsidiary: Authorized shares of par value each issued and fully paid shares	-	-
	(i) Treasury shares: Repurchased shares of par value each issued	-	-
(b)	Contributed surplus	108,203	184,503
(c)	Any other fixed capital	-	-
(d)	Total Capital	108,453	184,753
2.	**SURPLUS:**		
(a)	Surplus (Deficit) - Beginning of Year	(15,304)	(49,483)
(b)	Add: Income for the year	31,220	34,154
(c)	Less: Dividends paid and payable	-	-
(d)	Add (Deduct) change in unrealized appreciations (depreciation) of investments	(48)	25
(e)	Add (Deduct) change in any other surplus	-	-
(f)	Surplus - End of Year	15,868	(15,304)
3.	**MINORITY INTEREST**	-	-
4.	**TOTAL CAPITAL AND SURPLUS**	**$124,321**	**$169,449**

PART I

Old Mutual (Bermuda) Re Ltd. (the "Company" or "OMBRE") will commence voluntary liquidation upon the completion of the expiration of its policyholder (re)insurance liabilities in 2018. The Company's voluntary liquidation plan is described in *Part I. Note 2 - Risks Underwritten by the Insurer, OMBRE Liquidation Plan.*

The general purpose financial statements have been prepared in accordance with financial reporting provisions of The Insurance Act 1978, amendments thereto, and the Insurance Account Rules 2016 with respect to Condensed General Purpose Financial Statements ("the Legislation").

The recognition and measurement criteria of the Company's Condensed General Purpose Financial Statements are in accordance with International Financial Reporting Standards ("IFRS"), expect that a provision for the Company's future income and expenses through to its liquidation (the "Liquidation Provision") representing the Company's estimated future income and expenses through to dissolution, as described in *Part I. Note 4 - Significant Accounting Policies, Liquidation Provision,* has been established at December 31, 2017.

It should also be noted that there are material differences between the Legislation and IFRS as described in *Part I. Note 3 - Basis of Presentation.*

1. Control of Insurer

OMBRE was incorporated in Bermuda on May 18, 2015, and was registered as a long-term Class D insurer on May 29, 2015. The Company was formed with the sole purpose of (re)insuring the guaranteed minimum accumulation benefit ("GMAB") risks of Old Mutual (Bermuda) Ltd. ("OMB"), an affiliate company up to December 31, 2015, the date on which OMB was sold to Beechwood Bermuda Ltd. ("Beechwood Bermuda"), an unrelated entity. Subsequent to the sale of OMB to Beechwood Bermuda, OMB legally changed its name: to Beechwood OMNIA Ltd. effective June 30, 2016; and to OMNIA Ltd. ("OMNIA') effective June 29, 2017. On June 30, 2017, Beechwood Bermuda sold OMNIA to PBX Bermuda Holdings, Ltd., an unrelated entity.

The Company is a wholly-owned subsidiary of Old Mutual (Bermuda) Holdings Ltd. ("OMBHL"), a holding company incorporated in Bermuda on April 30, 2015. The Company is ultimately owned by Old Mutual plc ("OM plc"), a company incorporated in England and Wales and listed on the London Stock Exchange.

<u>OM plc Managed Separation</u>
OM plc is in the process of effecting the managed separation of its four principle businesses (the "Managed Separation"). In 2018, Old Mutual Limited ("OML"), a South African domiciled, newly listed and regulated entity, will become the holding company and parent of OM plc.

<u>Millpencil Limited</u>
On July 1, 2015, the Company received all outstanding shares of Millpencil Limited ("Millpencil"), an investment holding company incorporated and domiciled in the United Kingdom, from OMBHL in the form of a non-cash capital contribution. Prior to the November 23, 2016 transaction described below in "Millpencil Liquidation Plan," Millpencil was a 99% general partner in Millpencil (US) LP. Millpencil and Millpencil (US) LP hold seed capital investments in underlying funds managed by investment managers affiliated with OM plc and Old Mutual Asset Management plc.

Historically, Millpencil also owned: 100% of MPL (UK) Limited, also incorporated and domiciled in the United Kingdom; and 100% of MPL US LLC, which was incorporated in Delaware, United States. MPL (UK) Limited and MPL US LLC, both dormant investment holding companies, were dissolved in 2017 and 2016, respectively.

PART I (continued)

1. Control of Insurer (continued)

In 2017, Millpencil redeemed its remaining seed capital investments, satisfied its liabilities and repatriated its residual capital to the Company as described below in "Millpencil Liquidation Plan." On July 26, 2017, the Company sold the empty Millpencil shell to OM Seed Investments (UK) Limited ("OMSI"), a company affiliated under common control, for a nominal sum.

Prior to the July 26, 2017 sale of Millpencil to OMSI, Millpencil was not consolidated within the condensed general purpose financial statements of the Company as described in *Part I. Note 4 - Significant Accounting Policies - Basis of consolidation.*

<u>Millpencil Liquidation Plan</u>
Management has fully implemented its plan that initially de-risked (i.e. remove the underlying seed funds that draw the highest capital charges) and then ultimately divested the Company of its investment in Millpencil. Cash proceeds retained by the Company will be used to fund the Company's ongoing liquidity requirements. The following transactions were effected in 2016 and 2017:

- On June 30, 2016, Millpencil sold six "capital intensive" underlying funds with a fair value of $37.5 million to OMSI for cash, and simultaneously declared and paid a cash dividend of $102.5 million to the Company. The cash dividend was comprised of the "capital intensive" fund sale proceeds and $65.0 million of un-deployed cash;

- On September 15, 2016, Millpencil sold three "capital intensive" underlying funds with a fair value of $21.3 million to OMSI for cash, and simultaneously declared and paid a cash dividend of $21.3 million to the Company. The cash dividend was solely comprised of the "capital intensive" fund proceeds;

- On November 23, 2016, Millpencil sold its remaining investment in Millpencil (US) LP with a fair value of $72.2 million, to OMSI for cash, and simultaneously declared and paid a cash dividend of $72.2 million to the Company. The cash dividend was solely comprised of the Millpencil (US) LP sale proceeds;

- On April 6, 2017, Millpencil declared and paid a cash dividend of $51.1 million to the Company. The cash dividend was solely comprised of fund redemption proceeds;

- On May 3, 2017, Millpencil declared and paid a cash dividend of $12.5 million to the Company. The cash dividend was solely comprised of fund redemption proceeds; and

- On July 21, 2017, Millpencil declared and paid a final $34.1 million dividend to the Company. The dividend was comprised of $30.3 million of cash from fund redemption proceeds and a $3.8 million intercompany receivable from OM plc.

