

## Section 1: 10-Q (10-Q)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2017

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-14667

**WMIH Corp.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation)

**800 FIFTH AVENUE, SUITE 4100  
SEATTLE, WASHINGTON**  
(Address of principal executive offices)

**91-1653725**  
(IRS Employer  
Identification No.)

**98104**  
(Zip Code)

**(206) 922-2957**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.  Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

**Common Stock \$0.00001 par value**  
(Class)

**206,380,800**  
(Outstanding at May 1, 2017)

## Forward-Looking Statements

Certain information included in this Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q that address activities, events, conditions or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business and these statements are not guarantees of future performance. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements may include the words “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “strategy,” “future,” “opportunity,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result” and similar expressions. Such forward-looking statements involve risks and uncertainties that may cause actual events, results or performance to differ materially from those indicated by such statements. Some of these risks are identified and discussed under Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016. These risk factors will be important to consider in determining future results and should be reviewed in their entirety. These forward-looking statements are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that the events, results or trends identified in these forward-looking statements will occur or be achieved. Forward-looking statements speak only as of the date they are made, and we do not undertake to update any forward-looking statement, except as required by law.

\* \* \* \* \*

As used in this Quarterly Report on Form 10-Q, unless the context requires otherwise, (i) the terms “Company,” “we,” “us,” or “our” refer to WMIH Corp. (formerly WMI Holdings Corp.) and its subsidiaries on a consolidated basis; (ii) “WMIH” refers only to WMIH Corp., without regard to its subsidiaries; (iii) “WMIHC” refers only to WMI Holdings Corp., without regard to its subsidiaries; (iv) “WMMRC” means WM Mortgage Reinsurance Company, Inc. (a wholly-owned subsidiary of WMIH); and (v) “WMIIC” means WMI Investment Corp. (a wholly-owned subsidiary of WMIH).

**WMIH CORP.**  
**FORM 10-Q**  
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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Condensed Consolidated Financial Statements.**

**WMIH CORP. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
*(in thousands, except share data)*  
*(Unaudited)*

|  | March 31, 2017 | December 31, 2016<br><sup>(1)</sup> |
|--|----------------|-------------------------------------|
| <b>ASSETS:</b>   |                |                                     |
| Investments held in trust:   |                |                                     |
| Fixed-maturity securities  | \$ 27,158      | \$ 29,206                           |
| Cash equivalents held in trust   | 3,205          | 2,176                               |
| Total investments held in trust  | 30,363         | 31,382                              |
| Cash and cash equivalents  | 21,728         | 2,491                               |
| Fixed-maturity securities  | 22,122         | 47,625                              |
| Restricted cash  | 573,942        | 573,347                             |
| Derivative asset - embedded conversion feature   | 98,680         | 80,651                              |
| Accrued investment income  | 215            | 187                                 |
| Other assets   | 581            | 507                                 |
| Total assets   | \$ 747,631     | \$ 736,190                          |
| <b>LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY</b>  |                |                                     |
| Liabilities:   |                |                                     |
| Notes payable - principal  | \$ 18,423      | \$ 18,774                           |
| Notes payable - interest   | 200            | 203                                 |
| Losses and loss adjustment reserves  | 623            | 811                                 |
| Losses payable   | —              | 53                                  |
| Unearned premiums  | 45             | 270                                 |
| Accrued ceding commissions   | 16             | 22                                  |
| Loss contract reserve  | 4,729          | 5,645                               |
| Other liabilities  | 13,817         | 14,063                              |
| Total liabilities  | 37,853         | 39,841                              |
| Commitments and contingencies  |                |                                     |
| Redeemable convertible series B preferred stock, \$0.00001 par value; 600,000 shares issued and outstanding as of March 31, 2017 and December 31, 2016; aggregate liquidation preference of \$600,000,000 as of March 31, 2017 and December 31, 2016 | 502,213        | 502,213                             |
| Stockholders' equity:  |                |                                     |
| Convertible series A preferred stock, \$0.00001 par value; 1,000,000 shares issued and outstanding as of March 31, 2017 and December 31, 2016; aggregate liquidation preference of \$10 as of March 31, 2017 and December 31, 2016                   | —              | —                                   |
| Common stock, \$0.00001 par value; 3,500,000,000 authorized; 206,380,800 shares issued and outstanding as of March 31, 2017 and December 31, 2016  | 2              | 2                                   |
| Additional paid-in capital   | 108,555        | 108,415                             |
| Accumulated earnings   | 99,008         | 85,719                              |
| Total stockholders' equity   | 207,565        | 194,136                             |
| Total liabilities, redeemable convertible preferred stock and stockholders' equity   | \$ 747,631     | \$ 736,190                          |

*The accompanying notes are an integral part of the condensed consolidated financial statements.*

<sup>(1)</sup> *Balances derived from audited financial statements as of December 31, 2016.*

**WMIH CORP. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(in thousands, except per share amounts and share data)*  
*(Unaudited)*

|   | Three months ended<br>March 31, 2017 | Three months ended<br>March 31, 2016 |
|---|--------------------------------------|--------------------------------------|
| <b>Revenues:</b>  |                                      |                                      |
| Premiums earned   | \$ 430                               | \$ 849                               |
| Net investment income   | 1,180                                | 651                                  |
| Total revenues  | <u>1,610</u>                         | <u>1,500</u>                         |
| <b>Operating expenses:</b>  |                                      |                                      |
| Losses and loss adjustment expense  | 94                                   | 387                                  |
| Ceding commission expense   | 50                                   | 78                                   |
| General and administrative expense  | 2,012                                | 2,029                                |
| Loss contract reserve change  | (916)                                | (1,362)                              |
| Interest expense  | 610                                  | 693                                  |
| Total operating expense   | <u>1,850</u>                         | <u>1,825</u>                         |
| Net operating (loss)  | <u>(240)</u>                         | <u>(325)</u>                         |
| <b>Other (income):</b>  |                                      |                                      |
| Unrealized (gain) on change in fair value of derivative embedded conversion feature | (18,029)                             | (55,875)                             |
| Total other (income)  | <u>(18,029)</u>                      | <u>(55,875)</u>                      |
| Income before income taxes  | 17,789                               | 55,550                               |
| Income tax expense (benefit)  | —                                    | —                                    |
| Net income  | 17,789                               | 55,550                               |
| Redeemable convertible series B preferred stock dividends                           | (4,500)                              | (4,500)                              |
| Net income attributable to common and participating stockholders                    | <u>\$ 13,289</u>                     | <u>\$ 51,050</u>                     |
| Basic net income per share attributable to common stockholders (Note 12)            | \$ 0.02                              | \$ 0.11                              |
| Shares used in computing basic net income per share                                 | 202,423,969                          | 202,058,377                          |
| Diluted net income per share attributable to common stockholders (Note 12)          | \$ 0.02                              | \$ 0.10                              |
| Shares used in computing diluted net income per share                               | 213,623,959                          | 237,999,718                          |

*The accompanying notes are an integral part of the condensed consolidated financial statements.*

**WMIH CORP. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE**  
**PREFERRED STOCK AND STOCKHOLDERS' EQUITY**  
*(in thousands, except share amounts)*  
*(Unaudited)*

|  | Series B Redeemable Convertible Preferred Stock |                  | Series A Convertible Preferred Stock |             | Common Stock       |             | Additional paid-in capital | Accumulated earnings | Total stockholders' equity |
|--|---|------------------|--------------------------------------|-------------|--------------------|-------------|----------------------------|----------------------|----------------------------|
|  | Shares  | Amount           | Shares                               | Amount      | Shares             | Amount      |                            |                      |                            |
| Balance at January 1, 2016   | 600,000   | 502,213          | 1,000,000                            | —           | 206,168,035        | 2           | 107,757                    | (97,981)             | 9,778                      |
| Net income   | —   | —                | —                                    | —           | —                  | —           | —                          | 201,700              | 201,700                    |
| Redeemable convertible series B preferred stock dividends                | —   | —                | —                                    | —           | —                  | —           | —                          | (18,000)             | (18,000)                   |
| Issuance of common stock under restricted stock compensation arrangement | —   | —                | —                                    | —           | 212,765            | —           | —                          | —                    | —                          |
| Equity-based compensation  | —   | —                | —                                    | —           | —                  | —           | 658                        | —                    | 658                        |
| Balance at December 31, 2016   | 600,000   | 502,213          | 1,000,000                            | —           | 206,380,800        | 2           | 108,415                    | 85,719               | 194,136                    |
| Net income   | —   | —                | —                                    | —           | —                  | —           | —                          | 17,789               | 17,789                     |
| Redeemable convertible series B preferred stock dividends                | —   | —                | —                                    | —           | —                  | —           | —                          | (4,500)              | (4,500)                    |
| Equity-based compensation  | —   | —                | —                                    | —           | —                  | —           | 140                        | —                    | 140                        |
| Balance at March 31, 2017  | <u>600,000</u>                                  | <u>\$502,213</u> | <u>1,000,000</u>                     | <u>\$ —</u> | <u>206,380,800</u> | <u>\$ 2</u> | <u>\$ 108,555</u>          | <u>\$ 99,008</u>     | <u>\$ 207,565</u>          |

*The accompanying notes are an integral part of the condensed consolidated financial statements.*

**WMIH CORP. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(Unaudited)

|   | Three months ended<br>March 31, 2017 | Three months ended<br>March 31, 2016 |
|---|--------------------------------------|--------------------------------------|
| <b>Cash flows from operating activities:</b>                                    |                                      |                                      |
| Net income  | \$ 17,789                            | \$ 55,550                            |
| Adjustments to reconcile net income to net cash (used in) operating activities: |                                      |                                      |
| Amortization of premium or discount on fixed maturity securities                | 31                                   | 122                                  |
| Net realized loss on sale of investments  | 2                                    | 4                                    |
| Unrealized gain on trading securities   | (21)                                 | (131)                                |
| Unrealized gain on derivative embedded conversion feature                       | (18,029)                             | (55,875)                             |
| Equity-based compensation   | 140                                  | 164                                  |
| Changes in assets and liabilities:  |                                      |                                      |
| Accrued investment income   | (28)                                 | (31)                                 |
| Other assets  | (74)                                 | (6)                                  |
| Cash equivalents held in trust  | (1,029)                              | 1,611                                |
| Restricted cash   | (595)                                | (299)                                |
| Losses and loss adjustment reserves   | (188)                                | (2,793)                              |
| Losses payable  | (53)                                 | (197)                                |
| Unearned premiums   | (225)                                | (251)                                |
| Accrued ceding commission expense   | (6)                                  | (5)                                  |
| Accrued interest on notes payable   | (3)                                  | (14)                                 |
| Loss contract reserve   | (916)                                | (1,362)                              |
| Other liabilities   | (246)                                | (367)                                |
| Total adjustments   | (21,240)                             | (59,430)                             |
| Net cash used in operating activities   | (3,451)                              | (3,880)                              |
| <b>Cash flows from investing activities:</b>                                    |                                      |                                      |
| Purchase of investments   | (19,974)                             | (9,989)                              |
| Proceeds from sales and maturities of investments                               | 47,513                               | 10,923                               |
| Net cash provided by investing activities                                       | 27,539                               | 934                                  |
| <b>Cash flows from financing activities:</b>                                    |                                      |                                      |
| Redeemable convertible series B preferred stock dividends                       | (4,500)                              | (4,500)                              |
| Notes payable – principal repayments  | (351)                                | (1,293)                              |
| Net cash used in financing activities   | (4,851)                              | (5,793)                              |
| Increase (decrease) in cash and cash equivalents                                | 19,237                               | (8,739)                              |
| Cash and cash equivalents, beginning of period                                  | 2,491                                | 9,924                                |
| Cash and cash equivalents, end of period  | \$ 21,728                            | \$ 1,185                             |
| <b>Supplementary disclosure of cash flow information:</b>                       |                                      |                                      |
| Cash paid during the period:  |                                      |                                      |
| Interest  | \$ 610                               | \$ 707                               |

*The accompanying notes are an integral part of the condensed consolidated financial statements.*



## WMIH CORP. AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Unless otherwise indicated, financial information, including dollar values stated in the text of the notes to financial statements, is expressed in thousands.

References herein, unless the context requires otherwise, to (i) the terms “Company,” “we,” “us” or “our” generally are intended to refer to WMIH Corp. (formerly WMI Holdings Corp.) and its subsidiaries on a consolidated basis; (ii) “WMIH” refers only to WMIH Corp. without regard to its subsidiaries; (iii) “WMIHC” refers only to WMI Holdings Corp. without regard to its subsidiaries; (iv) “WMMRC” means WM Mortgage Reinsurance Company, Inc. (a wholly-owned subsidiary of WMIH); and (v) “WMIIC” means WMI Investment Corp. (a wholly-owned subsidiary of WMIH).

#### **Note 1: The Company and its Subsidiaries**

##### WMIH Corp.

WMIH Corp. (“WMIH”) is a corporation duly organized and existing under the laws of the State of Delaware. On May 11, 2015, WMIH merged with its parent corporation, WMI Holdings Corp., a Washington corporation (“WMIHC”), with WMIH as the surviving corporation in the merger (the “Merger”). The Merger occurred as part of the reincorporation of WMIHC from the State of Washington to the State of Delaware effective May 11, 2015 (the “Reincorporation Date”).

WMIH, formerly known as WMIHC and Washington Mutual, Inc. (“WMI”), is the direct parent of WM Mortgage Reinsurance Company, Inc., a Hawaii corporation (“WMMRC”), and WMI Investment Corp., a Delaware corporation (“WMIIC”). Since the emergence from bankruptcy on March 19, 2012, our business activities consist of operating WMMRC’s legacy reinsurance business in runoff mode. In addition, we are actively seeking acquisition opportunities across a broad array of industries with a specific focus in the financial services industry, including targets with consumer finance, specialty finance, leasing and insurance operations.

As of March 31, 2017, WMIH was authorized to issue up to 3,500,000,000 shares of common stock, and up to 10,000,000 shares of preferred stock (in one or more series), in each case with a par value of \$0.00001 per share. As of March 31, 2017 and December 31, 2016, 206,380,800 shares of WMIH’s common stock were issued and outstanding. As of March 31, 2017 and December 31, 2016, 1,000,000 shares of WMIH’s Series A Convertible Preferred Stock (the “Series A Preferred Stock”) were issued and outstanding. As of March 31, 2017 and December 31, 2016, 600,000 shares of WMIH’s 3% Series B Convertible Preferred Stock (the “Series B Preferred Stock”) were issued and outstanding.

##### WMMRC

WMMRC is a wholly-owned subsidiary of WMIH. Prior to August 2008 (at which time WMMRC became a direct subsidiary of WMI), WMMRC was a wholly-owned subsidiary of FA Out-of-State Holdings, Inc., a second-tier subsidiary of Washington Mutual Bank (“WMB”) and third-tier subsidiary of WMI. WMMRC is a pure captive insurance company domiciled in the State of Hawaii. WMMRC was incorporated on February 25, 2000, and received a Certificate of Authority, dated March 2, 2000, from the Insurance Division of the State of Hawaii.

WMMRC was originally organized to reinsure private mortgage insurance risk for seven primary mortgage insurers then offering private mortgage insurance on loans originated or purchased by former subsidiaries of WMI. The seven primary mortgage insurers are United Guaranty Residential Insurance Company (“UGRIC”), Genworth Mortgage Insurance Corporation (“GMIC”), Mortgage Guaranty Insurance Corporation (“MGIC”), PMI Mortgage Insurance Company (“PMI”), Radian Guaranty Incorporated (“Radian”), Republic Mortgage Insurance Company (“RMIC”) and Triad Guaranty Insurance Company (“Triad”).

Due to the then deteriorating performance in the mortgage guarantee markets and the closure and receivership of WMB, the reinsurance agreements with each of the primary mortgage insurers were terminated or placed into runoff during 2008. The agreements with UGRIC and Triad were placed into runoff effective May 31, 2008. The agreements with all other primary mortgage insurers were placed into runoff effective September 26, 2008. As a result, effective September 26, 2008, WMMRC’s continuing operations consisted solely of the runoff of coverage associated with mortgages placed with the primary mortgage carriers prior to September 26, 2008. In runoff, an insurer generally writes no new business but continues to service its obligations under in force policies and otherwise continues as a licensed insurer. The reinsurance agreements with Triad, PMI and UGRIC were commuted on August 31, 2009, October 2, 2012 and April 3, 2014, respectively, and the related trust assets were distributed in accordance with the commutation agreements. As a result, WMMRC’s current continuing operations consist solely of the runoff of coverage associated with mortgages placed with the following four remaining carriers, GMIC, MGIC, Radian and RMIC.

## WMIIC

WMIIC does not currently have any operations and is fully eliminated upon consolidation.

### ***Note 2: Significant Accounting Policies***

#### *Basis of Presentation*

WMIH resumed timely filing of all periodic reports for a reporting company under the Exchange Act for all periods after emergence from bankruptcy on March 19, 2012 (the "Effective Date").

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for quarterly reporting. Certain information and footnote disclosures normally included in the financial statements and prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations; however, the Company believes that the disclosures included are appropriate. The condensed consolidated balance sheet as of December 31, 2016, included herein, was derived from the audited consolidated financial statements as of that date.

These interim unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the Company's audited consolidated financial statements and notes thereto filed in the Company's Annual Report on Form 10-K, filed with the SEC on March 14, 2017. Interim information presented in the unaudited condensed consolidated financial statements has been prepared by management. In the opinion of management, the financial statements include all adjustments necessary for a fair presentation and that all such adjustments are of a normal, recurring nature and necessary for the fair statement of the financial position, results of operations and cash flows for the periods presented in accordance with GAAP. The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the results to be expected for the full year ending December 31, 2017.

All significant intercompany transactions and balances have been eliminated in preparing the condensed consolidated financial statements.

#### *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Management has made significant estimates in certain areas, including valuing certain financial instruments, other assets and liabilities, the determination of the contingent risk liabilities, and in determining appropriate insurance reserves. Actual results could differ substantially from those estimates.

#### *Fair Value of Certain Financial Instruments*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally, for assets that are reported at fair value, the Company uses quoted market prices or valuation models to estimate their fair value. These models incorporate inputs such as forward yield curves, market volatilities and pricing spreads, utilizing market-based inputs where readily available. The degree of management judgment involved in estimating the fair value of a financial instrument or other asset is dependent upon the availability of quoted market prices or observable market inputs. For financial instruments that are actively traded in the marketplace or whose values are based on readily available market value data, little judgment is necessary when estimating the instrument's fair value. When observable market prices and data are not readily available, significant management judgment often is necessary to estimate fair value. In those cases, different assumptions could result in significant changes in valuation.

The Company classifies fixed-maturity investments as trading securities, which are recorded at fair value. As such, changes in unrealized gains and losses on investments held at the balance sheet date are recognized and reported as a component of net investment income on the condensed consolidated statement of operations. The Company believes fair value provides better matching of investment earnings to potential cash flow generated from the investment portfolio and reduces subjectivity related to evaluating other-than-temporary impairment on the Company's investment portfolio.

