

RESULTS AND PERSPECTIVE

HIGHLIGHTS OF A STELLAR PERFORMANCE

In 2012, Optimum Re Inc. achieved yet another very strong performance amidst a challenging economic environment. The Company's realistic growth strategy and sound risk management principles paid off again. The Company continued its path of steady growth in assumed premiums and shareholders' equity allowing to consistently record solid performances year after year over the past decade. Highlights of 2012 include signing two new substantial clients in an extremely competitive Canadian market and increasing our volume in the US despite continued market dwindling.

In the fall, as part of the Company overall succession plan, the Company implemented a smooth management transition at the helm of both the Canadian and the US subsidiaries by appointing Serge Goulet as President and COO of Optimum Reassurance Inc. in Montreal, and Sébastien Blondeau as the President and COO of Optimum Re Insurance Company in Dallas, TX. This transition responds to the need for strong local leadership while maintaining strategic continuity.

STATEMENT OF INCOME

Optimum's global reinsurance business in North America posted a substantial volume increase. Our new business face amount volumes increased by 16% while the market experienced a decrease of 3%. Our assumed premiums went up 7% over 2011 to a record \$384 million, our claims experience was excellent in all our lines of business and our general expenses were tightly controlled throughout the year.

Net investment income increased by 136% in 2012, going from \$22.9 million in 2011 to \$31.2 million in 2012, mostly attributable to a significant increase in realized gains on investments in 2012. Management anticipated increases in long-term interest rates and sought to crystalize unrealized gains on long-term investment portfolios, which proved successful in hindsight. As a result, Optimum Re Inc. 2012 net income after tax stands at \$16.0 million, up 68% from 2011 (\$9.5 million).

FINANCIAL STRENGTH

Global assets grew 5% in 2012 to \$1.9 billion. The Company's asset portfolio is crafted following the very cautious investment policies of each subsidiary. Fixed income securities represent 78% of the portfolio, of which 75% is guaranteed or issued by the governments of the United States, Canada and its provinces, or France.

Shareholders' equity reached \$196 million (US GAAP basis) as of December 31, 2012.

Solvency ratios for all operations are well within the range set by our parent company to ensure a solid and stable balance sheet. The notation agency A.M. Best also re-affirmed the rating of A-, Excellent, to both reinsurance operations.

STRONG PARTNERSHIP

One of our most cherished achievements is undoubtedly to be recognized by your clients. We take great pride in being one of the best reinsurers in the marketplace, according to the 2013 US Flaspöehler survey, and we are committed to take all necessary steps to remain a valued partner for our clients.

We built our clients confidence by our proven performance and longevity. We have celebrated our 25th year in the reinsurance business in the United States in 2012 and we are celebrating our 40th year in the reinsurance business in Canada in 2013.

We are grateful to all of our clients, partners, directors, managers and employees for their continuous and long-lasting support.

Premium Income

(in millions of Canadian dollars)
Optimum Re Inc.



Assets

(in millions of Canadian dollars)
Optimum Re Inc.



Shareholders' Equity

(in millions of Canadian dollars)
Optimum Re Inc.



Financial Results

Presentation of the Summary Consolidated Financial Statements

The summary consolidated financial statements of Optimum Re Inc. were prepared by Management in accordance with United States of America generally accepted accounting principles and contain certain amounts based on best judgement and estimates as their final determination is dependent upon subsequent events. It is the opinion of Management that the accounting policies utilized are appropriate in the circumstances and adequately reflect the significant aspects of the financial position and the results of operations. The financial information presented elsewhere in this report is consistent with the information contained in the financial statements.

These summary consolidated financial statements include the major subtotals and totals of the corresponding complete financial statements, and the information drawn from the notes to the complete financial statements relating to items that have a generalized effect or another significant impact on the summary financial statements.

Summary Consolidated Statement of Income

Year ended December 31, 2012

(in thousands of Canadian dollars)

	2012	2011
Revenues		
Premiums assumed	384,291	357,701
Premiums assumed – unit linked products	89	177
Net investment income	31,217	22,926
Net investment income – unit linked products	5,505	(3,924)
Other revenues	1,006	1,266
	422,108	378,146
Premiums ceded	(281,574)	(256,846)
Total revenues	140,534	121,300
Expenses		
Claims and change in future benefits	87,086	87,159
Claims and acquisition costs – unit linked products	5,223	(5,056)
Underwriting, acquisition and operating expenses	21,532	24,157
Other expenses	4,927	4,755
Total expenses	118,768	111,015
Income before income taxes	21,766	10,285
Total income taxes	5,776	771
Net income	15,990	9,514

Summary Consolidated Balance Sheet

As at December 31, 2012

(in thousands of Canadian dollars)

	2012	2011
Assets		
Fixed-income securities	486,766	488,799
Other investments and cash	137,158	102,662
Amounts receivable from ceding companies	40,377	30,353
Reinsurance ceded balances receivable	96,027	111,211
Future benefits ceded	1,012,737	953,785
Deferred acquisition costs	25,950	26,193
Other assets	17,743	20,342
Unit linked products, held for trading, at a fair value	49,505	50,643
Total assets	1,866,263	1,783,988
Liabilities		
Future benefits	1,362,568	1,289,774
Claims and benefits	100,079	104,752
Reinsurance ceded payable	87,513	80,899
Deferred income taxes	41,596	41,308
Long-term debt	22,209	22,643
Other liabilities	6,672	8,008
Future benefits - unit linked products	49,505	50,643
Total liabilities	1,670,142	1,598,027
Shareholders' equity	196,121	185,961
	1,866,263	1,783,988

Summary Consolidated Statement of Shareholders' Equity

Year ended December 31, 2012

(in thousands of Canadian dollars)

	2012	2011
Shareholders' equity, at beginning of year	185,961	192,027
Issuance of capital stock	2,487	-
Retrospective adjustment for deferred acquisition costs	-	(25,802)
Net income	15,990	9,514
Dividends	(4,110)	(3,704)
Unrealized gains on investment securities	(2,983)	13,339
Cumulative currency translation adjustment	(1,299)	742
Other	75	(155)
Shareholders' equity, at end of year	196,121	185,961

Independent Auditor's Report

on Summary Consolidated Financial Statements

To the Directors of Optimum Re Inc.

The accompanying summary consolidated financial statements, which comprise the summary consolidated balance sheet as at December 31, 2012, the summary consolidated statements of income and shareholder's equity for the year then ended, are derived from the audited consolidated financial statements of Optimum Re Inc. for the year ended December 31, 2012. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated May 8, 2013. Those consolidated financial statements, and the summary consolidated financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those consolidated financial statements.

The summary consolidated financial statements do not contain all the disclosures required by United States of America generally accepted accounting principles. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of Optimum Re Inc.

Management's responsibility for the summary consolidated financial statements

Management is responsible for the preparation of a summary of the audited consolidated financial statements on the basis described in the paragraph before the financial results titled "Presentation of the summary consolidated financial statements".

Auditor's responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "*Engagements to Report on Summary Financial Statements*".

Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of Optimum Re Inc. for the year ended December 31, 2012 are a fair summary of those consolidated financial statements on the basis described in the paragraph before the financial results titled "Presentation of the summary consolidated financial statements".

*Raymond Chabot Grant Thornton LLP*¹

Montreal