2. Risks Underwritten by the Insurer

The Company is exposed to material financial and capital market risk, including changes to equity values, foreign exchange rates and credit spreads which may have a material adverse effect on the Company's results of operations, financial condition and liquidity. The Company actively manages its capital with a focus on capital efficiency, effective risk management and the ability to pay its obligations as they become due. Management performs analyses and forecasts of the Company's capital, surplus and liquidity positions. The Company seeks to ensure that it can meet its expected capital and liquidity needs at all times.

PART I (continued)

2. **Risks Underwritten by the Insurer** (continued)

Products

Insurance agreement
Effective July 1, 2015 the Company insures the GMAB feature of OMNIA's Universal Investment Plan agreements ("UIP") through to the GMAB maturities in 2017/2018. Under the terms of the insurance agreement, the Company insures: (1) 110% of the account value of the underlying OMNIA UIP policies that contain the Capital Guarantee Option ("CGO"); and (2) 120% of the account value or the highest anniversary value ("HAV") option, if elected, of the underlying OMNIA UIP policies that contain the Universal Guarantee Option ("UGO"). Upon GMAB maturity, if the value of the underlying OMNIA contract holder investments is less than the guaranteed accumulation value, the Company will credit to OMNIA (i.e. "top-up"), the amount necessary such that the value of the underlying OMNIA plan equals the guaranteed accumulation value. The GMAB features expire on the OMNIA underlying contract holders' 10-year anniversaries in 2017/2018 and the insurance agreement expires the earlier of sixty days following the maturity of the final assumed GMAB risk under the insurance agreement, or October 31, 2018.

Under the terms of the insurance agreement, the Company:

- receives a deferred premium mechanism ("DPM") through to the final GMAB maturity assumed as described in *Part 1, Note 5 - Revenue Recognition- Recognition of premium revenue*; and
- has incurred GMAB "top-ups" of $5.8 million and $0.7 million for the years ended December 31, 2017 and 2016, respectively. GMAB "top-ups" incurred under the insurance agreement are recorded in Line 20 of the condensed general purpose income statement.

At December 31, 2017 and 2016, long-term policyholder reserves of $4.7 million and $21.3 million, respectively, related to the GMAB assumed by the Company under the insurance agreement, are included in Line 26 of the condensed general purpose balance sheet.

Retrocessional agreement
Effective July 1, 2015, the company reinsures the GMAB feature of OMNIA's reinsurance treaty ("HSBC Treaty") with HSBC Life (International) Limited ("HSBC Life") whereby OMNIA assumed on a modified coinsurance basis, 100% of the LifeInvest Protection Plan which includes guarantee options that are similar to the features offered under the OMNIA UIP UGO business. The most significant difference between the UIP UGO and the HSBC Treaty are that the HSBC Treaty GMAB benefit offered the highest anniversary value option to all policies. The retrocessional agreement expires the earlier of sixty days following the maturity of the final assumed GMAB risk under the retrocessional agreement or August 31, 2018.

Under the terms of the retrocessional agreement, the Company:

- receives a DPM through to the final GMAB maturity assumed as described in *Part 1, Note 5 - Revenue and Expense Recognition- Recognition of premium revenue*; and
- has incurred GMAB "top-ups" of $6.8 million and NIL, for the years ended December 31, 2017 and 2016, respectively. GMAB "top-ups" incurred under the retrocessional agreement are recorded in Line 20 of the condensed general purpose income statement.

At December 31, 2017 and 2016, long-term policyholder reserves of $6.9 million and $82.4 million, respectively, were related to the GMAB assumed by the Company under the retrocessional agreement and are included in Line 26 of the condensed general purpose balance sheet.

PART I (continued)

2. Risks Underwritten by the Insurer (continued)

Other Risks

Market Risk - Hedging of GMAB Guarantees

The GMAB guarantees have similar risk profiles to "put-type" options. This means that the Company has assumed the risk associated with market downturns as a result of having (re)insured these guarantees. These "put-type" options are considered to be exotic in nature since the underlying OMNIA contract holder behavior influences the ultimate payoff. In addition, since the guarantees are defined in U.S. dollars but are backed by funds that are invested in foreign currency denominated securities, the Company bears foreign exchange risk in connection with these guarantees. The business is un-hedged for interest rates.

Since the funds backing the guarantees are not themselves directly hedge-able (i.e., effectively, one cannot purchase a derivative based on a specific fund), linear combinations of liquid market indices are used to proxy the return of every fund (referred to as "fund mappings"). The use of fund mappings to establish linkage between the funds and a set of hedge-able indices is an important part of the hedging strategy. Quantitative and qualitative fund mappings are updated quarterly to ensure any changes by portfolio fund managers are captured frequently to help improve overall tracking. Thus, the Company is exposed to basis risk and is committed to improve its fund mapping to reduce basis risk.

Prior to August 31, 2016, the Company utilized various hedging programs to:

- manage equity/ foreign exchange exposures below the 120% UGO GMAB guarantee through its <u>Dynamic Hedging Program</u>;

- lock in the costs of a put option program that would commence in conjunction with the non-HAV UGO GMAB maturities through its <u>Volatility Hedging Program</u>; and

- manage the risks associated with the HSBC Life HAV UGO GMAB through its <u>HAV Option Program</u>.