The carrying value of cash and cash equivalents, restricted cash, accounts payable and accrued liabilities approximate their respective fair values because of their short-term nature.

The carrying value of the loss contract reserve approximates its fair value and is based on valuation methodologies using discounted cash flows at interest rates which approximate the Company's weighted-average cost of capital.

The carrying value of the derivative embedded conversion feature of the Series B Preferred Stock is adjusted to its fair value as determined using Level 3 inputs described below under fair value measurement.

The carrying value of notes payable approximates fair value based on time to maturity, underlying collateral, and prevailing interest rates.

#### *Fair Value Measurement*

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in the Financial Accounting Standards Board Fair Value Measurements and Disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions.

The three levels of the hierarchy are as follows:

Level 1—Inputs to the valuation methodology are quoted prices for identical assets or liabilities traded in active markets.

Level 2—Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market corroborated inputs.

Level 3—Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the inputs that market participants would use.

Fair values are based on quoted prices in active markets when available (Level 1). The Company receives the quoted prices from a third party, nationally recognized pricing service. When quoted prices are not available, the Company utilizes a pricing service to determine an estimate of fair value. The fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). These valuation techniques involve some level of management estimation and judgment. The Company recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

#### *Fixed-Maturity Securities*

Fixed-maturity securities consist of U.S. Treasury securities, obligations of U.S. government sponsored agencies and domestic and foreign corporate debt securities. Fixed-maturity securities held in trust are for the benefit of the primary insurers as more fully described in Note 3: Insurance Activity. Investments in fixed-maturity securities are reported at their estimated fair values and are classified as trading securities in accordance with applicable accounting guidance. Realized gains and losses on the sale of fixed-maturity securities are determined using the specific identification method and are reported as a component of net investment income within the condensed consolidated statement of operations.

#### *Investments Held in Trust*

Investments held in trust consist of cash equivalents, which include highly liquid overnight money market instruments, and fixed-maturity securities which are held in trust for the benefit of the primary insurers, as more fully described in Note 3: Insurance Activity and Note 4: Investment Securities, and are subject to the restrictions on distribution of net assets of subsidiaries as described below.

#### *Third Party Restrictions on Distribution of Net Assets of Wholly-Owned Subsidiaries*

The net assets of WMMRC are subject to restrictions on distribution from multiple sources, including the primary insurers who have approval control of distributions from the trust, the Insurance Division of the State of Hawaii who has approval authority over distributions or intercompany advances, and additional restrictions as described in Note 7: Notes Payable.

### *Premium Recognition*

Premiums assumed are earned on a daily pro-rata basis over the underlying policy terms. Premiums assumed relating to the unexpired portion of policies in force at the balance sheet date are recorded as unearned premiums. Unearned premiums also include a reserve for post default premium reserves. Post default premium reserves occur when a loan is in a default position and the servicer continues to advance the premiums. If the loan ultimately goes to claim, the premiums advanced during the period of default are subject to recapture. The Company records a default premium reserve based on information provided by the underlying mortgage insurers when they provide information on the default premium reserve separately from other reserves. The change in the post default premium reserve is reflected as a reduction or increase, as the case may be, in premiums assumed. The Company has recorded unearned premiums totaling \$45 thousand and \$0.3 million as of March 31, 2017 and December 31, 2016, respectively.

The Company recognizes premium deficiencies when there is a probable loss on an insurance contract. Premium deficiencies are recognized if the sum of the present value of expected losses and loss adjustment expenses, unamortized deferred acquisition costs, and maintenance costs, excluding intercompany charges, exceed expected future unearned premiums and anticipated investment income. Premium deficiency reserves have been recorded totaling \$0.4 million and \$0.3 million as of March 31, 2017 and December 31, 2016, respectively. Due to the runoff nature of the WMMRC business, the intercompany maintenance costs were excluded from the computation of premium deficiencies during the current period and will also be excluded during future periods.

The Company's premium deficiency analysis was performed on a single book basis and includes all book years and reinsurance treaties aggregated together using assumptions based on the actuarial best estimates at the balance sheet date. The calculation for premium deficiency requires significant judgment and includes estimates of future expected premiums, claims, loss adjustment expenses and investment income as of the balance sheet date. To the extent ultimate losses are higher or premiums are lower than estimated, additional premium deficiency reserves may be required in the future.

### *Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand, amounts due from banks, U.S. Treasury bills and overnight investments. Except as described above in Investments Held in Trust, the Company considers all amounts that are invested in highly liquid overnight money market instruments to be cash equivalents. The Federal Deposit Insurance Corporation ("FDIC") insures amounts on deposit with each financial institution up to limits as prescribed by law. The Company may hold funds with financial institutions in excess of the FDIC insured amount, however, the Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

### *Restricted Cash*

Restricted cash includes (i) amounts held for the express purposes of paying principal, interest and related fees on the Runoff Notes (as defined in Note 7: Notes Payable) pursuant to the terms of the Indentures (as defined in Note 7: Notes Payable) and (ii) proceeds of the Series B Preferred Stock offering held in escrow.

### *Ceding Commission Expense*

The Company is required to pay a ceding commission to certain primary insurers pursuant to certain reinsurance agreements.

### *Losses and Loss Adjustment Reserves*

The losses and loss adjustment reserves include case basis estimates of reported losses and supplemental amounts for incurred but not reported losses ("IBNR"). A default is considered the incident (e.g., the failure to make timely payment of mortgage payments) that may give rise to a claim for mortgage insurance. In establishing the losses and loss adjustment reserve, the Company based its estimates primarily on the ceded loss and loss adjustment reserves as provided by the primary mortgage guaranty carriers.

WMMRC has recorded reserves at the ceded case reserves and IBNR levels established and reported by the primary mortgage guaranty carriers as of March 31, 2017 and December 31, 2016, respectively. Management believes that the recorded aggregate liability for unpaid losses and loss adjustment expenses at period end represents the Company's best estimate, based upon the available data, of the amount necessary to cover the current cost of losses. However, due to the inherent uncertainty arising from fluctuations in the persistency rate of mortgage insurance claims, the Company's size and lack of prior operating history, external factors such as future changes in regional or national economic conditions, judicial decisions, federal and state legislation related to mortgage restructuring and foreclosure restrictions, claims denials and coverage rescissions by primary carriers and other factors beyond the Company's control, it is not presently possible to determine whether actual loss experience will conform to the assumptions used in determining the estimated amounts for such liability at the balance sheet date. Accordingly, the ultimate liability could be significantly higher or lower, as the case may be, than the amount indicated in the financial statements and there can be no assurance that the reserve amounts recorded will be sufficient. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

#### *Loss Contract Reserve*

A loss contract reserve relating to contractual obligations of WMMRC was established at March 19, 2012 as a result of applying fresh start accounting and in compliance with Accounting Standards Codification ("ASC") 805-10-55-21 (b) (1) which defines a loss contract as "a contract in which the unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to be received under it." The value of this reserve is analyzed quarterly and is adjusted accordingly. The adjustment (if any) to the reserve produces an expense or contra-expense in the condensed consolidated statements of operations.

#### *Derivative Embedded Conversion Feature*

The Company has recorded a derivative embedded conversion feature of the Series B Preferred Stock which is adjusted to its fair value as determined using Level 3 inputs described above under Fair Value Measurement. The change in fair value of the derivative embedded conversion feature is calculated at each reporting date and recorded as other income or other expense on the condensed consolidated statement of operations.

#### *Other liabilities*

At March 31, 2017, the total balance of \$13.8 million of other liabilities is comprised of \$12.3 million of accrued fees relating to the Series B Preferred Stock offering, an accrual for professional fees and recurring business expenses currently payable of approximately \$0.8 million and \$0.7 million of accrued dividends relating to the Series B Preferred Stock. The accrued fees would be paid in the event of a Qualified Acquisition, as more fully described in Note 6: Service Agreements and Related Party Transactions.

#### *Comprehensive Income*

The Company has no comprehensive income other than the net income disclosed in the condensed consolidated statement of operations.

#### *Net Income Per Common Share*

In calculating earnings per share, the Company follows the two-class method, which distinguishes between the classes of securities based on the proportionate participation rights of each security type in the Company's undistributed income. The Series A Preferred Stock and the Series B Preferred Stock are treated as one class for purposes of applying the two-class method, because they have substantially equal rights and share equally on an as converted basis with respect to income available to WMIH common stockholders.

Basic net income per WMIH common share is computed by dividing net income attributable to WMIH's common stockholders by the weighted-average number of common shares outstanding for the period after subtracting the weighted-average of any unvested restricted shares outstanding, as these are subject to repurchase. Basic net income attributable to common stockholders is computed by deducting preferred dividends and the basic calculation of undistributed earnings attributable to participating securities from net income.

Diluted net income per WMIH common share is computed by dividing net income attributable to WMIH's common stockholders by the weighted-average number of common shares outstanding during the period after subtracting the weighted-average of any unvested restricted shares outstanding, as these are subject to repurchase, and adding any potentially dilutive WMIH common stock equivalents outstanding during the period. Diluted net income attributable to common stockholders is computed by deducting preferred dividends and the diluted calculation of undistributed earnings attributable to participating securities from net income.

If common stock equivalents exist, in periods where there is a net loss, diluted net loss per common share would be equal to or less than basic net loss per common share, since the effect of including any common stock equivalents would be antidilutive.

### *Equity-Based Compensation*

On May 22, 2012, WMIH's Board of Directors (the "Board" or "Board of Directors") approved the Company's 2012 Long-Term Incentive Plan (the "2012 Plan") so that awards of restricted stock could be made to its non-employee directors and to have a plan in place for awards of equity based compensation to executives and others in connection with the Company's operations and future strategic plans. A total of 2.0 million shares of WMIH's common stock were initially reserved for future issuance under the 2012 Plan, which became effective upon the Board approval on May 22, 2012. On February 10, 2014, the Board approved and adopted a First Amendment to the 2012 Plan, pursuant to which the number of shares of WMIH's common stock reserved and available for grants under the 2012 Plan was increased from 2.0 million shares to 3.0 million shares, and the terms of the 2012 Plan were modified to permit such an increase through action of the Board, except when stockholder approval is necessary to comply with any applicable law, regulation or rule of any stock exchange on which WMIH's shares are listed, quoted or traded. On February 25, 2015, the number of shares authorized and available for awards under the 2012 Plan was increased from 3.0 million to 12.0 million shares of WMIH's common stock, subject to approval of stockholders of WMIH. This approval was received at the Company's Annual Meeting of Stockholders on April 28, 2015. The 2012 Plan provides for the granting of restricted shares and other cash and share based awards. The value of restricted stock is generally determined using the fair market value determined to be the trading price at the close of business on the respective date the awards were granted.

### *Income Taxes*

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the carrying amounts and tax bases of assets and liabilities and losses carried forward and tax credits. Deferred tax assets and liabilities are measured using enacted tax rates and laws applicable to the years in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided to the extent that it is more likely than not that deferred tax assets will not be realized.

The Company recognizes the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Penalties and interest, of which there are none, would be reflected in income tax expense. Tax years are open to the extent the Company has net operating loss ("NOL") carry-forwards available to be utilized currently.

### *Dividend Policy*

WMIH has paid no dividends on its common stock on or after the Effective Date and currently has no plans to pay a dividend on its common stock.

WMIH has declared and paid \$4.5 million and \$18.0 million of dividends on its Series B Preferred Stock for the three months ended March 31, 2017 and the year ended December 31, 2016, respectively. Additionally, WMIH has accrued unpaid and undeclared dividends of \$0.7 million, based on the Series B Preferred Stock 3% interest rate, as of both March 31, 2017 and December 31, 2016.

### *New Accounting Pronouncements*

On March 30, 2017, the Financial Accounting Standards Board issued Accounting Standards update 2017-08 — Receivables – Nonrefundable Fees and Other Costs (*Subtopic 310-20*): Premium Amortization on Purchased Callable Debt Securities. The amendments shorten the amortization period for certain callable debt securities held at a premium. The Company has reviewed this standard and determined that it is not expected to have a material impact on the Company's consolidated financial position, results of operations or disclosure requirements.

### Note 3: Insurance Activity

The Company, through WMMRC, reinsures mortgage guaranty risks of mortgage loans originated by affiliates of the Company during the period from 1997 through 2008. WMMRC is (or was) a party to reinsurance agreements with UGRIC, GMIC, MGIC, PMI, Radian, RMIC and Triad. The agreements with UGRIC and Triad were placed into runoff effective May 31, 2008. The agreements with all other primary mortgage insurers were placed into runoff effective September 26, 2008. The reinsurance agreements with Triad, PMI and UGRIC were commuted on August 31, 2009, October 2, 2012 and April 3, 2014, respectively.

All agreements between WMMRC and the primary mortgage insurers are on an excess of loss basis, except for certain reinsurance treaties with GMIC and Radian during 2007 and 2008, which are reinsured on a 50% quota share basis. Pursuant to the excess of loss reinsurance treaties, WMMRC reinsures a second loss layer which ranges from 5% to 10% of the risk in force in excess of the primary mortgage insurer's first loss percentage which range from 4% to 5%. Each calendar year, or book year, is treated separately from other years when calculating losses. In return for accepting a portion of the risk, WMMRC receives, net of ceding commission, a percentage of the premium that ranges from 25% to 40%.

As security for the ceding insurers, WMMRC has entered into separate trust agreements with each of the primary mortgage insurance companies whereby a portion of the funds from premiums assumed are held in trust accounts for the benefit of each separate insurer. Pursuant to the terms of the reinsurance agreements, WMMRC is required to keep such assets in trust for a minimum of five years and is subject to claims for up to ten years from termination of obligations arising from the last year in which insurance business was written prior to runoff. Release of funds from the trust by WMMRC requires approval from the primary mortgage insurance companies.

Premiums assumed and earned are as follows for the periods ended March 31, 2017 and 2016, respectively:

|                             | Three months ended<br>March 31, 2017 | Three months ended<br>March 31, 2016 |
|-----------------------------|--------------------------------------|--------------------------------------|
| Premiums assumed            | \$ 205                               | \$ 598                               |
| Change in unearned premiums | 225                                  | 251                                  |
| Premiums earned             | <u>\$ 430</u>                        | <u>\$ 849</u>                        |

The components of the liability for losses and loss adjustment reserves are as follows as of March 31, 2017 and December 31, 2016, respectively:

|   | March 31, 2017 | December 31, 2016 |
|---|----------------|-------------------|
| Case-basis reserves                       | \$ 202         | \$ 553            |
| Premium deficiency reserves               | 421            | 258               |
| Total losses and loss adjustment reserves | <u>\$ 623</u>  | <u>\$ 811</u>     |

Losses and loss adjustment reserve activity are as follows for the three months ended March 31, 2017 and the year ended December 31, 2016, respectively:

|   | Three months ended<br>March 31, 2017 | Year ended<br>December 31, 2016 |
|---|--------------------------------------|---------------------------------|
| Balance at beginning of period            | \$ 811                               | \$ 5,063                        |
| Released - prior periods                  | 94                                   | (669)                           |
| Paid or terminated - prior periods        | (282)                                | (3,583)                         |
| Total losses and loss adjustment reserves | <u>\$ 623</u>                        | <u>\$ 811</u>                   |

The loss contract reserve balance is analyzed and adjusted quarterly. The balance in the reserve was \$4.7 million and \$5.6 million at March 31, 2017 and December 31, 2016, respectively. The value of this reserve decreased by \$0.9 million during the three months ended March 31, 2017 and decreased by \$1.3 million during the three months ended March 31, 2016. In periods during which a reduction in the loss contract reserve occurs, a corresponding decrease in expense is reflected in the condensed consolidated statement of operations for the respective period.

**Note 4: Investment Securities**

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of total fixed-maturity securities and total fixed-maturity securities held in trust at March 31, 2017, are as follows:

| Class of securities:                                 | March 31, 2017   |                        |                         |                      |
|--|------------------|------------------------|-------------------------|----------------------|
|  | Amortized Cost   | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| U.S. government treasury securities                  | \$ 249           | \$ —                   | \$ —                    | \$ 249               |
| Obligations of U.S. government sponsored enterprises | 34,469           | 1                      | (54)                    | 34,416               |
| Corporate debt securities                            | 9,851            | 7                      | (10)                    | 9,848                |
| Foreign corporate debt securities                    | 4,770            | 2                      | (5)                     | 4,767                |
| Total fixed-maturity securities                      | 49,339           | 10                     | (69)                    | 49,280               |
| Less total unrestricted fixed-maturity securities    | 22,128           | —                      | (6)                     | 22,122               |
| Total fixed-maturity securities held in trust        | <u>\$ 27,211</u> | <u>\$ 10</u>           | <u>\$ (63)</u>          | <u>\$ 27,158</u>     |

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of total fixed-maturity securities and total fixed-maturity securities held in trust at December 31, 2016, are as follows:

| Class of securities:                                 | December 31, 2016 |                        |                         |                      |
|--|-------------------|------------------------|-------------------------|----------------------|
|  | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| U.S. government treasury securities                  | \$ 249            | \$ —                   | \$ —                    | \$ 249               |
| Obligations of U.S. government sponsored enterprises | 59,450            | 1                      | (80)                    | 59,371               |
| Corporate debt securities                            | 11,415            | 9                      | (9)                     | 11,415               |
| Foreign corporate debt securities                    | 5,798             | 5                      | (7)                     | 5,796                |
| Total fixed-maturity securities                      | 76,912            | 15                     | (96)                    | 76,831               |
| Less total unrestricted fixed-maturity securities    | 47,635            | —                      | (10)                    | 47,625               |
| Total fixed-maturity securities held in trust        | <u>\$ 29,277</u>  | <u>\$ 15</u>           | <u>\$ (86)</u>          | <u>\$ 29,206</u>     |

Amortized cost and estimated fair value of fixed-maturity securities at March 31, 2017 by contractual maturity are as follows:

| Maturity in:                    | Amortized Cost   | Estimated Fair Value |
|---------------------------------|------------------|----------------------|
| 2017                            | \$ 30,994        | \$ 30,991            |
| 2018                            | 15,319           | 15,281               |
| 2019                            | 3,026            | 3,008                |
| Total fixed-maturity securities | <u>\$ 49,339</u> | <u>\$ 49,280</u>     |

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Net investment income for the three months ended March 31, 2017 and 2016, respectively, is summarized as follows:

|  | Three months ended<br>March 31, 2017 | Three months ended<br>March 31, 2016 |
|--|--------------------------------------|--------------------------------------|
| Investment income:   |                                      |                                      |
| Amortization of premium or discount on fixed-maturity securities | \$ (31)                              | \$ (122)                             |
| Investment income on fixed-maturity securities                   | 178                                  | 318                                  |
| Interest income on cash and cash equivalents                     | 1,014                                | 328                                  |
| Realized net loss from sale of investments                       | (2)                                  | (4)                                  |
| Unrealized gain on trading securities held at period end         | 21                                   | 131                                  |
| Net investment income  | <u>\$ 1,180</u>                      | <u>\$ 651</u>                        |