Given OM plc's desire to reduce its cash flow risk exposure to OMBRE in conjunction with the Managed Separation described in *Part I. Note 1 - Control of Insurer*, the Company implemented a <u>Quanto Put Option Program</u> and terminated its dynamic hedging and volatility hedging programs on August 31, 2016.

To take advantage of the improvement in global equity markets since the quanto put options were purchased in August 2016, the Company further enhanced its quanto put option program on October 31, 2017 by unwinding all outstanding quanto put options and purchasing a new series of quanto put options. The new quanto put options, not only further improved the Company's downside cash remittance risk to OM plc, but also reduced the Company's economic capital requirements and improved its economic capital coverage ratio. On a go-forward basis, no material changes to the Company's hedging programs are expected, other than re-balancing and unwinding activities to manage hedge slippage.

As the HAVs reached their final HAV reset on the ninth anniversary of the underlying policies (i.e. in 2016/2017), the HAV Option Program was completely unwound by May 2017.

PART I (continued)

2. Risks Underwritten by the Insurer (continued)

Other Risks (continued)

Market Risk - Hedging of GMAB Guarantees (continued)

Dynamic Hedging Program
Prior to its termination on August 31, 2016, the dynamic tail hedging strategy ("Tail Hedging") managed equity and foreign exchange exposures below the 120% UGO GMAB guarantee and targeted a balance between the potential changes in the statement of income, capital, and liquidity. Tail Hedging intended to provide improved protection against large equity and foreign exchange exposures and ease the liquidity strains required to support a hedging program under normal market conditions. Tail Hedging hedged the non-HAV liability delta by replicating an out of the money non-HAV liability delta, with the strike being 60% of the non-HAV guarantees (the "tail target level") in the liability option calculation. As such, the hedge coverage ratio adjusted systematically with market movements with the hedge coverage ratio of the non-HAV liability delta progressively increasing (decreasing) as markets drop (rise).

Volatility Hedging Program
A series of forward start options ("FSOs") were purchased in 2015 to take advantage of historically low volatilities and provided the opportunity to lock in the cost of one year at-the-money put options to hedge the UGO risks. The FSOs had a future start date of January 2017 and sought to mitigate the risk of equity volatility spikes and protect against incurring higher put option premiums as it was the Company's intent to utilize a put option strategy to effectively set a cap on the ultimate cash cost of meeting the GMAB obligations assumed from OMNIA. Effective August 31, 2016, the FSOs were unwound and cash proceeds of $18.1 million were utilized to partially fund the purchase of the ATM Quanto Put Options.

HAV Option Program
The 5-year structured "look-back" put options ("HAV Options") hedged the highest anniversary value feature embedded within the underlying HSBC Life UGO GMAB that the Company ultimately reinsures and were intended to protect against markets rising above the 120% guarantee and subsequently falling. The HAV Options had laddered maturities that commenced in June 2017 through May 2018.

In April and May 2017, the remaining HAV Options were unwound for total cash proceeds of $1.5 million.

The fair value of the HAV Options at December 31, 2017 and 2016 were NIL and $2.2 million, respectively, and are recorded in Line 13(a) of the condensed general purpose balance sheet.

Quanto Put Option Program
The Company purchased a series of at-the-money quanto put options ("ATM Quanto Put Options") on August 31, 2016 for a total premium of $34.5 million. The ATM Quanto Put Options protect against further equity and foreign-exchange market falls and had laddered maturities that ranged from June 2017 through May 2018.

The Company enhanced its quanto put option program on October 31, 2017 by: unwinding the then deep out-of-the-money (OTM) options that were purchased at-the-money in August 2016 (i.e. the ATM Quanto Put Options); and simultaneously purchasing OTM quanto put options ("OTM Quanto Put Options"). The OTM Quanto Put options continue to mitigate further equity and foreign-exchange market falls and have laddered maturities that range from November 2017 through August 2018. The net funding cost of the enhancement to the quanto put option program was $4.5 million which consisted of: $5.2 million of OTM Quanto Put Option premiums; and of $0.8 million of ATM Quanto Put Option unwind proceeds.

PART I (continued)

2. Risks Underwritten by the Insurer (continued)

Other Risks (continued)

Market Risk - Hedging of GMAB Guarantees (continued)

To reduce counterparty risk, both the ATM Quanto Put Option and the OTM Quanto Put Option (collectively the "Quanto Put Options") trades were spread across four counterparties, all of which have an "A" credit rating. Additionally, the counterparties are required to post full collateral on a daily basis in support of the value of the Quanto Put Options. Management believes that the counterparty risk associated with these trades, on a net risk basis, is not material.

The fair value of the Quanto Put Options at December 31, 2017 and 2016 were $2.4 million and $30.8 million, respectively, and are recorded in Line 13(a) of the condensed general purpose balance sheet.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built a liquidity risk management framework for the management of the Company's short-term funding and liquidation requirements as described in the OMBRE Liquidation Plan below. The Company manages liquidity by maintaining adequate reserves, holding highly liquid assets and continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Company continues to meet its day-to-day liquidity needs. The Company's primary sources of liquidity are: cash and cash equivalents, and bonds and debentures. Liquid resources including cash, short-term U.S. Treasury securities and ongoing DPMs from OMNIA through to the expiration of the final GMAB maturity, are maintained to cover the Company's liquidity needs.

Liquidity risk will remain: (1) through the expiration of the retrocessional and insurance agreements in August 2018 and October 2018, respectively; and (2) post the GMAB maturities, through to the liquidation/dissolution of the Company, when the Company will continue to incur expenses, but cease to receive DPMs. Accordingly, management has produced "best estimate" and "catastrophic scenario" cash flow projections which demonstrate the Company's ability to fund its policyholder liabilities, general and administrative and "wind-down" expenses (collectively, its "Obligations") to as they become due.