The following table shows how the Company's investments are categorized in accordance with fair value measurement, as of March 31, 2017:

|  | March 31, 2017   |                  |             |                  |
|--|------------------|------------------|-------------|------------------|
|  | Level 1          | Level 2          | Level 3     | Total            |
| <b>Class of securities:</b>                          |                  |                  |             |                  |
| U.S. government treasury securities                  | \$ 249           | \$ —             | \$ —        | \$ 249           |
| Obligations of U.S. government sponsored enterprises | 24,497           | 9,919            | —           | 34,416           |
| Corporate debt securities                            | 6,489            | 3,359            | —           | 9,848            |
| Foreign corporate debt securities                    | 4,767            | —                | —           | 4,767            |
| Total fixed-maturity securities                      | 36,002           | 13,278           | —           | 49,280           |
| Money market funds                                   | 24,437           | —                | —           | 24,437           |
| Total  | <u>\$ 60,439</u> | <u>\$ 13,278</u> | <u>\$ —</u> | <u>\$ 73,717</u> |

The following table shows how the Company's investments are categorized in accordance with fair value measurement, as of December 31, 2016:

|  | December 31, 2016 |                  |             |                  |
|--|-------------------|------------------|-------------|------------------|
|  | Level 1           | Level 2          | Level 3     | Total            |
| <b>Class of securities:</b>                          |                   |                  |             |                  |
| U.S. government treasury securities                  | \$ 249            | \$ —             | \$ —        | \$ 249           |
| Obligations of U.S. government sponsored enterprises | 47,489            | 11,882           | —           | 59,371           |
| Corporate debt securities                            | 7,033             | 4,382            | —           | 11,415           |
| Foreign corporate debt securities                    | 5,796             | —                | —           | 5,796            |
| Total fixed-maturity securities                      | 60,567            | 16,264           | —           | 76,831           |
| Money market funds                                   | 4,548             | —                | —           | 4,548            |
| Total  | <u>\$ 65,115</u>  | <u>\$ 16,264</u> | <u>\$ —</u> | <u>\$ 81,379</u> |

A review of the fair value hierarchy classifications of the Company's investments is conducted quarterly. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications are reported as transfers in or transfers out of the applicable Level at the end of the calendar quarter in which the reclassifications occur. During the three months ended March 31, 2017 and the year ended December 31, 2016, \$1.0 million and \$11.0 million, respectively, of investments were transferred from Level 2 to Level 1 as a result of improving market conditions for short-term and investment grade corporate securities.

|                                   | January 1, 2017 to<br>March 31, 2017    |   | January 1, 2016 to<br>December 31, 2016 |   |
|-----------------------------------|---|---|---|---|
|                                   | Transfers<br>from Level 1 to<br>Level 2 | Transfers<br>from Level 2<br>to Level 1 | Transfers<br>from Level 1 to<br>Level 2 | Transfers<br>from Level 2<br>to Level 1 |
| <b>Class of securities:</b>       |   |   |   |   |
| Corporate debt securities         | \$ —                                    | \$ 1,000                                | \$ —                                    | \$ 5,737                                |
| Foreign corporate debt securities | —                                       | —                                       | —                                       | 5,295                                   |
| Total transfers                   | <u>\$ —</u>                             | <u>\$ 1,000</u>                         | <u>\$ —</u>                             | <u>\$ 11,032</u>                        |

### ***Note 5: Income Taxes***

For the three months ended March 31, 2017, the Company recorded net income attributable to common and participating stockholders of approximately \$13.3 million. Despite recognizing book net income in the three months ended March 31, 2017, the company projects tax losses for the year ending December 31, 2017. Due to this projected tax loss and the existence of NOL carry forwards which have a 100% valuation allowance recorded to reduce them to zero, the Company has not recorded an income tax expense or benefit for the three months ended March 31, 2017. The Company recorded no income tax expense or benefit for the year ended December 31, 2016 due to tax losses in that period.

The Company files a consolidated federal income tax return. Pursuant to a tax sharing agreement, WMMRC's federal income tax liability is calculated on a separate return basis determined by applying 35% to taxable income, in accordance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code") that apply to property and casualty insurance companies. WMIH, as WMMRC's parent, pays federal income taxes on behalf of WMMRC and settles the federal income tax obligation on a current basis in accordance with the tax sharing agreement. WMMRC made no tax payments to WMIH during the three months ended March 31, 2017 or the year ended December 31, 2016 associated with the Company's tax liability from the preceding year.

Deferred federal income taxes arise from temporary differences between the valuation of assets and liabilities as determined for financial reporting purposes and income tax purposes. Temporary differences principally relate to discounting of loss reserves, accruals, derivative instruments, net operating losses and unrealized gains and losses on investments. As of March 31, 2017 and December 31, 2016, the Company recorded a valuation allowance equal to 100% of the net deferred federal income tax asset due to uncertainty regarding the Company's ability to realize these benefits in the future.

On March 19, 2012, WMIH emerged from bankruptcy. Prior to emergence, WMI abandoned the stock of WMB, thereby generating a worthless stock deduction of approximately \$8.37 billion which gave rise to a NOL for the year ended December 31, 2012. Under Section 382 of the Code ("Section 382"), and based on the Company's analysis, we believe that the Company experienced an "ownership change" (generally defined as a greater than 50% change (by value) in our equity ownership over a three-year period) on March 19, 2012, and our ability to use our pre-change of control NOLs and other pre-change tax attributes against our post-change income was limited. The Section 382 limitation is applied annually so as to limit the use of our pre-change NOLs to an amount that generally equals the value of our stock immediately before the ownership change multiplied by a designated federal long-term tax-exempt rate. Due to applicable limitations under Section 382 and a reduction of tax attributes due to cancellation of indebtedness, a portion of these NOLs were limited and will expire unused. We believe that the total available and utilizable NOL carry forward at December 31, 2016 was approximately \$6.0 billion. At March 31, 2017, there was no limitation on the use of these NOLs. These NOLs will begin to expire in 2031. The Company's ability to utilize the NOLs or realize any benefits related to the NOLs is subject to a number of risks. (See Part I-Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2016).

The Company accounts for uncertain tax positions in accordance with the income tax accounting guidance. The Company has analyzed filing positions in the federal and state jurisdictions where it is required to file tax returns, as well as the open tax years in these jurisdictions. Tax years 2011 to present are subject to examination by the Internal Revenue Service. The Company believes that its federal income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain federal income tax positions have been recorded. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of the provision for federal income taxes. The Company did not incur any federal income tax related interest income, interest expense or penalties for the three months ended March 31, 2017 or for the year ended December 31, 2016.

### ***Note 6: Service Agreements and Related Party Transactions***

WMMRC has engaged a Hawaii-based service provider, Marsh Management Services, Inc., to provide accounting and related management services for its operations. In exchange for performing these services, WMMRC pays such service provider a management fee.

WMIH entered into an Investment Management Agreement and an Administrative Services Agreement with WMMRC on March 19, 2012. Each of these agreements was approved by WMMRC's primary regulator, the Insurance Division of the State of Hawaii. Total amounts incurred under these agreements totaled \$0.3 million and \$0.3 million for the three months ended March 31, 2017 and 2016, respectively. The expense and related income eliminate on consolidation. These agreements are described below.

Under the terms of such Investment Management Agreement, WMIH receives from WMMRC a fee equal to the product of (x) the ending dollar amount of assets under management during the calendar month in question and (y) .002 divided by 12. WMIH is responsible for investing the funds of WMMRC based on applicable investment criteria and subject to rules and regulations to which WMMRC is subject.

Under the terms of such Administrative Services Agreement, WMIH receives from WMMRC a fee of \$110 thousand per month. WMIH is responsible for providing administrative services to support, among other things, supervision, governance, financial administration and reporting, risk management and claims management as may be necessary, together with such other general or specific administrative services that may be reasonably required or requested by WMMRC in the ordinary course of its business.

On March 22, 2012, WMIH and the WMI Liquidating Trust (the “Trust”) entered into a Transition Services Agreement (the “TSA”). Pursuant to the TSA, the Trust makes available certain services and employees. The TSA provides the Company with basic infrastructure and support services to facilitate the Company’s operations. The TSA, as amended, extends the term of the agreement through July 31, 2017, with automatic renewals thereafter for successive additional three-month terms, subject to non-renewal at the end of any additional term upon written notice by either party at least 30 days prior to the expiration of the additional term.

In connection with implementing the Company’s Seventh Amended Joint Plan of Affiliated Debtors Pursuant to Chapter 11 of the United States Bankruptcy Code (as modified, the “Plan”), certain holders of specified “Allowed Claims” had the right to elect to receive such holder’s “Pro Rata Share of the Common Stock Allotment.” Essentially, the Plan defines the “Pro Rata Share of the Common Stock Allotment” as a pro rata share of ten million (10,000,000) shares of WMIH’s common stock (i.e. five percent (5%)) issued and outstanding on the Effective Date. Holders exercising the foregoing election did so in lieu of receiving (i) 50% of such holder’s interest in and to certain litigation proceeds that could be realized by the Trust on account of certain claims and causes of action asserted by the Trust as contemplated by the Plan (“Litigation Proceeds”), and (ii) some or all of the Runoff Notes to which such holder may be entitled (if such holder elected to receive Runoff Notes in accordance with the terms of the Plan).

If a holder exercised the election described above and, as a result of such election, received shares of WMIH’s common stock, then such holder’s share of Runoff Notes to which the election was effective (i.e., One Dollar (\$1.00) of original principal amount of Runoff Notes for each share of WMIH’s common stock) were not issued. In addition, as a result of making the aforementioned election, such holders conveyed to WMIH, and WMIH retained an economic interest in Litigation Proceeds, if any, recovered by the Trust in connection with certain litigation brought by the Trust as contemplated by the Plan. Distributions, if any, to WMIH on account of the foregoing will be effected in accordance with the Plan and the court order confirming the Plan.

On or about October 14, 2014, the Trust filed a lawsuit in King County Superior Court in the State of Washington against 16 former directors and officers of WMI (the “D&O Litigation”). The Trust’s complaint alleged, among other things, that the defendants named therein breached their fiduciary duties to WMI and committed corporate waste and fraud by squandering WMI’s financial resources. In connection with the settlement of the D&O Litigation, during the year ended December 31, 2015, among the Trust, certain former directors and officers of WMI and certain insurance carriers that underwrote director and officer liability insurance policies for the benefit of WMI and its affiliates (including such former directors and officers), such insurance carriers agreed to pay the Trust \$37.0 million, of which \$3.0 million would be placed into a segregated reserve account (the “RSA Reserve”) to be administered by a third party pursuant to the terms of a Reserve Settlement Agreement (the “RSA”).

During the years ended December 31, 2016 and 2015, WMIH had other income of \$123 thousand and \$7.8 million, respectively, as a result of its receipt of net Litigation Proceeds related to the D&O Litigation. As of March 31, 2017, \$2.0 million remained in the RSA Reserve. Under the RSA, funds are released from the RSA Reserve to the Trust if and when certain designated conditions are satisfied. If and when these funds are released to the Trust, and to the extent WMIH is entitled to receive such funds in accordance with the Plan, it is anticipated the Trust will make payments to WMIH in an amount equal to WMIH’s share of Litigation Proceeds as provided under the Plan. Due to the contingent nature of future distributions from the RSA Reserve, there can be no assurance that WMIH will receive any distributions from the remaining balance in the RSA Reserve in the future. As of March 31, 2017, WMIH has not received any Litigation Proceeds, other than as described above.

In preparation for the offering of the Series B Preferred Stock, WMIH engaged KKR Capital Markets LLC (“KCM”), an affiliate of KKR & Co. L.P., to act as a joint book-running manager for the Series B Preferred Stock offering. KCM also acted as an initial purchaser of the Series B Preferred Stock. During the year ended December 31, 2015, as a result of satisfying a post-closing covenant to reincorporate in the State of Delaware within 180 days following the closing of the Series B Preferred Stock offering, we paid \$8.25 million to KCM. Upon consummation of a “Qualified Acquisition” (as such term is defined in Article VI of WMIH’s Amended and Restated Certificate of Incorporation (the “Certificate of Incorporation”)), we will pay KCM an additional fee (the “KCM Deferred Fee”) of \$8.25 million. We have recorded the KCM Deferred Fee in “other liabilities” on our condensed consolidated balance sheet and this amount was included in “accrued fees relating to Series B Preferred Stock issuance” on our condensed consolidated statements of cash flows.

### ***Note 7: Notes Payable***

On the Effective Date, WMIH issued \$110.0 million aggregate principal amount of its 13% Senior First Lien Notes due 2030 (the “First Lien Notes”) under an indenture, dated as of March 19, 2012 (the “First Lien Indenture”), between WMIH and Wilmington Trust, National Association, as Trustee. Additionally, WMIH issued \$20.0 million aggregate principal amount of its 13% Senior Second Lien Notes due 2030 (the “Second Lien Notes” and, together with the First Lien Notes, the “Runoff Notes”) under an indenture, dated as of March 19, 2012 (the “Second Lien Indenture” and, together with the First Lien Indenture, the “Indentures”), between WMIH and Law Debenture Trust Company of New York, as Trustee. On January 5, 2017, The Law Debenture Trust Company of New York notified WMIH that it had completed the transfer of substantially all of its corporate trust business to Delaware Trust Company, and that Delaware Trust Company had become the successor trustee under the Second Lien Indenture. The Runoff Notes are scheduled to mature on March 19, 2030 and pay interest quarterly.

The Runoff Notes are secured by, and have a specified priority in right of payment in, a securities or deposit account into which WMIH is required to deposit distributions it receives of Runoff Proceeds (as defined in the Indentures) (the “Collateral Account”).

WMIH will, and has agreed to cause WMMRC to, deposit all distributions, dividends or other receipts in respect of Runoff Proceeds Distributions (as defined in the Indentures) on the date paid to WMIH in the Collateral Account established in accordance with the terms of the Indentures. On any interest payment date, payments are made from the Collateral Account and from any other Runoff Proceeds Distributions in the priority set forth in the Indentures. The obligations created by the Runoff Notes are nonrecourse to WMIH except for certain actions for specific performance, and in certain limited circumstances as more fully described in Section 7.16 of the Indentures with respect to Runoff Proceeds Distributions in the Collateral Account or for failure to comply with certain specified covenants relating to (i) the deposit of Runoff Proceeds in the Collateral Account, (ii) payment of Runoff Proceeds in the Collateral Account in accordance with the order of priority established in the Indentures, (iii) failure to seek to obtain the appropriate regulatory approval to permit the dividend of Runoff Proceeds to WMIH and (iv) the failure to cause WMMRC to deposit Runoff Proceeds into a segregated account.

In connection with certain interest payments due and payable in respect of the First and Second Lien Notes, WMIH elected, consistent with the terms of the Indentures, to issue payment-in-kind notes (“PIK Notes” as defined in the Indentures) in lieu of making such interest payments in cash when no cash was available. The aggregate face amount of PIK Notes issued as of March 31, 2017 and December 31, 2016 totaled approximately \$19.4 million at the end of both periods. Second Lien Note principal outstanding totaled approximately \$18.4 million and \$18.8 million as of March 31, 2017 and December 31, 2016, respectively. Approximately \$0.4 million of Second Lien Note principal was paid during the three months ended March 31, 2017, and \$2.9 million of Second Lien Note principal was paid during the year ended December 31, 2016. Interest on Second Lien Notes paid in cash totaled approximately \$0.6 million and \$0.7 million during the three months ended March 31, 2017 and 2016, respectively.

As of March 31, 2017 and December 31, 2016, respectively, the Collateral Account contained less than \$1.0 thousand and \$0.4 million of cash received from WMMRC which was or will be ultimately used for future administrative expenses and interest and principal payments on the Runoff Notes.

### ***Note 8: Financing Arrangements***

As of March 31, 2017 and December 31, 2016, the Company had no debt financing arrangements in place other than the Second Lien Notes which are described in Note 7: Notes Payable.

### ***Note 9: Capital Stock and Derivative Instruments***

On the Effective Date, all shares of common and preferred equity securities previously issued by WMI were cancelled and extinguished. As of the Effective Date, and pursuant to WMIHC’s Amended and Restated Articles of Incorporation (the “Articles”), WMIHC was authorized to issue up to 500,000,000 shares of common stock and up to 5,000,000 shares of blank check preferred stock, in one or more series, each with a par value of \$0.00001 per share. 200,000,000 shares of common stock were issued by WMIHC pursuant to the Plan and in reliance on Section 1145 of the United States Bankruptcy Code on the Effective Date.

On the Reincorporation Date all shares of common and preferred equity securities previously issued by WMIHC automatically were converted into one share of the substantially similar common stock, Series A Preferred Stock or Series B Preferred Stock, as applicable, of WMIH. At the same time, each outstanding option, right or warrant to acquire shares of WMIH’s common stock was converted into an option, right or warrant to acquire an equal number of shares of WMIH’s common stock under the same terms and conditions as the original options, rights or warrants. As of the Reincorporation Date, and pursuant to the Certificate of Incorporation, WMIH is authorized to issue up to 3,500,000,000 shares of common stock and up to 10,000,000 shares of blank check preferred stock, in one or more series, each with a par value of \$0.00001 per share.

All of the terms of the agreements described below and attributed to WMIH are also attributable to WMIHC relative to the various agreements and instruments prior to the Reincorporation Date. The references to WMIH are based on the date this Form 10-Q has been filed. The references would have been to WMIHC prior to the Reincorporation Date.

On January 30, 2014, WMIH entered into (i) an investment agreement, dated as of January 30, 2014 (the “Investment Agreement”), with KKR Fund Holdings L.P. (“KKR Fund”) and, for limited purposes, KKR Management Holdings L.P., and (ii) an investor rights agreement, dated as of January 30, 2014 (the “Investor Rights Agreement”), with KKR Fund. On January 30, 2014, pursuant to the Investment Agreement, WMIH issued 1,000,000 shares of its Series A Preferred Stock having the terms, rights, obligations and preferences contained in the Articles of Amendment of WMIH dated January 30, 2014 for a purchase price equal to \$11.1 million and has issued to KKR Fund warrants to purchase, in the aggregate, 61.4 million shares of WMIH’s common stock, 30.7 million of which have an exercise price of \$1.32 per share and 30.7 million of which have an exercise price of \$1.43 per share (together, the “Warrants”).