Based on the Company's cash flow projections, there is estimated to be sufficient assets to cover its Obligations as they become due even under the onerous catastrophic scenario. These cash flow projections are subject to significant estimation and are updated monthly based on current market information and projected expenses that we expect to incur to run off and then liquidate/dissolve the Company. Changes to market conditions, especially a significant equity market decline, coupled with an increase in basis underperformance and unexpected operational loss/or an understatement of projected future expenses may have an adverse effect on the Company's liquidity profile.

OMBRE Liquidation Plan

The Company's sole purpose is (re)insuring the GMAB risks of OMNIA. Given that the last GMAB matures in August 2018 and the Company is contractually discharged from its GMAB risks under the retrocessional and insurance agreements on August 31, 2018 and October 31, 2018, respectively, it is management's intention to wind up the operations of the Company in 2018. Shortly thereafter, management will commence a voluntary liquidation of the Company and accordingly, has developed the OMBRE Liquidation Plan.

PART I (continued)

2. Risks Underwritten by the Insurer (continued)

Other Risks (continued)

OMBRE Liquidation Plan (continued)

The OMBRE Liquidation Plan: identifies activities that need to be completed to wind down the Company, establishes a liquidation timeline; estimates future income and expenses associated with the dissolution and wind up of operations; assesses risks and dependencies thereof, and identifies the resources required to complete a full and timely liquidation/ dissolution of the Company.

Per the OMBRE Liquidation Plan, following the expiration of the (re)insurance agreements and termination of all other contractual agreements, the Company will submit an application to the Bermuda Monetary Authority ("BMA") to de-register as a Bermuda long-term Class D insurer. Upon receiving regulatory de-registration approval, and satisfying all third party and related party liabilities, any remaining capital will be repatriated to the Company's parent and formal dissolution of the Company with the Bermuda Registrar of Companies will commence. The final dissolution of OMBRE is expected to be completed in 2019.

Interest rate risk

The Company has limited exposure to interest rate risk as it relates to the valuation discount rates assumed on its (re)insurance contract liabilities. Given the significantly shortened time to maturity, interest rate risk is considered to be immaterial.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the financial loss from defaults. The Company's exposure and credit rating of its derivative counterparties are continuously monitored and the aggregate value of its derivative transactions is spread amongst approved counterparties.

To reduce counterparty risk on its hedging programs, all of the Company's option programs were purchased from various counterparties who are required to post full collateral on a daily basis in support of the value of the OTM Quanto Put Options, and prior to their respective unwinding and terminations, the ATM Quanto Put Options, the HAV Options and the FSOs. The counterparties' Fitch credit ratings are all "A". Management believes that the counterparty risk associated with the remaining OTM Quanto Put Options, on a net risk basis, is not material.

The Company is also exposed to third party credit risk in relation to the ongoing DPMs it is due to receive from OMNIA. The cancelation clauses and netting mechanism in the insurance and retrocessional agreements (DPMs due to the Company can be netted against any GMAB top-ups payable to OMNIA) reduce this risk.

Persistency

Persistency risk is the risk that the (re)insured underlying OMNIA policyholders remain, surrender, transfer or withdraw funds in a volume that has not been expected within the reserving assumptions, thereby leading to increased risk to the GMAB guarantees.

PART I (continued)

2. Risks Underwritten by the Insurer (continued)

Other Risks (continued)

Persistency (continued)

The Company’s persistency risk arises from higher than expected persistency (i.e., lower lapses and withdrawals) of the underlying OMNIA variable annuity business that has the GMAB feature. As more policies “persist” in order to collect the GMAB guarantees, the Company, as (re)insurer, is expected to make more “top ups” to OMNIA. Also, as the underlying OMNIA contracts stay longer than expected, the Company’s hedging program may provide inadequate exposure coverage; the reverse happens when contracts withdraw/lapse faster than expected. The Company's persistency risk is no longer a material risk given the significantly shortened time to maturity.

Capital management

The Company actively manages its capital with a focus on capital efficiency and effective risk management. The capital objectives are to maintain the Company’s ability to pay its obligations as they become due while enabling the ability to identify capital strains and ensuring that its parent is well aware of such strains.

Management performs monthly analyses and quarterly forecasts of the Company’s capital and surplus position, as well as required economic capital using an internally developed economic capital model. The Company seeks to ensure that it can meet its expected capital and financing needs in accordance with the Company’s business plans, forecasts and strategic initiatives. It is critical that the Company’s capital management policies are aligned with the Company’s overall strategy, business plans and risk appetite.

Targets are established in relation to regulatory solvency and liquidity and are a key tool in managing capital in accordance with the Company’s risk appetite and the requirements of the various stakeholders.

Currency risk

As noted previously, the Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on the financial position emanating from the GMAB guarantees it (re)insures. The risk is managed through the OTM Quanto Put Options that largely cover the risk of the U.S. dollar strengthening across several European and Asian currencies.

3. Basis of Preparation

The general purpose financial statements of the Company have been prepared based on the Legislation. The recognition and measurement criteria of the Company's Condensed General Purpose Financial Statements are in accordance with IFRS, except that a Liquidation Provision, representing the Company's estimated future income and expenses through to dissolution as described in *Part I. Note 4 - Significant Accounting Policies, Liquidation Provision,* has been established at December 31, 2017.

There are material differences in the presentation of the general purpose financial statements between IFRS and the Legislation, including that no statement of cash flow is presented and the notes to the financial statements follow the Legislation requirements.

PART I (continued)

3. Basis of Preparation (continued)

Basis of measurement

The general purpose financial statements have not been prepared on a going concern basis as the Company will commence voluntary liquidation upon the completion of the expiration of its policyholder (re)insurance liabilities in the second half of 2018. The assets and liabilities of the Company, including the Liquidation Provision that was established at December 31, 2017, are measured at fair value or approximate fair value as at December 31, 2017.