The Series A Preferred Stock has rights substantially similar to those associated with WMIH’s common stock, with the exception of a liquidation preference, conversion rights and customary anti-dilution protections. The Series A Preferred Stock has a liquidation preference equal to the greater of (i) \$10.00 per one million shares of Series A Preferred Stock plus declared but unpaid dividends on such shares and (ii) the amount that the holder would be entitled to in a relevant transaction had the Series A Preferred Stock been converted to common stock of WMIH. The Series A Preferred Stock is convertible at a conversion price of \$1.10 per share into shares of common stock of WMIH either at the option of the holder or automatically upon transfer by KKR Fund to a non-affiliated party. As a result of the calculation of a beneficial conversion feature as required by “accounting standards codification topic 470, Debt” a preferred deemed dividend of \$9.5 million was recorded in conjunction with the issuance of the Series A Preferred Stock. This preferred deemed dividend resulted in an increase to our accumulated deficit, and an increase in additional paid in capital. Further, KKR Fund, as the holder of the Series A Preferred Stock and the Warrants, has received other rights pursuant to the Investor Rights Agreement as described below.

The Warrants have a five-year term from the date of issuance and are subject to customary structural adjustment provisions for stock splits, combinations, recapitalizations and other similar transactions. KKR Fund’s rights as a holder of the Series A Preferred Stock and the Warrants, and the rights of any subsequent holder that is an affiliate of KKR Fund (together with KKR Fund, the “Series A Holders”) are governed by the Investor Rights Agreement. Pursuant to the Investor Rights Agreement, for so long as the Series A Holders own 50% of the Series A Preferred Stock issued as of January 30, 2014 (or the underlying common stock of WMIH), the Series A Holders will have the right to appoint two of the nine directors that currently comprise the Board.

In accordance with the Investor Rights Agreement, except for the issuance of WMIH’s common stock in respect of the Warrants and the Series A Preferred Stock, KKR Fund and its affiliates shall not purchase or acquire any equity securities of WMIH or its subsidiaries without WMIH’s prior written consent, subject to certain exceptions.

The Investor Rights Agreement also provides the Series A Holders with registration rights, including three long form demand registration rights, unlimited short form demand registration rights and customary piggyback registration rights with respect to WMIH’s common stock (and WMIH’s common stock underlying the Series A Preferred Stock and the Warrants), subject to certain minimum thresholds, customary blackout periods and lockups of 180 days. On July 1, 2015, WMIH filed a shelf registration statement (the “Initial Registration Statement”) covering resales of Series B Preferred Stock and WMIH’s common stock issuable upon mandatory conversion of the Series B Preferred Stock. On November 23, 2015, WMIH amended the Initial Registration Statement to cover WMIH’s common stock issuable upon conversion of the Series A Preferred Stock and shares of WMIH’s common stock issuable upon exercise of warrants issued in connection with the issuance of our Series A Preferred Stock currently outstanding (as amended, the “Registration Statement”). The Registration Statement was declared effective under the Securities Act on November 25, 2015.

For as long as the Series A Holders beneficially own any shares of common stock of WMIH or Series A Preferred Stock or any of the Warrants, WMIH has agreed to provide customary Rule 144A information rights, to provide the Series A Holders with regular audited and unaudited financial statements and to allow the Series A Holders or their representatives to inspect WMIH’s books and records.

The foregoing description of (i) the Investor Rights Agreement is qualified in its entirety by reference to the Investor Rights Agreement, which was filed with the SEC as Exhibit 4.2 on Form 8-K on January 31, 2014, and incorporated by reference, (ii) the Warrants are qualified in their entirety by reference to the Form of Tranche A Warrant and Form of Tranche B Warrant, which were filed with the SEC as Exhibits 4.3 and 4.4, respectively, on Form 8-K on January 31, 2014, and incorporated by reference, (iii) the Series A Preferred Stock is qualified in its entirety by reference to the Articles of Amendment of WMIH dated January 30, 2014, which were filed with the SEC as Exhibit 4.5 on Form 8-K on January 31, 2014, and incorporated by reference, the Form of Series A Convertible Preferred Stock Certificate, which was filed with the SEC as Exhibit 4.6 on Form 8-K on January 31, 2014, and incorporated by reference, and the Certificate of Incorporation, which was filed with the SEC as Exhibit 3.1 on Form 8-K12G3 on May 13, 2015, and incorporated by reference, and (iv) the Investment Agreement is qualified in its entirety by reference to the Investment Agreement, which was filed with the SEC as Exhibit 10.1 on Form 8-K on January 31, 2014, and incorporated by reference.

On January 5, 2015, WMIH, in connection with an offering of 600,000 shares of its Series B Preferred Stock, filed with the Secretary of State of Washington Articles of Amendment of Articles of Incorporation (the “Articles of Amendment”) containing the Designation of Rights and Preferences of the 3% Series B Convertible Preferred Stock (the “Certificate of Designation”) creating the Series B Preferred Stock and designating the rights and preferences of the Series B Preferred Stock.

The foregoing descriptions of the Articles of Amendment and the Certificate of Designation are qualified in their entirety by the provisions of the Articles of Amendment and the Certificate of Designation, filed as Exhibits 3.1 and 4.1 to a Form 8-K on January 5, 2015, respectively, and incorporated by reference herein, and the Certificate of Incorporation, which was filed with the SEC as Exhibit 3.1 on Form 8-K12G3 on May 13, 2015, and incorporated by reference.

On January 5, 2015, in connection with the offering and pursuant to that certain Purchase Agreement, dated December 19, 2014 (the “Purchase Agreement”), by and among WMIH, Citigroup Global Markets Inc. (“Citi”) and KCM (KCM and Citi together, the “Initial Purchasers”), WMIH entered into a Registration Rights Agreement with the Initial Purchasers (the “Registration Rights Agreement”), pursuant to which WMIH has agreed that, subject to certain conditions, WMIH will use its reasonable efforts to (i) file a shelf registration statement covering resales of WMIH’s common stock issuable upon mandatory conversion of the Series B Preferred Stock no later than six months after January 5, 2015 (the “Issue Date”); (ii) file a shelf registration statement covering resales of the Series B Preferred Stock no later than one year after the Issue Date; and (iii) cause each of these shelf registration statements to be declared effective under the Securities Act. On July 1, 2015, WMIH filed the Initial Registration Statement covering resales of Series B Preferred Stock and shares of WMIH’s common stock issuable upon mandatory conversion of the Series B Preferred Stock. On November 23, 2015, WMIH amended the Initial Registration Statement to cover WMIH’s common stock issuable upon conversion of the Series A Preferred Stock and shares of WMIH’s common stock issuable upon exercise of warrants issued in connection with the issuance of our Series A Preferred Stock currently outstanding. The Registration Statement was declared effective under the Securities Act on November 25, 2015.

The foregoing description of the Registration Rights Agreement is qualified in its entirety by the provisions of the Registration Rights Agreement, filed on Form 8-K on January 5, 2015, as Exhibit 10.1 and incorporated by reference herein.

On January 5, 2015, in connection with the offering and pursuant to the Purchase Agreement, WMIH entered into an Escrow Agreement (the “Escrow Agreement”) with Citibank, N.A., as Escrow Agent (the “Escrow Agent”), pursuant to which WMIH caused to be deposited with the Escrow Agent the amount of \$598.5 million, representing the proceeds of the offering of Series B Preferred Stock less offering fees payable on the Issue Date but before payment of other offering fees and expenses (including fees contingent upon future events). These net proceeds have been, and will be, released from escrow from time to time to WMIH as instructed by WMIH in amounts necessary to (i) pay certain fees related to the offering that may become payable to the Initial Purchasers, (ii) finance WMIH’s efforts to explore and/or fund, in whole or in part, acquisitions, whether completed or not, including reasonable attorney fees and expenses related thereto, accounting expenses, due diligence and financial advisor fees and expenses, (iii) pay certain amounts that may become payable to the holders of the Series B Preferred Stock upon the occurrence of certain put events, (iv) pay certain amounts that would become payable to the holders of the Series B Preferred Stock upon a mandatory redemption of the Series B Preferred Stock, and (v) pay certain expenses related to the offering. The entire net proceeds will be released from escrow as instructed by WMIH upon consummation of a Qualified Acquisition (as defined in Article VI of the Certificate of Incorporation). If a Qualified Acquisition is not consummated by January 5, 2018, and no Acquisitions (as defined in Article VI of the Certificate of Incorporation) have been consummated such that all of the Series B Preferred Stock remains outstanding and has not been converted to WMIH’s common stock, the outstanding Series B Preferred Stock becomes redeemable. The aggregate redemption costs, assuming all 600,000 shares remain outstanding, of all of the Series B Preferred Stock is \$600.0 million, plus accrued and unpaid dividends, if any, whether or not declared. As of March 31, 2017 and December 31, 2016, the balance remaining in the escrow account totaled approximately \$573.9 million and \$572.9 million, respectively. The foregoing description of the Escrow Agreement is qualified in its entirety by the provisions of the Escrow Agreement, filed on Form 8-K on January 5, 2015, as Exhibit 10.2 and incorporated by reference herein.

The Series B Preferred Stock are hybrid financial instruments that blend characteristics of both equity and debt securities. The terms of the Series B Preferred Stock provide for either redemption of the principal and interest for cash at maturity or in the event of certain predetermined circumstances (“Forward Component”) or mandatory conversion into WMIH’s common stock (“Embedded Conversion Feature” or “ECF”). The Series B Preferred Stock also embody contingent equity-linked share price protections on the ECF in the form of a variable conversion price based on a 20 trading day average of volume weighted-average price. Upon any conversion of Series B Preferred Stock in accordance with its terms, the Series B Preferred Stock shall convert based on the outstanding principal and accrued interest, subject to a floor of \$1.75 per share of WMIH’s common stock and a maximum of \$2.25 per share. As a result, the Company determined that the Series B Preferred Stock contain certain embedded derivative features. Management’s evaluation resulted in the conclusion that the compound derivative financial instrument required bifurcation and separately accounted for the embedded conversion feature option as a derivative. A derivative liability results primarily when the Company average stock price (as defined in the Certificate of Incorporation) exceeds the conversion price, including the ceiling conversion price of \$2.25, as defined by the Certificate of Incorporation. A derivative asset results primarily when the Company’s average stock price is less than the conversion price, including the floor price of \$1.75. The aggregate fair value of the embedded conversion feature was a liability of \$66.2 million on the date of issuance of the Series B Preferred Stock. At March 31, 2017, March 31, 2016 and December 31, 2016, the fair value of the embedded conversion feature was an asset of \$98.7 million, a liability of \$65.0 million and an asset of \$80.7 million, respectively. Any change in the fair value of the embedded conversion feature will constitute other income or expense, as the case may be, in the applicable reporting period. Upon conversion or redemption of the Series B Preferred Stock, any asset or liability related to the embedded conversion feature would be eliminated. During the year ended December 31, 2016, the fair value of the embedded conversion feature changed by \$201.5 million and this change is included as other income in the condensed consolidated statement of operations for the year ended December 31, 2016. During the three months ended March 31, 2017, the fair value of the derivative asset increased by \$18.0 million, and during the three months ended March 31, 2016, the fair value of the derivative liability decreased by \$55.9 million. The change in fair value is included as other income or expense, as the case may be, in the condensed consolidated statement of operations for the respective periods.

On June 1, 2016, WMIH issued restricted stock grants to members of the Board totaling \$0.5 million, of aggregate fair value. The restricted shares noted above vest over a three-year period.

On May 15, 2015, WMIH issued restricted stock grants to our Chief Executive Officer, William C. Gallagher, and our Chief Operating Officer, Thomas L. Fairfield, in conjunction with employment agreements totaling \$9.8 million of aggregate fair value (“the Exec Grants”) based on the \$2.76 trading price of WMIH shares at the close of business on the date issued. WMIH may be required to issue additional shares if the conversion price applicable to the Series B Preferred Stock is less than \$2.25 per share. The Exec Grants will vest in full and will be recognized as compensation expense upon the consummation of a Qualified Acquisition, subject to the executives continued employment with the Company until such time. The foregoing description of the restricted stock agreement does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Gallagher Restricted Stock Agreement and the Fairfield Restricted Stock Agreement (the “Executive Agreements”), which were filed as Exhibit 10.3 and Exhibit 10.5, respectively, of Form 8-K12G3 filed on May 13, 2015 and incorporated herein by reference. The fair market value of the Exec Grants as of March 31, 2017 approximates \$6.6 million as a result of the terms of the Executive Agreements which would result in additional share issuances if the value is below \$2.25 per share limited to a maximum of shares based on a minimum conversion price of \$1.75 per share. The stock price was \$1.45 per share at the close of the market on March 31, 2017 and if the Exec Grants had vested then the minimum conversion price of \$1.75 per share would have been utilized, therefore, a total of 1,015,874 additional shares (“Exec Additional Shares”) would have been required to be issued, 507,937 additional shares each to both Mr. Gallagher and Mr. Fairfield.

The unamortized value related to the unvested restricted share grants totals \$7.1 million and \$7.7 million at March 31, 2017 and December 31, 2016, respectively.

The unamortized value of \$7.1 million at March 31, 2017, if all are ultimately vested, would be amortized according to the following schedule. The fair value of the Exec Grants will vest and be recognized on the date of the consummation of a Qualified Acquisition. Additionally, any Exec Additional Shares required to be issued, would be issued and immediately vest on the date of the consummation of a Qualified Acquisition.

| Amortization Schedule<br>(in thousands)              | March 31, 2017 unamortized dollar value |
|--|---|
| 2nd quarter 2017                                     | \$ 84                                   |
| 3rd quarter 2017                                     | 84                                      |
| 4th quarter 2017                                     | 84                                      |
| 1st quarter 2018                                     | 77                                      |
| 2nd quarter 2018                                     | 45                                      |
| 3rd quarter 2018                                     | 44                                      |
| 4th quarter 2018                                     | 44                                      |
| 1st quarter 2019                                     | 38                                      |
| Unamortized fair-value - subject to vesting schedule | <u>500</u>                              |
| Unamortized fair-value - event dependent             | 6,629                                   |
| Total unamortized dollar value                       | <u>\$ 7,129</u>                         |

Equity-based compensation totaled \$0.1 million and \$0.2 million for the three months ended March 31, 2017 and March 31, 2016, respectively. The restricted stock awards were issued at the fair market value determined to be the trading price at the close of business on the respective date the awards were granted.

A summary of WMIH's restricted stock award activity for the three months ended March 31, 2017 and year ended December 31, 2016 is presented below:

|   | Number of restricted<br>stock awards<br>outstanding | Weighted-average<br>grant date fair value | Aggregate fair value<br>(in thousands) |
|---|---|---|--|
| Outstanding—January 1, 2016                               | 6,168,035   | 2.1230                                    | 13,095                                 |
| Restricted stock awards granted during 2016               | 212,765   | 2.3500                                    | 500                                    |
| Restricted stock awards released or forfeited during 2016 | —   | —   | —                                      |
| Outstanding—December 31, 2016                             | 6,380,800   | \$ 2.1306                                 | \$ 13,595                              |
| Restricted stock awards granted during 2017               | —   | —   | —                                      |
| Restricted stock awards released or forfeited during 2017 | —   | —   | —                                      |
| Outstanding—March 31, 2017                                | <u>6,380,800</u>                                    | <u>\$ 2.1306</u>                          | <u>\$ 13,595</u>                       |



WMIH has issued the total number of shares subject to the restricted stock grants, however, until vested they are subject to repurchase. Shares subject to repurchase totaled 3,761,496 on March 31, 2017 and 4,039,591 on December 31, 2016. The Exec Grants vest upon future events, and are not time specific, and for this reason we have used 1st quarter 2018 as the vesting date in the following table as this date corresponds with the Series B Preferred Stock potential redemption date. The shares subject to repurchase at March 31, 2017 will vest, assuming circumstances remain unchanged, according to the following schedule:

| Vesting schedule of shares subject to repurchase | March 31, 2017 unvested shares |
|--|--------------------------------|
| 2nd quarter 2017                                 | —                              |
| 3rd quarter 2017                                 | —                              |
| 4th quarter 2017                                 | —                              |
| 1st quarter 2018                                 | 3,690,576                      |
| 2nd quarter 2018                                 | —                              |
| 3rd quarter 2018                                 | —                              |
| 4th quarter 2018                                 | —                              |
| 1st quarter 2019                                 | 70,920                         |
| <b>Total unvested shares</b>                     | <b>3,761,496</b>               |

Pursuant to a restricted stock agreement, WMIH has the right, but not the obligation, to repurchase any unvested (but issued) shares of common stock subject to the restricted stock agreement at \$0.0001 per share upon the termination of service in the case of a director, or in the case of the Exec Grants, on January 5, 2018 if the Series B Preferred Stock are redeemed or as a result of certain circumstances as defined by the terms of the Exec Grants.

A summary of the Company's restricted shares issued and subject to repurchase as of March 31, 2017 and December 31, 2016 is presented below:

| Vesting schedule of shares subject to repurchase | Unvested shares  |
|--|------------------|
| Shares subject to repurchase—January 1, 2016     | 4,197,396        |
| Shares issued subject to vesting during 2016     | 212,765          |
| Unvested shares repurchased during 2016          | —                |
| Shares vested during 2016                        | (370,570)        |
| Shares subject to repurchase—December 31, 2016   | <u>4,039,591</u> |
| Shares issued subject to vesting during 2017     | —                |
| Unvested shares repurchased during 2017          | —                |
| Shares vested during 2017                        | (278,095)        |
| Shares subject to repurchase—March 31, 2017      | <u>3,761,496</u> |

On June 1, 2016, WMIH issued 212,765 restricted stock grants to members of the Board totaling \$0.5 million of aggregate fair value. The share price was determined based on the closing sales price of \$2.35 on the date of the award.

As a condition of voluntarily tendering his resignation from the Board and WMIH accepting the resignation of Eugene Davis as our Chairman of the Board, all restricted shares held by Mr. Davis issued but unvested on the effective date of his resignation, June 1, 2017, will be immediately vested. A total of 41,188 shares, which otherwise would have vested over a three-year period from their issuance date, will therefore be vested early ("Early Vesting"). Of the Early Vesting shares, all were outstanding as of March 31, 2017. This Early Vesting will not cause an incremental increase in costs, however, the related unearned compensation totaling \$83 thousand will be recorded as compensation and a corresponding increase in additional paid in capital during the period ending June 30, 2017, which otherwise would have been recognized over a three-year period from the issuance date of the restricted shares.

As of both March 31, 2017 and December 31, 2016, 206,380,800 of WMIH's common stock were issued and outstanding. As of March 31, 2017 and December 31, 2016, 1,000,000 shares of the Series A Preferred Stock were issued and outstanding. As of March 31, 2017 and December 31, 2016, 600,000 shares of the Series B Preferred Stock were issued and outstanding. As of March 31, 2017 and December 31, 2016, 61,400,000 warrants to purchase WMIH's common stock were issued and outstanding.

See Note 12: Net Income Per Common Share for further information on shares used for EPS calculations.

### **Note 10: Pending Litigation**

As of March 31, 2017, the Company was not a party to, or aware of, any pending legal proceedings or investigations requiring disclosure at this time.

### **Note 11: Restriction on Distribution of Net Assets from Subsidiary**

WMMRC has net assets totaling \$32.8 million and \$33.8 million as of March 31, 2017 and December 31, 2016, respectively. These net assets are not immediately available for distribution to WMIH due to restrictions imposed by trust agreements, and the requirement that the Insurance Division of the State of Hawaii must approve dividends from WMMRC. Distributions from WMMRC to WMIH are further restricted by the terms of the Runoff Notes and Indentures described in Note 7: Notes Payable.

### **Note 12: Net Income Per Common Share**

In calculating earnings per share, the Company follows the two-class method, which distinguishes between the classes of securities based on the proportionate participation rights of each security type in the Company's undistributed income. The Series A Preferred Stock and the Series B Preferred Stock are treated as one class for purposes of applying the two-class method, because they have substantially equal rights and share equally on an as converted basis with respect to income available to WMIH common stockholders.

Basic net income per WMIH share attributable to common stockholders is computed by dividing net income attributable to WMIH's common stockholders by the weighted-average number of common shares outstanding for the period after subtracting the weighted-average of any unvested restricted shares outstanding, as these shares are subject to repurchase. Basic net income attributable to common stockholders is computed by deducting preferred dividends and the basic calculation of undistributed earnings attributable to participating securities from net income.

Diluted net income per WMIH share is computed by dividing net income attributable to WMIH's common stockholders for the period by the weighted-average number of common shares outstanding after subtracting the weighted-average of any incremental unvested restricted shares outstanding and adding any potentially dilutive common equivalent shares outstanding during the period, if dilutive. Potentially dilutive common equivalent shares are comprised of the incremental common shares issuable upon the exercise of warrants for WMIH's common stock and the potential conversion of preferred shares to common shares and the dilutive effect of unvested restricted stock. Diluted net income attributable to common stockholders is computed by deducting preferred dividends and the diluted calculation of undistributed earnings attributable to participating securities from net income.

The dilutive effect of outstanding warrants and restricted stock subject to repurchase is reflected in diluted earnings per share by application of the treasury stock method. There would be no dilutive effects from any equity instruments for periods presented reflecting a net loss, therefore diluted net loss per share would be the same as basic net loss for periods that reflect a net loss attributable to common stockholders. Certain unvested restricted shares and convertible preferred stock are excluded from the calculation of diluted earnings per share until the non-market based contingency occurs.

The following table presents the calculation of basic net income per share for periods presented:

(in thousands, except per share data):

|  | Three months ended<br>March 31, 2017 | Three months ended<br>March 31, 2016 |
|--|--------------------------------------|--------------------------------------|
| <b>Numerator for basic net income per share:</b>   |                                      |                                      |
| Net income   | \$ 17,789                            | \$ 55,550                            |
| Less: Series B preferred stock dividends   | (4,500)                              | (4,500)                              |
| Less: undistributed earnings attributed to participating securities<br>(basic calculation) | (8,445)                              | (29,506)                             |
| Basic net income attributable to common stockholders                                       | <u>\$ 4,844</u>                      | <u>\$ 21,544</u>                     |
| <b>Denominator for basic net income per share:</b>   |                                      |                                      |
| Weighted-average shares outstanding  | 206,380,800                          | 206,168,035                          |
| Weighted-average unvested restricted shares outstanding                                    | (3,956,831)                          | (4,109,658)                          |
| Denominator for basic net income per share   | <u>202,423,969</u>                   | <u>202,058,377</u>                   |
| Basic net income per share attributable to common stockholders                             | \$ 0.02                              | \$ 0.11                              |

The following table presents the calculation of diluted net income per share for periods presented:

(in thousands, except per share data):

|  | Three months ended<br>March 31, 2017 | Three months ended<br>March 31, 2016 |
|--|--------------------------------------|--------------------------------------|
| Numerator for diluted net income per share:  |                                      |                                      |
| Net income   | \$ 17,789                            | \$ 55,550                            |
| Less: Series B preferred stock dividends   | (4,500)                              | (4,500)                              |
| Less: undistributed earnings attributed to participating securities<br>(diluted calculation) | (8,428)                              | (27,993)                             |
| Diluted net income attributable to common stockholders                                       | <u>\$ 4,861</u>                      | <u>\$ 23,057</u>                     |
| Denominator for diluted net income per share:  |                                      |                                      |
| Weighted-average shares outstanding  | 206,380,800                          | 206,168,035                          |
| Weighted-average unvested restricted shares outstanding                                      | (3,956,831)                          | (4,109,658)                          |
| Effect of dilutive potential shares  | <u>11,199,990</u>                    | <u>35,941,341</u>                    |
| Denominator for diluted net income per share   | <u>213,623,959</u>                   | <u>237,999,718</u>                   |
| Diluted net income per share attributable to common stockholders                             | <u>\$ 0.02</u>                       | <u>\$ 0.10</u>                       |

The following table summarizes shares subject to exercise or vesting conditions as more fully described in Note 9: Capital Stock and Derivative Instruments. These shares could potentially be dilutive in future periods if we realize net income attributable to common and participating stockholders and the contingent or unvested stock is converted to WMIH common stock. The cash payment of \$84.4 million, which would be received upon exercise of the warrants, has not been considered as an offset to the dilutive shares under warrants outstanding below.

|  | Potential dilution to common stock |                    |
|--|------------------------------------|--------------------|
|  | Minimum shares                     | Maximum shares     |
| Restricted shares subject to vesting   | 3,761,496                          | 3,761,496          |
| Series A Preferred Stock   | 10,065,629                         | 10,065,629         |
| Warrants outstanding   | 61,400,000                         | 61,400,000         |
| Dilutive shares to be issued if Series B Preferred Stock conversion is below<br>\$2.25 | —                                  | 1,015,872          |
| Series B Preferred Stock   | <u>266,666,667</u>                 | <u>342,857,143</u> |
| Potential dilutive shares if converted to common stock                                 | <u>341,893,792</u>                 | <u>419,100,140</u> |

**Note 13: Fair Value Measurement**

We use a fair-value approach to value certain liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. We use a fair value hierarchy, which distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

- Level 1 — Inputs to the valuation methodology are quoted prices for identical assets or liabilities traded in active markets;
- Level 2 — Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market corroborated inputs; and
- Level 3 — Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the inputs that market participants would use.

Determining which category an asset or liability falls within the fair value accounting guidance hierarchy requires significant judgment. We evaluate our hierarchy disclosures each quarter. Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

The financial instrument that is measured at fair value on a recurring basis is summarized as follows as of March 31, 2017:

| (in thousands)                         |         |         |           |                |
|--|---------|---------|-----------|----------------|
| Assets                                 | Level 1 | Level 2 | Level 3   | March 31, 2017 |
| Derivative embedded conversion feature | \$ —    | \$ —    | \$ 98,680 | \$ 98,680      |

The financial instrument that is measured at fair value on a recurring basis is summarized as follows as of December 31, 2016:

| (in thousands)                         |         |         |           |                   |
|--|---------|---------|-----------|-------------------|
| Assets                                 | Level 1 | Level 2 | Level 3   | December 31, 2016 |
| Derivative embedded conversion feature | \$ —    | \$ —    | \$ 80,651 | \$ 80,651         |

The following table shows the change in Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2016 and the three months ended March 31, 2017:

|   | Derivative asset (liability)<br>embedded conversion feature<br>(in thousands) |
|---|---|
| Balance, January 1, 2016                | \$ (120,848)  |
| Issuance during 2016                    | —   |
| Unrealized gain on change in fair value | 201,499   |
| Balance, December 31, 2016              | 80,651  |
| Issuance during 2017                    | —   |
| Unrealized gain on change in fair value | 18,029  |
| Balance, March 31, 2017                 | \$ 98,680   |

On January 5, 2015, WMIH raised \$600.0 million of capital (less transaction costs) through the issuance of 600,000 shares of Series B Preferred Stock. The shares carry a liquidation preference of \$1,000 per share, equal to their initial purchase price. In addition, they have a mandatory redemption right three years from issuance date at a price equal to the initial investment amount, plus accrued dividends at 3% per annum.

The purpose of the capital raise was principally to pursue strategic acquisitions of operating companies that fit the Company's desired business model. Management intends to pursue such an acquisition or acquisitions with the proceeds of the capital raise, and should it occur during the three-year term of the Series B Preferred Stock, there is a mandatory conversion of these shares into common stock of WMIH. Mandatory conversion occurs at a price that is the lesser of:

- i) \$2.25 per share of WMIH common stock; and
- ii) the arithmetic average of daily volume weighted-average prices of WMIH's common stock during the 20 trading day period ending on the trading day immediately preceding the public announcement by WMIH of its entry into a definitive agreement for such acquisition, subject to a floor of \$1.75 per share of WMIH common stock.

We use a binomial lattice option pricing model to value the embedded conversion feature that is subject to fair value liability accounting. The key inputs which we utilize in the determination of the fair value as of the reporting date include our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, expected stock price volatility over the term of the convertible preferred securities, which we estimated at 50% as of March 31, 2017 and 40% as of December 31, 2016, and risk-free interest rate, which was estimated at 0.85% as of March 31, 2017 and 0.6% as of December 31, 2016. In addition, the model requires the input of an expected probability of occurrence, which we estimated at 90% for March 31, 2017 and 90% as of December 31, 2016, and the timing of a Qualified Acquisition which initiates the mandatory conversion, which we estimated at 6 months from both March 31, 2017 and 6 months from December 31, 2016. The fair value of the embedded conversion feature is revalued each balance sheet date utilizing our model computations with the decrease or increase in fair value being reported in the condensed consolidated statement of operations as unrealized gain or (loss) on change in fair value of derivative - embedded conversion feature, respectively. The primary factors affecting the fair value of the embedded conversion feature are the probability of occurrence and timing of a Qualified Acquisition, our stock price and our stock price volatility. In addition, the use of a model requires the input of subjective assumptions, and changes to these assumptions could provide differing results.

Our reported net income attributable to common and participating stockholders ("First Quarter Net Income") was approximately \$13.3 million for the three months ended March 31, 2017. The change to our net income attributable to common and participating stockholders resulting from the calculation of the fair value of the embedded conversion feature is analyzed at the end of each reporting period to assess the impact of a 10% change to the various inputs and the result of each change to First Quarter Net Income is highlighted in the following scenarios. If the closing stock price of our common stock had been 10% lower, our First Quarter Net Income would have been approximately \$23.8 million higher. If the closing stock price of our common stock had been 10% higher, our First Quarter Net Income would have been approximately \$26.7 million lower. If our volatility assumption on March 31, 2017 had been 10% lower, our First Quarter Net Income would have been approximately \$1.7 million lower and if our volatility assumption had been 10% higher, our First Quarter Net Income would have been approximately \$1.8 million lower. If our probability of a transaction occurring assumption on March 31, 2017 had been 10% lower, our First Quarter Net Income would have been approximately \$11.0 million lower and if our probability of a transaction occurring assumption had been 10% higher, our First Quarter Net Income would have been approximately \$11.0 million higher.

***Note 14: Subsequent Events***

On May 2, 2017, the Insurance Division of the State of Hawaii approved a distribution of approximately \$0.8 million from WMMRC to WMIH. This distribution was deposited in the Collateral Account on May 3, 2017, and will be ultimately used for future administrative expenses and interest and principal payments on the Runoff Notes.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion should be read in conjunction with our financial statements and the related notes, included in Item 1 of Part I of this Quarterly Report on Form 10-Q. The following is a discussion and analysis of our results of operations for the three months ended March 31, 2017 and 2016 and financial condition as of March 31, 2017 and December 31, 2016 (dollars in thousands, except share and per share data and as otherwise indicated).

*References as used herein, unless the context requires otherwise, to (i) the “Company,” “we,” “us,” or “our” refer to WMIH Corp. (formerly WMI Holdings Corp.) and its subsidiaries on a consolidated basis; (ii) “WMIH” refers only to WMIH Corp., without regard to its subsidiaries; (iii) “WMIHC” refers only to WMI Holdings Corp., without regard to its subsidiaries; (iv) “WMMRC” refers to WM Mortgage Reinsurance Company, Inc. (a wholly-owned subsidiary of WMIH); and (v) “WMIIC” refers to WMI Investment Corp. (a wholly-owned subsidiary of WMIH).*

### **FORWARD-LOOKING STATEMENTS AND INFORMATION**

This quarterly report includes forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical fact included in this report that address activities, events, conditions or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business and these statements are not guarantees of future performance. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements may include the words “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “strategy,” “future,” “opportunity,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result” and similar expressions. Such forward-looking statements involve risks and uncertainties that may cause actual events, results or performance to differ materially from those indicated by such statements. These risks are identified and discussed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 under Risk Factors in Part I, Item 1A. These risk factors will be important to consider in determining future results and should be reviewed in their entirety. These forward-looking statements are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that the events, results or trends identified in these forward-looking statements will occur or be achieved. Forward-looking statements speak only as of the date they are made, and we do not undertake to update any forward-looking statement, except as required by law. Therefore, you should not rely on these statements being current as of any time other than the time at which this document was filed with the Securities and Exchange Commission.

### **OVERVIEW**

#### **Our Business Strategy and Operating Environment**

WMIH Corp. (“WMIH”) is a corporation duly organized and existing under the laws of the State of Delaware. On May 11, 2015, WMIH merged with its parent corporation, WMI Holdings Corp., a Washington corporation (“WMIHC”), with WMIH as the surviving corporation in the merger (the “Merger”). The Merger occurred as part of the reincorporation of WMIHC from the State of Washington to the State of Delaware effective May 11, 2015 (the “Reincorporation Date”).

WMIH, formerly known as WMIHC and Washington Mutual, Inc. (“WMI”), is the direct parent of WM Mortgage Reinsurance Company, Inc. (“WMMRC”) and WMI Investment Corp. (“WMIIC”) which has no assets or liabilities. Since emergence from bankruptcy on March 19, 2012 (the “Effective Date”), we have had limited operations other than WMMRC’s legacy reinsurance business, which is being operated in runoff mode. We continue to operate WMMRC’s business in runoff mode and our primary strategic objective is to consummate one or more acquisitions of an operating business, either through a merger, purchase, business combination or other form of acquisition, and grow our business.

Until such time as an acquisition is consummated, we intend to continue to seek, identify and evaluate acquisition opportunities of varying sizes across a broad array of industries for the purpose of facilitating an acquisition by WMIH of one or more operating businesses. Our management team meets regularly with the Corporate Strategy and Development Committee (the “CS&D Committee”) of our Board of Directors (the “Board of Directors”) to discuss and evaluate potential acquisition targets. During the three months ended March 31, 2017 and the year ended December 31, 2016, the CS&D Committee met formally and informally numerous times to assess various opportunities. During 2015, 2016 and 2017, we have focused primarily on acquisition targets in the financial services industry, including targets with consumer finance, commercial finance, specialty finance, leasing and insurance operations. We also may review potential targets in other industries, such as information technology, industrials, business services, healthcare and other sectors.

On January 5, 2015, WMIH announced that it had completed an offering (the “Series B Preferred Stock Financing”) of 600,000 shares of its 3% Series B Convertible Preferred Stock, par value \$0.00001, liquidation preference \$1,000 per share (the “Series B Preferred Stock”) in the amount of aggregate gross proceeds equal to \$600 million, pursuant to a Purchase Agreement (the “Purchase Agreement”) with Citigroup Global Markets Inc. (“Citi”) and KKR Capital Markets LLC (“KCM”), an affiliate of KKR Fund Holdings L.P. (“KKR Fund”) and KKR Management Holdings L.P. The net proceeds from the Series B Preferred Stock Financing in the amount of \$598.5 million were deposited into an escrow account and initially invested in United States government securities having a maturity of 180 days or less, in certain money market funds, or cash items. The net proceeds of the Series B Preferred Stock Financing have been, and will be, released from escrow to us from time to time in amounts needed to finance our efforts to explore and fund, in whole or in part, certain acquisitions, whether completed or not, including reasonable attorney fees and expenses, accounting expenses, due diligence and financial advisor fees and expenses. For further information on the Series B Preferred Stock Financing, see Note 9: Capital Stock and Derivative Instruments, to the condensed consolidated financial statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

WMIH will continue to evaluate acquisition opportunities and work with our strategic partner, an affiliate of KKR & CO. L.P. (together with its affiliates, “KKR”), to identify, consider and evaluate potential mergers, acquisitions, business combinations and other strategic opportunities. As of March 31, 2017, we had not consummated an acquisition and we can provide no assurances that we will successfully consummate a transaction and, if so, on what terms.

In connection with our stated objective to consummate one or more acquisitions of an operating business, we may explore various financing alternatives to fund our external growth strategy, including further improving our capital structure, which may include increasing, reducing and/or refinancing debt, amending the terms of outstanding preferred stock, pursuing capital raising activities, such as the issuance of new preferred or common equity and/or a rights offering to our existing stockholders, launching an exchange offer, and pursuing other transactions involving our outstanding securities.

With respect to our current operations, the Company currently operates a single business through its subsidiary, WMMRC, whose sole activity is the reinsurance of mortgage insurance policies. WMMRC has been operated in runoff mode since September 26, 2008. Since that date, WMMRC has not underwritten any new policies (and by extension any new risk). WMMRC, through predecessor companies, began reinsuring risks in 1997 and continued reinsuring risks through September 25, 2008.

All of WMMRC’s reinsurance agreements are on an excess of loss basis, except for certain reinsurance treaties with Genworth Mortgage Insurance Corporation and Radian Guaranty Incorporated during 2007 and 2008, which are reinsured on a 50% quota share basis. Pursuant to the excess of loss reinsurance treaties, WMMRC reinsures a second loss layer which ranges from 5% to 10% of the risk in force in excess of the primary mortgage insurer’s first loss percentages which range from 4% to 5%. Each calendar year, or book year, is treated separately from other years when calculating losses. In return for accepting a portion of the risk, WMMRC receives, net of ceding commission, a percentage of the premium that ranges from 25% to 40%.

WMMRC commuted three reinsurance agreements, one each, in 2009, 2012 and 2014, respectively, and the related trust assets were distributed in accordance with the commutation agreements. We also may seek opportunities to commute one or more of WMMRC’s remaining reinsurance agreements, with a view toward accelerating the distribution of trust assets in excess of the amounts needed to pay claims.

Beginning in 2006, the U.S. housing market and related credit markets experienced a multi-year downturn. During that period, housing prices declined materially, credit guidelines tightened, delays in mortgage servicing and foreclosure activities occurred, and deterioration in the credit performance of mortgage loans occurred. In addition, the macro-economic environment during that period demonstrated limited economic growth, stubbornly high unemployment, and limited median wage gains. Beginning in 2012, home prices began to rise again. The current outlook for the housing market is optimistic with low interest rates, steady employment growth, increased household formation rates and less restrictive credit conditions. Nevertheless, WMMRC’s operating environment remains somewhat uncertain as much of its results over the next few years will be directly affected by the inventory of pending defaulted mortgages at its ceding companies arising primarily from mortgages originated in calendar years 2005 through 2008. However, its financial exposure to that environment has been steadily reduced as the remaining net aggregate risk exposure has decreased due to the runoff nature of its operations.