The Company has developed a strategic plan to not only operate the business through to the expiration of the GMAB guarantees in 2018. but also through the liquidation/dissolution, as described in *Part I. Note 2 - Risks Underwritten by the Insurer, OMBRE Liquidation Plan*.

4. Significant Accounting Policies

Functional and presentation currency

The condensed general purpose financial statements are presented in U.S. dollars, which is the Company's functional and presentation currency. All financial information presented in U.S. dollars has been rounded to the nearest thousands, except when otherwise indicated.

Uses of estimates and judgments

The preparation of the condensed general purpose financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and amounts reported in the condensed unconsolidated general purpose balance sheet, condensed unconsolidated general purpose income statement and related supporting notes. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting estimates and judgments are those which involve the most complex or subjective judgments or assessments, with estimates based on knowledge of the current situation and circumstances, and assumptions based on that knowledge and predictions of future events and actions. The areas that typically require such estimates and the relevant accounting policies and notes are as follows:

- Long-term business policyholder liabilities;
- Fair value of derivative instruments; and
- Establishment of and changes in the Liquidation Provision.

Basis of consolidation

On February 24, 2017, the Bermuda Monetary Authority, pursuant to Section 6C(1) of the The Insurance Act 1978, amendments thereto, has granted the Company the following modification of the Insurance Account Rules 2016 ("the Rules) for the year ended December 31, 2016 and future filings: the insurer to be exempt from the requirement of Section 14 of the Rules to prepare condensed consolidated general purpose financial statements and in lieu to prepare condensed unconsolidated financial statements.

PART I (continued)

4. Significant Accounting Policies (continued)

Basis of consolidation (continued)

Accordingly, Millpencil, the Company's wholly-owned subsidiary through July 26, 2017, was carried at cost, less impairment, in the condensed general purposed balance sheet at December 31, 2016. At each reporting date, or as events dictate, the Company evaluated the potential impairment of its investment in affiliate. The evaluation includes comparing the carrying amount of the investment to the recoverable amount. The recoverable amount of the investment is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific of the investment.

In the event a loss in value of an investment is determined to be an other-than-temporary decline, an impairment loss would be recognized in the condensed general purpose statement of income. Evidence of a loss in value that could indicate impairment might include, but would not necessarily be limited to, the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment.

As of result of the implementation of the Millpencil Liquidation Plan described in *Part I. Note 1- Control of the Insurer*, following each de-risking initiative, the Company compared the carrying amount of its investment in Millpencil to the fair value of Millpencil post the dividend payments to the Company. Accordingly, as of December 31, 2017 and December 31, 2016, the Company recorded aggregate impairments of $92.8 million and $167.3 million, respectively, within Line 31 in its condensed statement of income.

Cash and cash equivalents

Cash and cash equivalents approximate fair value and consist of balances with banks, investments in money market instruments and other cash equivalents with an original maturity of three months or less.

Quoted investments

At December 31, 2017 and 2016, the Company held bonds and debentures with a fair value of $65.4 million and $64.8 million, respectively. The bonds and debentures are short-dated U.S. Treasury securities that mature in one year or less and support the liquidity and capital position of the Company.

Bonds and debentures are carried at fair value based on quoted bid prices. If quoted bid prices are unavailable or determined to be unreliable, the fair value is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on best estimates and the discount rate used is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where discounted cash flow techniques are used, estimated future cash flows are based on best estimates and the discount rate used is a market-related rate at the reporting date for an instrument with similar terms and conditions. When pricing models are used, inputs are based on observable market data where available, at the reporting date.

(Expressed in Thousands of United States Dollars unless otherwise stated)

PART I (continued)

4. **Significant Accounting Policies** (continued)

Quoted investments (continued)

The amortized cost and fair value of the Company's bonds and debentures are as follows:

December 31, 2017	Amortized cost	Gross Unrealized		Fair value
		Gains	Losses	
U.S. Treasury securities	$ 65,388	$ –	$ (23)	$ 65,366
Total bonds and debentures	$ 65,388	$ –	$ (23)	$ 65,366

December 31, 2016	Amortized cost	Gross Unrealized		Fair value
		Gains	Losses	
U.S. Treasury securities	$ 64,807	$ 25	$ –	$ 64,832
Total bonds and debentures	$ 64,807	$ 25	$ –	$ 64,832

The Company's investment portfolio is subject to quarterly impairment testing, or more frequently as required. As part of the Company's ongoing security monitoring process, the Company identifies securities in an unrealized loss position that could potentially be other-than-temporarily impaired. The Company deems a security to be other-than-temporarily impaired if the security is in default of principal and/or interest or if the discounted estimated future cash flows are less than the current book value.

Observable data that could come to the attention of the Company that could lead to a provision for impairment to be made includes:

- Significant financial difficulty of the counterparty.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- The Company, for economic or legal reasons relating to the counterparty's financial difficulty, grants to the counterparty a concession that the Company would not otherwise consider.
- It becoming probable that the counterparty will enter bankruptcy or other financial reorganization.
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets, including:
  - adverse changes in the payment status of counterparties in the group of financial assets; or
  - national or local economic conditions that correlate with defaults on the assets in the group of financial assets.

For securities deemed other-than-temporarily impaired, the cost basis of the security is written down to the fair value as of the date of impairment. For securities with impairments that are expected to be sold, an other-than-temporary impairment charge is recognized if the Company does not expect the fair value of the securities to recover prior to the expected date of sale. There were no other-than-temporary-impairments recognized in 2017 and 2016.

Unrealized gains and losses arising from changes in the fair value of bonds and debentures are recognized in Line 2(d) of the condensed general purpose statement of capital and surplus. Realized gains and losses on disposal of bonds and debentures are determined by the specific identification method, and are included in Line 36 of the condensed general purpose statement of income.