## **Our Financial Information**

The financial information in this Quarterly Report on Form 10-Q has been derived from our condensed consolidated financial statements.

## **Critical Accounting Policies**

Our condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (“GAAP”), which requires management to make estimates and assumptions that affect reported and disclosed amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. We believe that the critical accounting policies set forth in the accompanying condensed consolidated financial statements describe the more significant judgments and estimates used in the preparation of our condensed consolidated financial statements. These accounting policies pertain to premium revenues and risk transfer, valuation of investments, loss and loss adjustment expense reserves, our values under fresh start accounting, the resulting loss contract reserve and the valuation of the derivative instrument relating to the embedded conversion feature of the Series B Preferred Stock. If actual events differ significantly from the underlying judgments or estimates used by management in the application of these accounting policies, there could be a material effect on our results of operations and financial condition.

Recently issued accounting standards and their impact on the Company have been presented under “New Accounting Pronouncements” in Note 2: Significant Accounting Policies to the condensed consolidated financial statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

## ***Segments***

The Company manages its business on the basis of one operating segment, mortgage reinsurance, in accordance with GAAP. Within the mortgage reinsurance segment, our current risks arise solely from the reinsurance of mortgage insurance policies that were placed on certain residential mortgage loans prior to the bankruptcy of WMI. The majority of these policies were required by mortgage lenders as a stipulation to approve the mortgage loans. The mortgage insurance policies protect the beneficiaries of the policy from all or a portion of default-related losses.

## **Overview of Revenues and Expenses**

Because WMIH has no current significant operations of its own, its cash flow is derived almost entirely from earnings on its investment portfolio, and payments it receives from, and dividends paid by, WMMRC. All dividends received by WMIH from WMMRC that constitute Runoff Proceeds must be distributed to holders of WMIH’s Second Lien Notes in accordance with the terms of the Second Lien Indenture as described below in this Item 2 under “Notes Payable.”

WMMRC’s revenues consist primarily of the following:

- net premiums earned on reinsurance contracts;
- positive changes to (and corresponding releases from) loss reserves; and
- net investment income and net gains (losses) on WMMRC’s investment portfolio.

WMMRC’s expenses consist primarily of the following:

- underwriting expenses; and
- general and administrative expenses.



## Results of Operations for the three months ended March 31, 2017 and March 31, 2016

For the three months ended March 31, 2017, we reported a net operating loss of \$0.2 million. This compares to a net operating loss of \$0.3 million for the three months ended March 31, 2016. The components that gave rise to net operating losses for the three months ended March 31, 2017 and the three months ended March 31, 2016 are summarized in the table below under the Net (Loss) Income section. The most significant variances between the comparative three month periods ended March 31, 2017 and March 31, 2016 include (i) an increase in revenue of approximately \$0.1 million, (ii) a reduction in interest expense of \$0.1 million, (iii) a net decrease in underwriting expense of \$0.4 million and (iv) a reduction of the loss contract reserve of \$0.9 million during the three months ended March 31, 2017 versus a reduction of \$1.3 million during the same period in 2016.

For the three months ended March 31, 2017, we reported net income attributable to common and participating stockholders of \$13.3 million as compared to net income attributable to common and participating stockholders of \$51.1 million for the three months ended March 31, 2016. This \$37.8 million decline in net income attributable to common and participating stockholders, when comparing the three months ended March 31, 2017 to the three months ended March 31, 2016, is primarily the result of the change in fair value of an embedded derivative. This embedded derivative was recorded as a result of the variable conversion feature in our Series B Preferred Stock and the change in fair value is reflected on our condensed consolidated statements of operations as the other income item “change in fair value of derivative - embedded conversion feature” which resulted in \$18.0 million of other income for the three months ended March 31, 2017, compared to other income of \$55.9 million for the three months ended March 31, 2016. This item is solely attributable to a change in fair value of the derivative – embedded conversion feature and is a non-cash item. Fluctuations in the price of WMIH’s common stock directly impact the fair value of the derivative instrument. The fair value of this derivative instrument is analyzed each period and should not be relied upon to produce changes of this magnitude on an on-going basis as it could also result in a non-cash expense or benefit in future periods. The fair value of the embedded conversion feature will become equity upon conversion of the Series B Preferred Stock, or be reduced to zero upon redemption of the Series B Preferred Stock, as the case may be. For additional details on the derivative – embedded conversion feature, see Note 9: Capital Stock and Derivative Instruments and Note 13: Fair Value Measurement to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q. In addition to this change, several other items had a favorable impact on earnings for the three months ended March 31, 2017, including decreased general and administrative expenses and decreased interest expense. The interest expense decreased as a result of the reduction in our Runoff Note balances discussed further below. Our revenues increased primarily due to improved earnings on our investment portfolio including the restricted cash equivalents. Underwriting expenses were lower on a comparative basis, primarily due to smaller increases in premium deficiency reserves in the three months ended March 31, 2017 as compared to increases in premium deficiency reserves during the three months ended March 31, 2016 as further described below in this Item 2 of Part I, under “Losses or Benefits Incurred and Losses and Loss Adjustment Expenses.”

The total revenue for the three months ended March 31, 2017 was \$1.6 million, compared to revenue of \$1.5 million, for the three months ended March 31, 2016. The increase in revenue is attributable to improved earnings on our investment portfolio including the restricted cash equivalents, however, WMMRC continues to experience decreasing revenue due to operating in runoff mode. In addition, because WMMRC is operating in runoff mode, we expect premiums-earned revenue to continue to decrease, as no new business is being undertaken.

Underwriting expenses (defined as losses and loss adjustment expenses and ceding commission expenses) decreased by \$0.4 million to a \$0.1 million expense for the three months ended March 31, 2017 compared to an expense of \$0.5 million for the three months ended March 31, 2016. This decrease was primarily the result of the \$0.4 million additional premium deficiency reserve which was recorded during the three months ended March 31, 2016 compared to a \$0.1 million increase in the premium deficiency reserve during the three months ended March 31, 2017. These changes in expense are related to the operation of WMMRC in runoff mode and the corresponding decrease in revenues and the change in premium deficiency reserves as further described below in this Item 2 under “Losses or Benefits Incurred and Losses and Loss Adjustment Expenses.” As more fully described in Note 2: Significant Accounting Policies to the condensed consolidated financial statements in Item 1 of Part I of this Quarterly Report on Form 10-Q, due to the current condition of the mortgage insurance market, WMMRC has recorded reserves based on ceded case reserves and incurred but not recorded (“IBNR”) loss levels established and reported by the primary mortgage guaranty carriers as of each reporting period. Management believes that its estimate of aggregate liability for unpaid losses and loss adjustment expenses as of March 31, 2017, represents its best estimate, based upon the available data, of the amount necessary to cover the current cost of losses.

As of March 31, 2017, the loss contract reserve was analyzed and determined to have a value of \$4.7 million compared to \$5.6 million at December 31, 2016. The value of the loss contract reserve decreased by \$0.9 million, during the three months ended March 31, 2017 and decreased by \$1.3 million, during the three months ended March 31, 2016. Consequently, there was a related reduction of expenses relating to the change in value of the loss contract reserve for the three months ended March 31, 2017. The loss contract reserve was established at a value of \$63.1 million on March 19, 2012 as a result of our reorganization.

For the three months ended March 31, 2017, our investment portfolio reported net investment income of \$1.2 million, as compared to net investment income of \$0.7 million for the three months ended March 31, 2016. The increase in investment income is primarily the result of higher short term interest rates during 2017 compared to 2016. The components of the investment income are more fully described below in this Item 2 of Part I, under “Net Investment Income.”

#### ***General and Administrative Expenses***

For each of the three months ended March 31, 2017 and 2016, our general and administrative expenses totaled \$2.0 million.

#### ***Interest Expense***

For the three months ended March 31, 2017, we incurred \$0.6 million, of interest expense on the Second Lien Notes, which is further described below in this Item 2 of Part I, under “Notes Payable.” This compares to \$0.7 million of interest expense, all of which related to the Second Lien Notes, which was incurred during the same period in 2016. The interest related to Second Lien Notes decreased primarily due to the reduction of Second Lien Note principal balances by \$0.4 million during the three months ended March 31, 2017 and by \$2.9 million during the year ended December 31, 2016. Because sufficient Runoff Proceeds have not always been available to pay accrued interest on the Runoff Notes, a portion of our obligation to pay interest on the Runoff Notes has been satisfied using the “pay-in-kind” or “PIK” feature available under the Indentures. The accrued interest is converted to PIK Notes at the next payment date if there is not sufficient cash available to satisfy the required interest payment. For the three months ended March 31, 2017 and 2016, no PIK Notes were issued in satisfaction of our obligation to pay interest on the Second Lien Notes. For the three months ended March 31, 2017 and March 31, 2016, respectively, \$0.6 million and \$0.7 million, of interest was paid in cash.

#### ***Unrealized Gain (Loss) on Change in Fair Value of Derivative***

The fair value of the derivative embedded conversion feature is revalued each reportable balance sheet date with the decrease or increase in fair value being reported in the consolidated statements of operations as unrealized gain or (loss) on change in fair value of derivative embedded conversion feature, respectively. The primary factors affecting the fair value of the embedded conversion feature are the probability of occurrence and timing of a Qualified Acquisition, our stock price and our stock price volatility. During the three months ended March 31, 2017, the fair value of the asset increased by \$18.0 million and unrealized gain was recorded. During the three months ended March 31, 2016, the fair value changed by \$65.0 million resulting in a reduction of the liability and the recognition of an unrealized gain.

### ***Net (Loss) Income***

The net operating loss for the three months ended March 31, 2017 totaled \$0.2 million compared to a net operating loss of \$0.3 million for the three months ended March 31, 2016. For the three months ended March 31, 2017, we reported net income attributable to common and participating stockholders of \$13.3 million. This result compares to net income attributable to common and participating stockholders of \$51.1 million, for the three months ended March 31, 2016.

The primary factors impacting the change in net operating (loss) and the change in net income attributable to common and participating stockholders for the three months ended March 31, 2017 compared to the results for the three months ended March 31, 2016, are summarized in the table below.

Three months ended March 31, 2017 versus three months ended March 31, 2016 summary of change in net operating (loss) and net income attributable to common and participating stockholders (in thousands):

|  | Three months ended |                  | Percentage change favorable (unfavorable) | Dollar value change favorable (unfavorable) |
|--|--------------------|------------------|---|---|
|  | March 31, 2017     | March 31, 2016   |   |   |
| Net revenues   | \$ 1,610           | \$ 1,500         | 7%  | \$ 110                                      |
| Underwriting expense (net)   | 144                | 465              | 69%                                       | 321   |
| General and administrative expenses  | 2,012              | 2,029            | 1%  | 17  |
| Loss contract reserve change   | (916)              | (1,362)          | (33%)                                     | (446)                                       |
| Interest expense   | 610                | 693              | 12%                                       | 83  |
| Net operating (loss)   | (240)              | (325)            | 26%                                       | 85  |
| Unrealized gain on change in value of derivative embedded conversion feature | 18,029             | 55,875           | (68%)                                     | (37,846)                                    |
| Redeemable convertible series B preferred stock dividends                    | (4,500)            | (4,500)          | 0%  | —   |
| Net income attributable to common and participating stockholders             | <u>\$ 13,289</u>   | <u>\$ 51,050</u> | <u>(74%)</u>                              | <u>\$ (37,761)</u>                          |

### ***Comprehensive Income***

The Company has no comprehensive income other than the net income disclosed in the condensed consolidated statement of operations.

### ***Premiums Earned***

The majority of WMMRC's reinsurance contracts require premiums to be written and earned monthly. In a few cases, the premiums earned reflect the pro rata inclusion into income of premiums written over the life of the reinsurance contracts. Details of premiums earned are provided in the following table:

|                             | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|-----------------------------|-----------------------------------|-----------------------------------|
| Premiums assumed            | \$ 205                            | \$ 598                            |
| Change in unearned premiums | 225                               | 251                               |
| Premiums earned             | <u>\$ 430</u>                     | <u>\$ 849</u>                     |

For the three months ended March 31, 2017, premiums earned totaled \$0.4 million, a decrease of \$0.4 million, when compared to premiums earned of \$0.8 million, for the three months ended March 31, 2016. The Company's premiums earned are expected to continue to decrease due to WMMRC operating in runoff mode.

### Losses or Benefits Incurred and Losses and Loss Adjustment Expenses

Losses incurred include losses paid and changes in loss reserves, including reserves for IBNR, premium deficiency reserves net of actual and estimated loss recoverable amounts. Details of net losses or benefits incurred for the three months ended March 31, 2017 and March 31, 2016, respectively, are provided in the following table:

|                                    | Three months ended<br>March 31, 2017 | Three months ended<br>March 31, 2016 |
|------------------------------------|--------------------------------------|--------------------------------------|
| Losses and loss adjustment expense | <u>\$ 94</u>                         | <u>\$ 387</u>                        |

We establish reserves for each contract based on estimates of the ultimate cost of all losses including losses incurred but not reported. These estimated ultimate reserves are based on reports received from ceding companies, industry data and historical experience as well as our own actuarial estimates. Quarterly, we review these estimates on a contract by contract basis and adjust the estimates as we deem necessary based on updated information and our internal actuarial estimates.

For the three months ended March 31, 2017, the loss ratio was 22%, compared to a loss ratio of 46% for the three months ended March 31, 2016. The loss or benefit ratio is calculated by dividing incurred benefit or losses for the period by earned premiums. The ratio provides a measure of underwriting profit or loss. Loss reinsurance contracts (which represent the significant majority of our loss exposure) are generally structured with limits set on the aggregate amount of losses that can be incurred over the life of such contract. Upon reaching such limits, no additional losses may be realized under the terms of the contract. Nevertheless, even when applicable contract limits are reached, revenues from premiums collected continue to be ceded for the remaining life of the contract. Beginning in 2013, a majority of WMMRC's reinsurance arrangements for the 2006 through 2008 book years reached their respective loss limits. As a result, WMMRC does not expect to incur any additional losses for those book years; however, WMMRC may continue to realize revenues from those book years, to the extent premiums are ceded therefrom.

The components of the liability for losses and loss adjustment reserves are as follows at March 31, 2017 and December 31, 2016, respectively:

|   | March 31, 2017 | December 31, 2016 |
|---|----------------|-------------------|
| Case-basis reserves                       | \$ 202         | \$ 553            |
| Premium deficiency reserves               | 421            | 258               |
| Total losses and loss adjustment reserves | <u>\$ 623</u>  | <u>\$ 811</u>     |

Losses and loss adjustment reserve activity are as follows for the periods ended March 31, 2017 and December 31, 2016, respectively:

|   | Three months ended<br>March 31, 2017 | Year ended<br>December 31, 2016 |
|---|--------------------------------------|---------------------------------|
| Balance at beginning of period            | \$ 811                               | \$ 5,063                        |
| Released - prior periods                  | 94                                   | (669)                           |
| Paid or terminated - prior periods        | (282)                                | (3,583)                         |
| Total losses and loss adjustment reserves | <u>\$ 623</u>                        | <u>\$ 811</u>                   |

### Net Investment Income

The increase in investment income during the three months ended March 31, 2017 compared to the same periods in 2016 is primarily the result of higher short term interest rates during 2017 as compared to 2016. A summary of our net investment income for the periods ended March 31, 2017 and 2016, respectively, is as follows:

|  | Three months ended<br>March 31, 2017 | Three months ended<br>March 31, 2016 |
|--|--------------------------------------|--------------------------------------|
| Investment income:   |                                      |                                      |
| Amortization of premium or discount on fixed-maturity securities | \$ (31)                              | \$ (122)                             |
| Investment income on fixed-maturity securities                   | 178                                  | 318                                  |
| Interest income on cash and cash equivalents                     | 1,014                                | 328                                  |
| Realized net loss from sale of investments                       | (2)                                  | (4)                                  |
| Unrealized gain on trading securities held at period end         | 21                                   | 131                                  |
| Net investment income  | <u>\$ 1,180</u>                      | <u>\$ 651</u>                        |

## **Federal Income Taxes**

The Company has no current tax liability due as a result of its tax loss position for periods ended March 31, 2017, March 31, 2016 and December 31, 2016. More detailed information regarding the Company's tax position including net operating loss ("NOL") carry forwards is provided in Note 6: Income Taxes to the consolidated financial statements in Item 8 of the Annual Report on Form 10-K for the year ended December 31, 2016 and in Note 5: Income Taxes to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The Company files a consolidated federal income tax return. Pursuant to a tax sharing agreement, WMMRC's federal income tax liability is calculated on a separate return basis determined by applying 35% to taxable income, in accordance with the provisions of the Internal Revenue Code (the "Code") that apply to mortgage insurance companies. WMIH, as WMMRC's parent, pays federal income taxes on behalf of WMMRC and settles the federal income tax obligation on a current basis in accordance with the tax sharing agreement. WMMRC made no tax payments to WMIH during the periods ended March 31, 2017 and December 31, 2016 associated with the Company's tax liability from the current or preceding periods.

Deferred federal income taxes arise from temporary differences between the valuation of assets and liabilities as determined for financial reporting purposes and income tax purposes. Temporary differences principally relate to discounting of loss reserves, recognition of unearned premiums, changes in value of loss contract reserves and embedded derivatives, net operating losses and unrealized gains and losses on investments.

We believe WMIH experienced an ownership change under Section 382 of the Code in connection with its bankruptcy plan becoming effective. Prior to emergence from bankruptcy, WMI abandoned the stock of Washington Mutual Bank, thereby generating a worthless stock deduction of approximately \$8.37 billion, which gave rise to a NOL carry forward for the year ended December 31, 2012. We believe that the total available and utilizable NOL carry forward at December 31, 2016 was approximately \$6.0 billion and at March 31, 2017 we believe that there was no limit under Section 382 of the Code on the use of these NOLs. As of March 31, 2017 and December 31, 2016, the Company recorded a valuation allowance equal to 100% of the net deferred federal income tax asset due to uncertainty regarding the Company's ability to realize these benefits in the future.

## **Investments**

### *General*

We hold investments at both WMIH and WMMRC and the two portfolios consist entirely of fixed income instruments, excluding funds in overnight money market funds totaling \$49.3 million and \$76.8 million as of March 31, 2017 and December 31, 2016, respectively. In addition, at March 31, 2017 and December 31, 2016 the Company held less than \$1.0 thousand and \$0.4 million of restricted cash, respectively, in the "Collateral Account" (described below in this Item 2 under "Notes Payable") established by the Company as required under the Indenture for the benefit of the holders of the Runoff Notes (as defined below in this Item 2 under "Notes Payable"). The Company held \$573.9 million and \$572.9 million of restricted cash from the Series B Preferred Stock Financing in its escrow account at March 31, 2017 and December 31, 2016, respectively.