(Expressed in Thousands of United States Dollars unless otherwise stated)

PART I (continued)

4. Significant Accounting Policies (continued)

Investment in and advances to affiliates

Prior to (1) the full divestiture of Millpencil that was completed in 2017*;* (2) the 2016/ 2017 repatriations of Discount Notes issued by OM Group (UK) Limited, an affiliate company incorporated in England and Wales, and OMBHL's immediate parent; and (3) the 2017 repatriation of Discount Notes issued by OM plc, investment in and advances to affiliates included: an investment in Millpencil, an unconsolidated subsidiary, carried at cost, less impairment and OM Group (UK) Limited Discount Notes or OM plc Discount Notes (collectively the "OM Discount Notes").

	December 31, 2017	**December 31, 2016**
Investment in Millpencil	$ —	$92,811
OM Discount Notes	—	71,297
Investments in and advances to affiliates	$ —	$164,108

Investment in Millpencil
The Company fully divested its investment in Millpencil by July 26, 2017 through a series of transactions executed in 2016 and 2017 described in the *Part I, Note 1 - Control of Insurer, Millpencil Liquidation Plan*. After each divesture transaction, the Company's investment in Millpencil was impaired to its recoverable amount..

At December 31, 2016, the Millpencil seed investment portfolio included fixed-income investments, Real Estate Investment Trusts, un-deployed cash and certain affiliate receivables.

OM Discount Notes
See *Part I, Note 15 - Related Party Transactions*.

Accounts and premiums receivable

At December 31, 2017 and 2016, the Company recorded $1.7 million and $2.7 million, respectively, of DPM receivables.

The Company assesses its accounts and premiums receivable for collectability each reporting period, adjusts the receivable for uncollectible amounts and recognizes any write-off as operating expense. There were no uncollectible accounts and premiums receivable for both years ended December 31, 2017 and 2016.

Derivative instruments

Derivative instruments are carried at fair value and consist of equity/foreign exchange put options at both December 31, 2017 and 2016. The fair value of the equity put options is based upon valuation pricing models and represent what the Company would expect to receive or pay at the balance sheet date if the Company cancelled the options, entered into offsetting positions, or exercised the options.

Unrealized and realized gains or losses on derivative instruments are included in Line 31 in the condensed general purpose statement of income.

PART I (continued)

4. Significant Accounting Policies (continued)

Other Insurance Reserves - Long Term

GMAB Reserves
The Company calculates liabilities for the GMAB using a stochastic approach under various economic scenarios. This method employs assumptions with respect to forward risk free rates, volatility curves, lapses, mortality and the correlation and performance of equity/foreign exchange markets representative of the funds available within the underlying OMNIA variable products. Changes in these assumptions and capital market performances (such as future changes in equity markets, equity market volatilities, interest rates, or appreciation/depreciation of the U.S. dollar) may significantly impact the Company's GMAB liabilities.

The Company reviewed its non-performance risk ("NPR") factor (the risk that the Company will not meet its contractual obligations under the insurance and retrocessional agreements) and determined that the NPR adjustment was not material and therefore recorded no NPR adjustment for the year ended December 31, 2017 . The impact of a 25 basis points increase on the non-performing spread was a decrease in the liability of $0.3 million at December 31, 2016.

At December 31, 2017 and 2016, reserves relating to GMAB of $11.6 million and $103.7 million, respectively, are included in Line 26 of the condensed general purpose balance sheet.

As a result of (re)insuring the GMAB, the Company's financial position and results of operations are exposed to significant equity market volatility. The Company uses derivative instruments to hedge exposure and reduce the volatility of net income associated with the GMAB. Included in Line 31 of the condensed general purpose statement of income were approximately $34.3 million and $16.9 million of derivative losses for the year ended December 31, 2017 and 2016, respectively.

The change in the GMAB liabilities, derivative gains/losses and DPM (collectively "Guarantee Performance") for the year ended December 31, 2017 was a $56.1 million net gain. The most significant factors contributing to the net gain in 2017 were a $92.2 million decrease in policyholder liabilities and $10.9 million of DPM income, offset by $34.3 million of derivative losses and $12.6 million of UGO/CGO "top-ups". Guarantee Performance resulted in a net gain of $15.4 million for the year ended December 31, 2016. The most significant factors contributing to the net gain in 2016 were a $20.8 million decrease in policyholder liabilities and $12.1 million of DPM income, offset by $16.9 million of derivative losses and $0.6 million of CGO "top-ups."

Adverse market conditions could produce economic losses beyond the scope of the risk management techniques employed, which may have a material effect on the Company's financial condition and liquidity.

Claims Management Expense Provision
The Company incurs the following costs associated with its administering its (re)insurance contracts: contract/ policy administration, expenses related to servicing GMAB claims, costs associated with maintaining records and processing of DPMs (collectively "claims management expenses" or "CME").

PART I (continued)

4. Significant Accounting Policies (continued)

Other Insurance Reserves - Long Term (continued)

Claims Management Expense (continued)
Historically, the Company has not recorded a provision for CME as the amounts were deemed to be immaterial relative to the size of the GMAB reserves. However, given the significant reduction in the GMAB reserves due to favorable market performance and the run-off of the business, the Company recorded a CME provision in 2017. The CME provision was calculated by taking the projected CME expected to be incurred up to the expiration of the (re)insurance agreements.

At December 31, 2017 and 2016, a CME provision of $3.8 million and NIL, respectively, is included in Line 26 of the condensed general purpose balance sheet. Change in CME provision for the years ended December 31, 2017 and 2016 is reflected in Line 24 of the condensed general purpose income statement and was $3.8 million and NIL, respectively.

Liquidation Provision

Embedded within the cash flow projections described in *Part I. Note 2 - Risks Underwritten by the Insurer, Other Risks, Liquidity Risk* are income and expense projections through to the Company's dissolution that were used to determine the Liquidation Provision that was established at December 31, 2018.

Leading up to the expiration of the GMABs, the Company will continue to recognize Guarantee Performance due to market fluctuations and incur general and administrative expenses related to other overhead and operating expenses. In addition, following the final GMAB top-up payment to OMNIA in August 2018, the Company is expected to continue to incur general and administrative expenses through to the expiration of the (re)insurance agreements; and also incur disposal costs specific to winding down the OMBRE operations.

At December 31, 2017, the Company recorded a $16.1million Liquidation Provision which includes a projected Guarantee Performance loss and all projected expenses, excluding GMAB reserves and CME, obligations recorded in Line 26 of the condensed general purpose balance sheet, that are expected to be incurred through to dissolution. The Liquidation Provision is recorded in Line 36(e) of the condensed general purpose balance sheet at December 31, 2017. Change in the Liquidation Provision for the years ended December 31, 2017 and 2016 is reflected in Line 30(c) of the condensed general purpose income statement and was $16.1 million and NIL, respectively.

As discussed above in *Part I. Note 2 - Risks Underwritten by the Insurer, Other Risks, Liquidity Risk*, the Company's available assets are expected to be sufficient to meet all of its Obligations through to dissolution.

5. Revenue Recognition

Recognition of premium revenue

DPMs are calculated as a percentage of the underlying OMNIA policyholder plan values with active UGO GMABs and are recorded on a monthly basis. Premium revenue recorded in Line 14 of the condensed general purpose statement of income was $10.9 million and $12.1 million for the years ended December 31, 2017 and 2016, respectively.

(Expressed in Thousands of United States Dollars unless otherwise stated)

PART I (continued)

5. Revenue and Expense Recognition (continued)

Investment income

Long-term business investment (loss) income is recognized as earned and accrued to the balance sheet date and is comprised of:

	December 31, 2017	December 31, 2016
Dividend income - Millpencil	$97,651	$ 196,038
Impairment of investment in Millpencil	(92,811)	(167,291)
Derivative instrument losses	(34,323)	(16,901)
Discount Notes	1,191	3,041
Bonds and debentures	883	31
Investment expenses	(130)	(423)
Net investment (loss)income	$(27,539)	$14,494

As described in *Part 1. Note 1 - Control of Insurer, Millpencil Liquidation Plan*, the Company received $97.7 million and $196.0 million of cash dividends, respectively, from Millpencil for the years ended December 31, 2017 and 2016. In addition, upon comparing the fair value of its investment in Millpencil to the carry value post the cash dividends as described in *Part I. Note 3 - Basis of Preparation - Basis of consolidation*, the Company recorded $92.8 million and $167.3 million of impairment charges for the years ended December 31, 2017 and 2016, respectively.

6-7 N/A

8. Contingencies and Commitments

Change in Liquidation Provision

The establishment of the $16.1 million Liquidation Provision described in *Part I. Note 4 - Significant Accounting Policies, Liquidation Provision* is recorded in Line 30(c) of the condensed general purpose income statement and is comprised of:

	December 31, 2017
Estimated guarantee performance loss	$1,937
Estimated general, administrative and disposal expenses	14,116
Change in Liquidation Provision	$16,053

9-12 N/A

PART I (continued)

13. Fair Value of Quoted Investments

The Company measures fair value using the following hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to fair values derived from unobservable inputs (Level 3).

- Level 1 - quoted market prices: with quoted prices for identical instruments in active markets. All of the Company's quoted investments as at December 31, 2017 and 2016 (U.S. Treasury securities) are classified as Level 1.
- Level 2 - valuation techniques using observable inputs: quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and valued using models where all significant inputs are observable. The Company had no Level 2 quoted investments at December 31, 2017 or 2016.
- Level 3 - valuation techniques using significant unobservable inputs: where one or more significant inputs are unobservable. The Company had no Level 3 quoted investments at December 31, 2017 or 2016.

14. Contractual Maturity of Fixed Maturity and Short-Term Investments

See *Part I, Note 4 - Significant Account Policies - Quoted Investments*.

15. Related Party Transactions

OM Discount Notes

On July 21, 2017, the intercompany receivable with OM plc that was distributed from Millpencil described in *Part I. Note 1 - Control of Insurer, Millpencil Liquidation Plan*, was converted to an OM plc Discount Note.

In preparation for the Managed Separation described in *Part I. Note 1 - Control of Insurer*, all of the outstanding OM Group (UK) Limited Discount Notes were redeemed on September 15, 2017 and simultaneously reissued to the Company by OM plc. The terms of the reissued OM plc Discount Notes were identical to the terms of the redeemed OM Group (UK) Limited Discount Notes.

The Company cancelled the OM Discount Notes to effect the capital repatriations described in *Part II, Note 1(b) Contributed Surplus* as follows:

- $49.5 million OM Group (UK) Limited Discount Note on November 23, 2016;
- $45.0 million OM Group (UK) Limited Discount Note on May 31, 2017; and
- $31.3 million OM plc Discount Note on December 21, 2017.

At December 31, 2017 and 2016, the Company held OM Discount Notes, including accrued interest, in the amount of NIL and $71.3 million, respectively. Prior to their cancellation, the OM Discount Notes had (1) maturities of less than one year with an option to roll over the notes, including interest accrued but not paid, upon maturity; and (2) yields from 1.6% to 1.8%.

Interest earned on OM Discount Notes included in Line 31 of the condensed general purpose statement of income was $1.2 million and $3.0 million, respectively, for the years ended December 2017 and 2016.

PART I (continued)

15. Related Party Transactions (continued)

OMBHL Shared Services Agreement

Effective July 1, 2015, the Company entered into a cost sharing agreement with OMBHL, whereby shared service costs incurred by OMBHL are recharged to the Company on the basis of services utilized by the Company. Amounts are payable on a periodic basis at cost of services incurred. Amounts due to affiliates accrue interest free and are settled semi-annually, at a minimum. At December 31, 2017 and 2016, $1.0 million and $4.6 million of respective unpaid shared services fees are included in Line 32 on the condensed general purpose balance sheet.