The value of the consolidated Company's total cash and investments decreased during the three months ended March 31, 2017. Cash and investments, which excludes restricted cash of \$573.9 million and \$573.3 million at March 31, 2017 and December 31, 2016, respectively, totaled \$74.2 million and \$81.5 million at March 31, 2017 and December 31, 2016, respectively. The primary factors that contributed to this decrease in investments were (i) the payment of a total of \$4.5 million in Series B Preferred Stock cash dividends during the three months ended March 31, 2017; (ii) the transfer by management of excess capital from WMMRC to reduce indebtedness; and (iii) the payment of cash for reserved losses by WMMRC.

We work with investment broker dealers and, in the case of WMMRC, collateral trustees, in determining whether a market for a financial instrument is active or inactive. We regularly obtain indicative pricing from market makers and from multiple dealers and compare the level of pricing variances as a way to observe market liquidity for certain investment securities. We also obtain trade history and live market quotations from publicly quoted sources, such as Bloomberg, for trade volume and frequency observation. While we obtain market pricing information from broker dealers, the ultimate fair value of our investments is based on portfolio statements provided by financial institutions that hold our accounts.

During the three months ended March 31, 2017 and the year ended December 31, 2016, we transferred \$1.0 million and \$11.0 million, respectively, of corporate securities that mature within 12 months from Level 2 to Level 1, due to improved liquidity in capital markets for those securities. Please refer to Note 4: Investment Securities to the condensed consolidated financial statements in Item 1 of Part I of this Quarterly Report on Form 10-Q, for additional information regarding our investment securities.

## **WMIH**

WMIH's investments are valued at fair value and any unrealized gains or losses are reflected in net investment income in the condensed consolidated statements of income. At March 31, 2017 and at December 31, 2016, WMIH had \$20.0 million and \$45.0 million, respectively, of investments in obligations of U.S. government sponsored enterprises, all of which will mature within the respective next 12 months. WMIH also had \$21.3 million and \$2.1 million in cash and cash equivalents at March 31, 2017 and December 31, 2016, respectively.

## **WMMRC**

WMMRC's investments are valued at fair value and any unrealized gains or losses are reflected in net investment income in the condensed consolidated statements of operations. At March 31, 2017, approximately 92% of WMMRC's cash and investments were held in four trusts for the benefit of primary mortgage insurers with whom WMMRC established agreements to reinsure private mortgage insurance risk. The total portfolio, excluding funds in overnight money market instruments, was valued at approximately \$29.3 million and \$31.9 million at March 31, 2017 and December 31, 2016, respectively. At March 31, 2017, approximately 41% of the portfolio consisted of securities that will mature within the next 12 months and the remainder of the securities will mature between one and three years from March 31, 2017. WMMRC also had \$3.6 million in cash and cash equivalents at March 31, 2017.

## **Liquidity and Capital Resources**

### **General**

WMIH is organized as a holding company and has limited operations of its own. With respect to its own operations, WMIH's continuing cash needs are limited to the payment of general and administrative expenses, costs related to possible acquisitions, dividends on the Series B Preferred Stock and principal and interest payments on the Second Lien Notes described below in this Item 2 of Part I, under "Notes Payable." Interest and principal payments on the Second Lien Notes are payable solely from Runoff Proceeds (as defined in the Second Lien Indenture described below in this Item 2 of Part I, under "Notes Payable") received by WMIH from WMMRC from time to time. Except in limited circumstances described in Note 7: Notes Payable to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, the Second Lien Notes are nonrecourse to WMIH. In addition, our significant business operations are conducted through our wholly-owned reinsurance subsidiary, WMMRC, which formerly underwrote risks associated with our mortgage reinsurance programs, but has been operated in runoff and has not written any new business since September 26, 2008. There are restrictions on WMMRC's ability to pay dividends which are described in more detail below. WMIH does not currently expect to pay dividends on its common shares.

WMMRC may seek opportunities to commute one or more of its remaining reinsurance agreements, with a view toward accelerating the distribution of trust assets in excess of the amount needed to pay claims. Any such distributions would be applied first to principal and interest payments on the Second Lien Notes. There can be no assurance that any such commutations will be consummated, or if so, on what terms.

In regard to the Series B Preferred Stock, we are required (if and when declared by our Board and until the Series B Preferred Stock is converted, redeemed or repurchased) to pay cumulative regular dividends out of funds legally available therefor at an annual rate of 3% per share of the liquidation preference of \$1,000 per share of Series B Preferred Stock. WMIH has declared and paid \$4.5 million, \$4.5 million and \$18.0 million of dividends on its Series B Preferred Stock during the three months ended March 31, 2017 and 2016 and the year ended December 31, 2016, respectively, and has accrued an additional \$0.7 million of dividends based on the 3% interest rate during each of the three months ended March 31, 2017 and 2016 and the year ended December 31, 2016, respectively.

The payment of \$4.5 million in dividends on our Series B Preferred Stock was our single largest use of cash during the three months ended March 31, 2017. This dividend obligation is likely to continue to be a significant financial obligation of the Company until we either consummate a Qualified Acquisition or redeem or repurchase the Series B Preferred Stock. "Qualified Acquisition" means an Acquisition (as defined below) that, taken together with prior Acquisitions (if any), collectively utilizes aggregate net proceeds of the Series B Preferred Stock Financing of at least \$450.0 million. "Acquisition" means any acquisition by WMIH (or any of its direct or indirect wholly-owned subsidiaries), in a single transaction or a series of transactions, whether by purchase, merger or otherwise, of all or substantially all of the assets of, all the equity interests in, or a business line, unit or division of, any person.

Unless previously converted into common stock, we are required to redeem the Series B Preferred Stock on January 5, 2018 (the “Redemption Date”) in the event we have not consummated a Qualified Acquisition. In addition, we are required to offer to repurchase (if not previously converted) the Series B Preferred Stock upon a Change of Control (as such term is defined in Article VI of WMIH’s Amended and Restated Certificate of Incorporation (“Certificate of Incorporation”). The aggregate redemption costs, assuming all 600,000 shares remain outstanding, of all of the Series B Preferred Stock is \$600.0 million, plus accrued and unpaid dividends, if any, whether or not declared. We continue to work diligently to pursue and consummate a Qualified Acquisition prior to the Redemption Date, which would result in the conversion of all of the Series B Preferred Stock into common stock. However, in the event we are unable to consummate a Qualified Acquisition, the redemption or repurchase of the Series B Preferred Stock would substantially deplete our available cash for acquisitions and business operations, could have a material adverse effect on our financial condition and could impact our ability to continue business operations. There can be no assurance that we will complete a Qualified Acquisition prior to the Redemption Date.

We may explore various financing alternatives to fund our external growth strategy, including improving our capital structure, which may include increasing, reducing and/or refinancing debt, amending the terms of outstanding preferred stock, pursuing capital raising activities, such as the issuance of new preferred or common equity and/or a rights offering to our existing stockholders, launching an exchange offer, and pursuing other transactions involving our outstanding securities. There can be no assurance that any such future transaction will occur or, if so, on what terms.

### ***Liquidity Management***

The objective of liquidity management is to ensure the Company has the continuing ability to maintain cash flows that are adequate to fund operations and meet obligations and other commitments on a timely and cost-effective basis. The Company establishes and maintains liquidity guidelines for WMIH as well as for WMMRC, its principal operating subsidiary. Funds held by WMMRC are not available to WMIH to satisfy its liquidity needs. Any dividend or payment by WMMRC to WMIH must be approved by the Insurance Division of the State of Hawaii. In light of the restrictions on dividends applicable to WMMRC, WMIH’s principal sources of liquidity are its unrestricted investments, investment income derived from these investments and fees paid to WMIH by WMMRC with respect to services provided pursuant to the two services agreements approved by the Insurance Division of the State of Hawaii. Additionally, WMIH also has approximately \$573.9 million of restricted cash held in escrow, which was received by WMIH in connection with the Series B Preferred Stock Financing. Because of the runoff nature of WMMRC’s business, as discussed above, all cash available to WMMRC is primarily used to pay reinsurance losses and loss adjustment expenses, ceding commissions, interest and principal obligations on the Runoff Notes (only if WMIH is in receipt of Runoff Proceeds; otherwise WMIH pays interest using the “payment-in-kind” (“PIK”) feature available under the Second Lien Indenture) and general and administrative expenses.

The Company monitors operating activities, forecasts liquidity needs and adjusts composition of investment securities in order to address liquidity needs. The Company currently has negative monthly cash flows primarily due to loss expenses at WMMRC, general and administrative costs, interest payable on Second Lien Notes and dividend payments on the Series B Preferred Stock. As a result, the Company maintains a very high quality and short duration investment portfolio in order to match its liability profile at both levels of the consolidated organization.

WMMRC has net assets totaling \$32.8 million and \$33.8 million as of March 31, 2017 and December 31, 2016, respectively. These net assets are not immediately available for distribution to WMIH due to restrictions imposed by the trust arrangements referenced above, and the requirement that the Insurance Division of the State of Hawaii must approve dividends from WMMRC. Distributions from WMMRC to WMIH are further restricted by the terms of the Runoff Notes described in Note 7: Notes Payable to the condensed consolidated financial statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

### **Capital Structure and Management**

WMIH’s capital structure consists of stockholders’ equity, Series B Preferred Stock proceeds held in escrow which is classified as mezzanine and \$18.4 million of term debt as of March 31, 2017 represented by the Second Lien Notes and governed by the terms of the Second Lien Indenture. We issued term debt of \$130.0 million represented by the Runoff Notes on the Effective Date. As of March 31, 2017, this term debt has subsequently decreased by a net amount of \$111.6 million as a result of principal payments totaling \$131.0 million net of PIK Notes which have been issued totaling \$19.4 million, resulting in a remaining principal balance of Second Lien Notes equal to \$18.4 million. The First Lien Notes were redeemed in their entirety on April 27, 2015 and the First Lien Indenture was satisfied and discharged.

On the Effective Date, all shares of common and preferred equity securities previously issued by WMIH were cancelled and extinguished. Prior to reincorporation, WMIH was authorized to issue up to 500,000,000 shares of common stock and up to 5,000,000 shares of preferred stock, each with a par value of \$0.00001 per share. Upon reincorporation in Delaware, which is more fully described in Note 1: The Company and its Subsidiaries to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, and pursuant to the Certificate of Incorporation, WMIH is authorized to issue up to 3,500,000,000 shares of common stock and up to 10,000,000 shares of preferred stock, each with a par value of \$0.00001 per share. As of March 31, 2017, 206,380,800 shares of WMIH's common stock were issued and outstanding, and 1,600,000 shares of its preferred stock were issued and outstanding.

On January 30, 2014, pursuant to an Investment Agreement, WMIH issued 1,000,000 shares of Series A Convertible Preferred Stock (the "Series A Preferred Stock") for a purchase price of \$11.1 million and warrants to purchase 61,400,000 shares of WMIH's common stock, 30,700,000 of which have an exercise price of \$1.32 per share and 30,700,000 of which have an exercise price of \$1.43 per share. The Series A Preferred Stock has rights substantially similar to those associated with WMIH's common stock, with the exception of a liquidation preference, conversion rights and customary anti-dilution protections. The Series A Preferred Stock has a liquidation preference equal to the greater of (i) \$10.00 per one million shares of Series A Preferred Stock plus declared but unpaid dividends on such shares and (ii) the amount that the holder would be entitled to in a relevant transaction had the Series A Preferred Stock been converted to common stock of WMIH. The Series A Preferred Stock is convertible at a conversion price of \$1.10 per share into shares of common stock of WMIH, either at the option of the holder or automatically upon transfer by KKR Fund to a non-affiliated party. As a result of the calculation of a beneficial conversion feature as required by Accounting Standards Codification 470, a preferred deemed dividend of \$9.5 million was recorded in conjunction with the issuance of the Series A Preferred Stock. This preferred deemed dividend resulted in an increase to our accumulated deficit and an increase in additional paid in capital. Further, KKR Fund, as the holder of the Series A Preferred Stock and the warrants, has received other rights pursuant to the Investor Rights Agreement as more fully described in Note 9: Capital Stock and Derivative Instruments to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

On January 5, 2015, WMIH announced that it had completed the Series B Preferred Stock Financing and issued 600,000 shares of Series B Preferred Stock for aggregate gross proceeds of \$600.0 million, pursuant to the Purchase Agreement with Citi and KCM (together the "Initial Purchasers"). In connection with the Series B Preferred Stock Financing, WMIH entered into an Escrow Agreement (the "Escrow Agreement") with Citibank, N.A., as Escrow Agent, pursuant to which WMIH caused to be deposited with the Escrow Agent the amount of \$598.5 million representing the net proceeds of the Series B Preferred Stock Financing less offering fees payable on January 5, 2015 but before payment of other offering fees and expenses (including fees contingent upon future events). These net proceeds will be released from escrow from time to time to WMIH as instructed by WMIH in amounts necessary to, among other things, explore and/or fund, in whole or in part, acquisitions, whether completed or not. The entire net proceeds will be released from escrow as instructed by WMIH as needed to consummate a Qualified Acquisition.

In connection with the Series B Preferred Stock Financing, WMIH filed with the Secretary of State of Washington Articles of Amendment of Articles of Incorporation (the "Articles of Amendment") containing the Certificate of Designation creating the Series B Preferred Stock and designating the rights and preferences of the Series B Preferred Stock. Holders of shares of the Series B Preferred Stock are entitled to receive, when, as and if declared, cumulative regular dividends at an annual rate of 3% per share of the liquidation preference of \$1,000 per share of Series B Preferred Stock, payable in cash. On each date that WMIH closes any Acquisition, outstanding shares of Series B Preferred Stock having an aggregate liquidation preference equal to the net proceeds of the offering utilized in such Acquisition (as defined below), on a pro rata basis, will automatically convert into shares of WMIH's common stock. In addition, on the date WMIH closes a Qualified Acquisition, all outstanding shares of Series B Preferred Stock will automatically convert into shares of WMIH's common stock. Each date that WMIH closes an Acquisition (including a Qualified Acquisition) will be a "Mandatory Conversion Date." Unless the Series B Preferred Stock has been previously repurchased at the option of a holder upon the occurrence of certain put events or mandatorily converted, WMIH will redeem all outstanding shares of Series B Preferred Stock, if any, on the Series B Redemption Date, which is the third anniversary of January 5, 2015 (or January 5, 2018). The reincorporation of WMIH from the State of Washington to the State of Delaware resulted in the increase of the size of its Board of Directors from 7 to up to 11 members and increased WMIH's authorized number of shares of common stock in an amount sufficient to permit the conversion of all shares of Series B Preferred Stock (collectively, the "Reincorporation").

The foregoing transactions pertaining to the Series A Preferred Stock and Series B Preferred Stock are more fully described in Note 9: Capital Stock and Derivative Instruments to the condensed consolidated financial statements in Item 1 of Part I of this Quarterly Report on Form 10-Q.

WMIH may, subject to market conditions, and the limitations set forth in the Second Lien Indenture (described below in this Item 2 of Part I, under "Notes Payable"), determine to incur additional indebtedness or raise additional equity capital in connection with undertaking one or more acquisitions.



While WMIH is not subject to regulatory capital requirements, WMMRC is required to comply with various solvency and liquidity requirements pursuant to the insurance laws of the State of Hawaii. WMMRC is required to maintain minimum capital and surplus requirements of an amount established under applicable Hawaii law and deemed appropriate by the Insurance Division of the State of Hawaii. As of March 31, 2017, management believes that WMMRC is compliant with applicable statutory solvency, liquidity and minimum capital and surplus requirements. The payment of dividends by WMMRC is subject to statutory restrictions imposed by Hawaii insurance laws and regulations and requires approval from the Insurance Division of the State of Hawaii. In addition, the Second Lien Indenture imposes restrictions on WMMRC business activities. During the three months ended March 31, 2017 and the year ended December 31, 2016, WMMRC paid \$1.0 million and \$5.7 million, respectively, in dividends to WMIH which were deposited into the Collateral Account (as defined below) and were distributed in accordance with the Indentures.

On the Effective Date, WMI and WMIIC (together, the “Debtors”) (and now the WMI Liquidating Trust (the “Trust”) on behalf of the Debtors) continued to dispute whether the interests of certain former holders of “Equity Interests” or “Claims” (in each case as those terms are defined in the Company’s Seventh Amended Joint Plan of Affiliated Debtors Pursuant to Chapter 11 of the United States Bankruptcy Code (as modified, the “Plan”)) against the Debtors should be allowed. As a result, pursuant to the Plan, on the Effective Date, a “Disputed Equity Escrow” (as defined in the Plan) was created for the benefit of each holder of a “Disputed Equity Interest” (as defined in the Plan). Such Disputed Equity Escrow was created to hold shares of WMIH’s common stock (as well as any dividends, gains or income attributable in respect of such common stock) allocable, on a pro rata basis, to each holder of such a Disputed Equity Interest if and when such Disputed Equity Interest becomes an “Allowed Equity Interest” (as such term is defined in the Plan). All such Equity Interests will constitute Disputed Equity Interests pursuant to the Plan until such time, or from time to time, as each Disputed Equity Interest has been compromised and settled or allowed or disallowed by a final order of the bankruptcy court.

The liquidating trustee of the Trust, William Kosturos (the “Liquidating Trustee”), acts as escrow agent with respect to the Disputed Equity Escrow. As of December 31, 2016, 1,546,294 shares of WMIH’s common stock were held in the Disputed Equity Escrow. Until such time as all of WMIH’s common stock has been distributed from the Disputed Equity Escrow in accordance with the Plan (e.g., as a result of all “Disputed Equity Claims” (as such term is defined in the Plan) becoming Allowed Equity Interests or all Disputed Equity Claims being disallowed), the Liquidating Trustee is vested with the authority to exercise voting or consent rights with respect to such stock; provided, however, that the Liquidating Trustee is obligated to vote or consent, as the case may be, as to such stock in the same proportion as all other holders of WMIH’s common stock have voted or consented, in each case on an issue-by-issue basis. The Trust has no right to or entitlement in any shares of WMIH’s common stock held in the Disputed Equity Escrow. Additionally, WMIH does not have any right to, or interest in, any shares of its common stock held by the Disputed Equity Escrow.