Operating expenses in the accompanying general purpose statement of income reflect amounts charged to the Company under the shared services agreement of $11.4 million and $12.2 million for the years ended December 31, 2017 and 2016, respectively.

16. N/A

17. N/A

PART II

A.

1(a) Capital Stock

At December 31, 2017 and at December 31, 2016 there were 250,000 common shares, with par value $1.00 authorized, issued and fully paid.

1(b) Contributed Surplus

In 2017 and 2016, the Company received permission from the BMA to repatriate capital to its immediate parent as follows:

- On December 21, 2017, a $31.3 million capital repatriation was effected as a return of contributed surplus to OMBHL and a corresponding reduction in OM plc Discount Notes;
- On May 31, 2017 a $45.0 million capital repatriation was effected as a return of contributed surplus to OMBHL and a corresponding reduction in OM Group (UK) Limited Discount Notes;
- On June 30, 2016, a $30.0 million capital repatriation was effected as a return of contributed surplus to OMBHL and a corresponding reduction in cash;
- On September 15, 2016, a $16.4 million capital repatriation was effected as a return of contributed surplus to OMBHL and a corresponding reduction in cash; and
- On November 23, 2016, a $121.7 million capital repatriation was effected as a return of contributed surplus to OMBHL and a corresponding reduction of $72.2 million of cash and $49.5 million of OM Group (UK) Limited Discount Notes.

PART III

1. Cash and time deposits

See *Part I. Note 4 – Significant Accounting Policies- Cash and cash equivalents*.

2. Quoted investments

See *Part I. Note 4 - Significant Accounting Policies - Quoted investments.*

3. N/A

4. Investment in and advances to affiliates

See *Part I. Note 4 - Significant Accounting Policies - Investments in and advances to affiliates*

5-8. N/A

9. Investment income due and accrued

At December 31, 2017 and 2016, the Company had NIL and $0.03 million of accrued interest receivable on U.S. Treasury securities.

10. Accounts and Premiums Receivable

See *Part I. Note 4 – Significant Accounting Policies - Accounts and premiums receivable*.

11-12. N/A

13. Sundry Assets

13(a) Derivative Instruments

See *Part I. Note 2 - Risks Underwritten by the Insurer, Other Risks, Market Risk, Hedging of GMAB Guarantees* and *Part I. Note 4 -Significant Accounting Policies, Derivative instruments.*

13(b) Derivative Instruments

The Company utilizes derivative instruments for hedging purposes only. The derivative instruments become in-the-money or out-of-the money as a result of fluctuations in equity markets, interest rates, and foreign exchange rates. The aggregate contractual or notional amount of the derivative instruments on hand, the extent to which instruments are in-the-money or out-of-the money, and therefore the aggregate fair values thereof can fluctuate significantly over time.

(Expressed in Thousands of United States Dollars unless otherwise stated)

PART III (continued)

13. Sundry Assets (continued)

13(b) Derivative Instruments (continued)

The following table provides a detailed breakdown of the fair value of the Company's derivative instruments, by issuer, at year end. These instruments allow the Company to transfer, modify or reduce their equity market and foreign exchange risks.

	December 31, 2017	December 31, 2016
Bank of America/Merrill Lynch	$875	$13,773
Natixis	680	13,359
Societe Generale	63	1.451
Goldman Sachs	—	2,148
Citibank	748	2,256
Fair value at end of year	$2,366	$32,986

The notional value of the Company's derivative instruments, by issuer, at year end are as follows:

	December 31, 2017	December 31, 2016
Bank of America/Merrill Lynch	$44,179	$145,845
Natixis	44,223	147,378
Soc Gen	10,028	119,278
Goldman Sachs	—	243,500
Citibank	87,676	33,037
Notional value at end of year	$186,106	$689,038

The Company undertakes transactions involving derivative instruments with other financial institutions. Management has established limits commensurate with the credit quality of the institutions with which it deals, and manages the resulting exposures such that a default by any individual counterparty is unlikely to have a material adverse impact on the Company.

Counterparties to the Quanto Put Options and HAV Options (collectively, the "Option Programs"), are required to pledge collateral to the Company in support of those obligations. As at December 31, 2017 and 2016, the Company holds cash collateral with respect to its Option Programs' counterparties with an aggregate fair value of $3.4 million and $32.1 million, respectively.

	December 31, 2016	December 31, 2016
Fair value of derivative instruments	$2,367	$32,986
Cash collateral received by the Company	3,398	32,132
Over (under) collateralization	$1,031	($854)

PART III (continued)

14-25. N/A

26. Other Insurance Reserves - Long Term

See *Part I. Note 4 – Significant Accounting Policies*.

27. N/A

28. Insurance and Reinsurance Balances Payable

At December 31, 2017 and 2016, the Company had $2.6 million and NIL, respectively, of GMAB "top-up" payable to OMNIA under the retrocessional agreement described in *Part I. Note 2 - Risks Underwritten by the Insurer, Products, Retrocessional agreement.*

29-30. N/A

31(a) Income Taxes Payable

Under current Bermuda law, the Company is not required to pay taxes in Bermuda on either income or capital gains until the year 2035. On May 20, 2015, the Company elected to be treated as a foreign eligible single owner entity that is disregarded for U.S. taxation.

31(b) N/A

32. Amounts Due to Affiliates

See *Part II. Note 15 - Related Party Transactions*.

33. Accounts Payable and Accrued Liabilities

At December 31, 2017 and 2016, the Company had $0.2 million and $0.3 million, respectively, of accrued liabilities representing incurred but unpaid general and administrative expenses.

34 - 35. N/A

36. Sundry Liabilities

See *Part I. Note 2 - Risks Underwritten by the Insurer, OMBRE Liquidation Plan* and *Part I. Note 4 - Significant Accounting Policies, Liquidation Provision.*

37. N/A

PART IV

6. N/A

15. N/A

32. N/A

36. N/A