#### **Notes Payable**

On the Effective Date, WMIH issued \$110.0 million aggregate principal amount of its 13% Senior First Lien Notes due 2030 (the “First Lien Notes”) under an Indenture, dated as of March 19, 2012 (the “First Lien Indenture”), between WMIH and Wilmington Trust, National Association, as Trustee. In addition, WMIH issued \$20.0 million aggregate principal amount of its 13% Senior Second Lien Notes due 2030 (the “Second Lien Notes” and, together with the First Lien Notes, the “Runoff Notes”) under an Indenture, dated as of March 19, 2012 (the “Second Lien Indenture” and, together with the First Lien Indenture, the “Indentures”), between WMIH and Law Debenture Trust Company of New York, as Trustee. On January 5, 2017, we were notified by The Law Debenture Company of New York that it had completed the transfer of substantially all of its corporate trust business to Delaware Trust Company, and that Delaware Trust Company had become the successor trustee under the Second Lien Indenture. The First Lien Notes were redeemed in their entirety on April 27, 2015, and the First Lien Indenture was satisfied and discharged. The Second Lien Notes are scheduled to mature on March 19, 2030 and pay interest quarterly.

The Second Lien Notes are secured by, and have a specified priority in right of payment in, a securities or deposit account into which WMIH will deposit distributions it receives from WMMRC of Runoff Proceeds (as defined in the Second Lien Indenture) (the “Collateral Account”). WMIH will, and has agreed to cause WMMRC to, deposit all distributions, dividends or other receipts in respect of Runoff Proceeds Distributions (as defined in the Second Lien Indenture) on the date paid to WMIH in the Collateral Account established in accordance with the terms of the Second Lien Indenture.

On any interest payment date, payments are made from the Collateral Account and from any other Runoff Proceeds Distributions in the priority set forth in the Second Lien Indenture. Generally, under the Second Lien Indenture payments are required to be made first to the Trustees for any fees and expenses, then to WMIH for an amount equal to the Issuer Priority Amount (as defined in the Second Lien Indenture), then to the holders of the First Lien Notes for interest and principal, then to WMIH for an amount equal to the Issuer Secondary Amount (as defined in the Second Lien Indenture), and lastly to the holders of the Second Lien Notes for interest and principal. After payment in full of all interest and principal to the holders of the First Lien Notes and Second Lien Notes, all amounts on deposit in the Collateral Account and any other Runoff Proceeds will be paid to WMIH. As of March 31, 2017, the Issuer Priority Amount, the First Lien Runoff Notes, and the Issuer Secondary Amount have been paid in full and the First Lien Indenture has been discharged and satisfied. The obligations created by the Second Lien Notes are nonrecourse to WMIH except for certain actions for specific performance and in certain limited circumstances as more fully described in Section 7.16 of the Second Lien Indenture with respect to Runoff Proceeds Distributions in the Collateral Account or for failure to comply with certain specified covenants relating to (i) the deposit of Runoff Proceeds in the Collateral Account, (ii) payment of Runoff Proceeds in the Collateral Account in accordance with the order of priority established in the Indentures, (iii) failure to seek to obtain the appropriate regulatory approval to permit the dividend of Runoff Proceeds to WMIH and (iv) the failure to cause WMMRC to deposit Runoff Proceeds into a segregated account.

In connection with certain interest payments due and payable in respect of the First and Second Lien Notes, WMIH elected, consistent with the terms of the Indentures, to issue PIK Notes (as defined in the Indentures) in lieu of making such interest payment in cash when no cash was available. The aggregate face amount of PIK Notes issued as of March 31, 2017 and December 31, 2016 totaled approximately \$19.4 million at the end of both periods. Total outstanding principal amounts under these notes totaled approximately \$18.4 million and \$18.8 million as of March 31, 2017 and December 31, 2016, respectively. Runoff Note principal balances were reduced by approximately \$0.4 million and \$2.9 million during the three months ended March 31, 2017 and during the year ended December 31, 2016, respectively. As of March 31, 2017 and December 31, 2016, respectively, the Collateral Account contained less than \$1.0 thousand and \$0.4 million of cash received from WMMRC which was or will be ultimately used for administrative expenses and interest and principal payments on the Runoff Notes in accordance with the Indentures.

#### **Contractual Obligations, Commitments and Contingencies**

WMMRC has engaged a Hawaii-based service provider, Marsh Management Services Inc., to provide accounting and related management services for its operations. In exchange for performing these services, WMMRC pays such service provider a management fee.

On March 19, 2012, WMIH entered into an Investment Management Agreement with WMMRC. Under the terms of this agreement, WMIH receives a fee from WMMRC equal to the product of (x) the ending dollar amount of assets under management during the calendar month in question and (y) .002 divided by 12. WMIH is responsible for investing the funds of WMMRC based on applicable investment criteria and subject to rules and regulations to which WMMRC is subject. The Investment Management Agreement has been approved by the Insurance Division of the State of Hawaii.

On March 19, 2012, WMIH entered into an Administrative Services Agreement with WMMRC. Under the terms of this agreement, WMIH receives from WMMRC a fee of \$110 thousand per month. WMIH is responsible for providing administrative services to support, among other things, supervision, governance, financial administration and reporting, risk management and claims management as may be necessary, together with such other general or specific administrative services that may be reasonably required or requested by WMMRC in the ordinary course of its business. The Administrative Services Agreement has been approved by the Insurance Division of the State of Hawaii.

Total amounts incurred under the Investment Management Agreement and Administrative Services Agreement totaled \$0.3 million and \$0.3 million for the three months ended March 31, 2017 and 2016, respectively. The expense and related income eliminate on consolidation.

On March 22, 2012, WMIH and the WMI Liquidating Trust (the "Trust") entered into a Transition Services Agreement (the "TSA"). Pursuant to the TSA, the Trust makes available certain services and employees to the Company. The TSA provided the Company with office space (prior to the Company entering into its own lease) for its current employees and continues to provide basic infrastructure and support services to facilitate the Company's operations. The TSA as amended, extends the term of the agreement through July 31, 2017, with automatic renewals thereafter for successive additional three-month terms, subject to non-renewal at the end of any additional term upon written notice by either party at least 30 days prior to the expiration of the additional term.

In connection with implementing the Plan, certain holders of specified “Allowed Claims” had the right to elect to receive such holder’s “Pro Rata Share of the Common Stock Allotment.” Essentially, the Plan defines the “Pro Rata Share of the Common Stock Allotment” as a pro rata share of ten million (10,000,000) shares of WMIH’s common stock (i.e. five percent (5%)) issued and outstanding on the Effective Date. Holders exercising the foregoing election did so in lieu of receiving (i) 50% of such holder’s interest in and to certain litigation proceeds that could be realized by the Trust on account of certain claims and causes of action asserted by the Trust as contemplated by the Plan (“Litigation Proceeds”), and (ii) some or all of the Runoff Notes to which such holder may be entitled (if such holder elected to receive Runoff Notes in accordance with the terms of the Plan).

If a holder exercised the election described above and, as a result of such election, received shares of WMIH’s common stock, then such holder’s share of Runoff Notes to which the election was effective (i.e., One Dollar (\$1.00) of original principal amount of Runoff Notes for each share of WMIH’s common stock) were not issued. In addition, as a result of making the aforementioned election, such holders conveyed to WMIH, and WMIH retained an economic interest in Litigation Proceeds, if any, recovered by the Trust in connection with certain litigation brought by the Trust as contemplated by the Plan. Distributions, if any, to WMIH on account of the foregoing will be effected in accordance with the Plan and the court order confirming the Plan.

On or about October 14, 2014, the Trust filed a lawsuit in King County Superior Court in the State of Washington against 16 former directors and officers of WMI (the “D&O Litigation”). The Trust’s complaint alleged, among other things, that the defendants named therein breached their fiduciary duties to WMI and committed corporate waste and fraud by squandering WMI’s financial resources. In connection with the settlement of the D&O Litigation, during the year ended December 31, 2015, among the Trust, certain former directors and officers of WMI and certain insurance carriers that underwrote director and officer liability insurance policies for the benefit of WMI and its affiliates (including such former directors and officers), such insurance carriers agreed to pay the Trust \$37.0 million, of which \$3.0 million was placed into a segregated reserve account (the “RSA Reserve”) to be administered by a third party pursuant to the terms of a Reserve Settlement Agreement (the “RSA”).

During the year ended December 31, 2016 and 2015, WMIH had other income of \$123 thousand and \$7.8 million, respectively, as a result of its receipt of its share of net Litigation Proceeds related to the D&O Litigation. As of March 31, 2017, \$2.0 million remained in the RSA Reserve. Under the RSA, funds are released from the RSA Reserve to the Trust if and when certain designated conditions are satisfied. If and when these funds are released to the Trust, and to the extent WMIH is entitled to receive such funds in accordance with the Plan, it is anticipated the Trust will make payments to WMIH in an amount equal to WMIH’s share of Litigation Proceeds as provided under the Plan. Due to the contingent nature of future distributions from the RSA Reserve, there can be no assurance that WMIH will receive any distributions from the remaining balance in the RSA Reserve in the future. As of March 31, 2017, WMIH had not received any Litigation Proceeds, other than as described above.

As a member of the Litigation Subcommittee of the Trust, Mr. Willingham, who serves as a WMIH Board member and Chairman of the WMIH Audit Committee, participates in overseeing the prosecution of recovery claims by the Trust.

As a result of the Company’s reorganization in bankruptcy, an intangible asset was identified related to reinsurance contracts which were held by WMMRC. The contracts were evaluated to determine whether the value attributable to such contracts was either above market or in a loss contract position. After taking such evaluation into consideration, a loss contract reserve totaling \$63.1 million was recorded on the Effective Date. The reserve will be evaluated at each reporting date for changes to its value. As of March 31, 2017 and December 31, 2016, the loss contract reserve was analyzed and determined to have a value of \$4.7 million and \$5.6 million, respectively. The value of this reserve decreased by \$0.9 million during the three months ended March 31, 2017 and decreased by \$1.3 million during the three months ended March 31, 2016. The value of this reserve will ultimately be reduced to zero, therefore it will improve operating results in future periods as it will reduce future expenses. For additional information see Note 2: Significant Accounting Policies in Item 1 of Part I of this Quarterly Report on Form 10-Q.

As of January 30, 2014, pursuant to the terms and conditions of the Investment Agreement, WMIH sold to KKR Fund 1,000,000 shares of Series A Preferred Stock, having the terms, rights, obligations and preferences contained in the Certificate of Incorporation, for a purchase price equal to \$11.1 million and issued to KKR Fund warrants to purchase, in the aggregate, 61.4 million shares of WMIH's common stock, 30.7 million of which have an exercise price of \$1.32 per share and 30.7 million of which have an exercise price of \$1.43 per share (together, the "Warrants"). KKR Fund's rights as a holder of the Series A Preferred Stock and the Warrants, and the rights of any subsequent holder that is an affiliate of KKR Fund (together with KKR Fund, the "Holders") are governed by the Investor Rights Agreement. Pursuant to the Investor Rights Agreement, for so long as the Holders own 50% of the Series A Preferred Stock issued as of January 30, 2014 (or the underlying common stock of WMIH), the Holders will have the right to appoint two of the nine directors that currently comprise the Board. The Investor Rights Agreement also provides the Holders with registration rights, including three long form demand registration rights, unlimited short form demand registration rights and customary piggyback registration rights with respect to WMIH's common stock (and WMIH's common stock underlying the Series A Preferred Stock and the Warrants), subject to certain minimum thresholds, customary blackout periods and lockups of 180 days. On July 1, 2015, WMIH filed a shelf registration statement (the "Initial Registration Statement") covering resales of Series B Preferred Stock and WMIH's common stock issuable upon mandatory conversion of the Series B Preferred Stock. On November 23, 2015, WMIH amended the Initial Registration Statement to cover WMIH's common stock issuable upon conversion of the Series A Preferred Stock and shares of WMIH's common stock issuable upon exercise of warrants issued in connection with the issuance of our Series A Preferred Stock currently outstanding (as amended, the "Registration Statement"). The Registration Statement was declared effective under the Securities Act on November 25, 2015. Moreover, for as long as the Holders beneficially own any shares of common stock of WMIH or Series A Preferred Stock or any of the Warrants, WMIH has agreed to provide customary Rule 144A information rights, to provide the Holders with regular audited and unaudited financial statements and to allow the Holders or their representatives to inspect WMIH's books and records. For further information on the Investment Agreement and the Investor Rights Agreement, see Note 8: Financing Arrangements and Note 9: Capital Stock and Derivative Instruments, to the condensed consolidated financial information in Item 1 of Part I of this Quarterly Report on Form 10-Q.

In conjunction with the Series B Preferred Stock Financing, the Company is contractually committed to make certain fee payments if future events occur. These fees are recorded and presented on our condensed consolidated balance sheets as other liabilities. At March 31, 2017, the total balance of \$13.8 million of other liabilities is comprised of \$12.3 million of accrued fees relating to the Series B Preferred Stock Financing, an accrual for professional fees currently payable of approximately \$0.8 million, \$0.7 million of accrued dividends relating to the Series B Preferred Stock and several small accruals for recurring business expenses.

#### **Off-Balance Sheet Financing Arrangements**

We have no obligations, assets or liabilities which would be considered off-balance sheet arrangements. We do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are principally exposed to three types of market risk:

- interest rate risk;
- credit risk; and
- liquidity risk.

There have been no material changes to our market risks as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

**Item 4. Controls and Procedures.****Evaluation of disclosure controls and procedures.**

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer, and Interim Chief Financial Officer, the effectiveness of the disclosure controls and procedures of the Company as of March 31, 2017. Based on that evaluation, our Chief Executive Officer and Interim Chief Financial Officer have concluded that, as of March 31, 2017, the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective in ensuring that information required to be disclosed by the Company in reports the Company files or submits under the Exchange Act:

- (1) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and
- (2) is accumulated and communicated to the Company's management, including the Company's principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control Over Financial Reporting**

There was no change in the Company's internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during its most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II—OTHER INFORMATION

### **Item 1. Legal Proceedings.**

As of March 31, 2017, the Company was not a party to, or aware of, any pending legal proceedings or investigations requiring disclosure at this time.

### **Item 1A. Risk Factors.**

In addition to the information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in “Part I-Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016. There have been no material changes in our risk factors from those disclosed in such Annual Report.

**Item 6. Exhibits.**

The following exhibits are filed or incorporated by reference as part of this Quarterly Report on Form 10-Q.

| Exhibit Number | Exhibit Description   | Incorporated by reference |         |             |                |
|----------------|---|---------------------------|---------|-------------|----------------|
|                |   | Form                      | Exhibit | Filing Date | Filed Herewith |
| 3.1            | Amended and Restated Certificate of Incorporation of WMIH Corp.   | 8-K12G3                   | 3.1     | 5/13/15     |                |
| 3.2            | Amended and Restated Bylaws of WMIH Corp.   | 8-K12G3                   | 3.2     | 5/13/15     |                |
| 12.1           | Statement RE: Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends  |                           |         |             | X              |
| 31.1           | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |                           |         |             | X              |
| 31.2           | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |                           |         |             | X              |
| 32.1           | Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |                           |         |             | X              |
| 99.1           | Notification that Eugene I. Davis will not stand for re-election to the Board of Directors.   | 8-K                       | 99.1    | 3/16/17     |                |
| 99.2           | Notification that Paul E. Raether will not stand for re-election to the Board of Directors.   | 8-K                       | 99.2    | 3/16/17     |                |
| 99.3           | Notification that Thomas L. Fairfield will not stand for re-election to the Board of Directors.   | 8-K                       | 99.3    | 3/16/17     |                |
| 101.INS        | XBRL Instance Document.   |                           |         |             | X              |
| 101.SCH        | XBRL Taxonomy Extension Schema Document.  |                           |         |             | X              |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document.  |                           |         |             | X              |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document.   |                           |         |             | X              |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document.  |                           |         |             | X              |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document.   |                           |         |             | X              |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WMIH CORP.  
(Registrant)

Dated: May 9, 2017

By: /s/ William C. Gallagher  
Name: William C. Gallagher  
Title: Chief Executive Officer

Dated: May 9, 2017

By: /s/ Timothy F. Jaeger  
Name: Timothy F. Jaeger  
Title: Interim Chief Financial Officer

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## Section 2: EX-12.1 (EX-12.1)

Exhibit 12.1

### STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS

(dollars in thousands)

|  | Three months<br>ended<br>March 31, 2017 | Year ended<br>December 31,<br>2016 | Year ended<br>December 31,<br>2015 | Year ended<br>December 31,<br>2014 | Year ended<br>December 31,<br>2013 |
|--|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Net income (loss)  | \$ 17,789                               | \$ 201,700                         | \$ (61,833)                        | \$ 3,070                           | \$ 338                             |
| Preferred deemed dividends   | —                                       | —                                  | —                                  | (9,455)                            | —                                  |
| Series B preferred stock dividends   | (4,500)                                 | (18,000)                           | (17,748)                           | —                                  | —                                  |
| Net income (loss) attributable to common and participating stockholders  | <u>\$ 13,289</u>                        | <u>\$ 183,700</u>                  | <u>\$ (79,581)</u>                 | <u>\$ (6,385)</u>                  | <u>\$ 338</u>                      |
| Interest on runoff notes   | \$ 610                                  | \$ 2,616                           | \$ 3,702                           | \$ 8,993                           | \$ 14,897                          |
| Interest charges due to debt facility termination  | —                                       | —                                  | —                                  | 13,232                             | —                                  |
| Total fixed charges  | 610                                     | 2,616                              | 3,702                              | 22,225                             | 14,897                             |
| Preferred dividends  | 4,500                                   | 18,000                             | 17,748                             | 9,455                              | —                                  |
| Total fixed charges and preferred dividends  | <u>\$ 5,110</u>                         | <u>\$ 20,616</u>                   | <u>\$ 21,450</u>                   | <u>\$ 31,680</u>                   | <u>\$ 14,897</u>                   |
| Ratio of net income (loss) to combined fixed charges and preferred dividends   | 348%                                    | 978%                               | (288%)                             | 10%                                | 2%                                 |
| Ratio of net income (loss) attributable to common and participating stockholders to combined fixed charges and preferred dividends | 260%                                    | 891%                               | (371%)                             | (20%)                              | 2%                                 |

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## Section 3: EX-31.1 (EX-31.1)

Exhibit 31.1

WMIH CORP.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A),  
AS ADOPTED PURSUANT TO



SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William C. Gallagher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WMIH Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2017

By: /s/ William C. Gallagher  
William C. Gallagher,  
Chief Executive Officer

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## Section 4: EX-31.2 (EX-31.2)

Exhibit 31.2

WMIH CORP.

CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Timothy F. Jaeger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WMIH Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2017

By: /s/ Timothy F. Jaeger  
Timothy F. Jaeger,  
Interim Chief Financial Officer

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## Section 5: EX-32.1 (EX-32.1)

**Exhibit 32.1**

### WMIH CORP.

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 (the "Report") of WMIH Corp. (the "Company") as filed with the Securities and Exchange Commission on the date hereof, the undersigned, in the capacities and on the dates indicated below, each certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge (1) the Report fully complies with requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2017

By: /s/ William C. Gallagher  
William C. Gallagher,  
Chief Executive Officer

Date: May 9, 2017

By: /s/ Timothy F. Jaeger  
Timothy F. Jaeger,  
Interim Chief Financial Officer

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